

Energy transition policies

1. Investment divergence and the risk of a fragmented transition: rebalancing capital towards emerging technologies

1.1 Scalable technologies attract the bulk of investment but mask vulnerabilities

An industry representative stated that there is a 'two-speed' transition, whereby investments are predominantly funnelled into scalable and commercially viable technologies, such as renewable energy sources like solar and wind, power grids capable of integrating these sources, and advanced energy storage solutions. Collectively, these areas attracted approximately \$1.9 trillion of last year's investment, showcasing a robust year-on-year growth of around 15% between 2023 and 2024. These sectors should therefore not generate undue concern due to their positive outlook and traction in the market.

Conversely, there is an alarming trend pertaining particularly to emerging technologies, such as carbon capture, usage and storage (CCUS), hydrogen and nuclear power advancements. These areas experienced notable setbacks, with investment in such technologies decreasing by 23% over the same timeframe.

1.2 Geopolitical divergence exacerbates regional imbalances

An industry representative highlighted that there are regional discrepancies. The EU remains the second-largest point of investment globally for clean energy investments, after China, which currently accounts for over 40%. However, the EU itself witnessed a contraction of 7% in investment between 2023 and 2024, painting a concerning picture when juxtaposed against the positive trends seen globally, where clean energy investments grew by 25%, and in China where growth was 20%.

An industry representative added that there are elevated costs and disruptions across the global supply chain, because the ecosystem is highly interconnected, and green energy is highly dependent on global trade. China, for example, is a significant producer of clean technology components. The prospects for the energy transition are therefore gloomier at a global level.

1.3 The EU's stable policy compass faces external headwinds

A policymaker commented that the European Green Deal has demonstrated considerable stability, despite facing multiple global crises, including the COVID-19 pandemic, Russia's invasion of Ukraine and the weaponisation of energy supplies, remaining a central guiding principle for future policies.

2. Policy fragmentation and regulatory volatility: towards coherent, predictable frameworks

2.1 Fragmented EU energy and capital markets hinder deployment of transition capital

A policy-maker emphasised that to address the energy concerns, as covered by the Clean Industrial Deal (CID) and the Action Plan for Affordable Energy, there is a need for increased investment in modernised grids, an expansion of renewable energy sources, ensuring interconnected energy markets that resolve the fragmentation that exists in Europe, while also streamlining permitting procedures to accelerate project development, and incentivisation schemes requiring active involvement from member states, particularly concerning taxation and levies within the energy system.

2.2 Volatile regulation and conflicting policy signals erode investor confidence

An industry representative warned that financial institutions face an uncertain policy landscape. The US has shifted its stance significantly. More than 20 US states have passed at least one anti-environmental, social and governance (ESG) policy, and earlier in the year US Securities and Exchange Commission (SEC) decided to halt defence against all lawsuits targeting the only climate disclosure rule in the country.

A public representative argued that the public sector should not be investing in fossil fuels, and should set long-term regulatory stability to encourage private investment, as frequent policy revisions are detrimental to investor confidence and hinder project development.

2.3 Transition plans and sector-specific pathways are structuring tools

An industry representative noted that transition plans are key tools used by both financial institutions and corporates to assess progress towards goals, evaluate risks, and identify business opportunities. This area is rapidly evolving, with progress reliant on that interconnectedness between, and the interdependence of, banks and their customers. The Chair agreed about the importance of transition plans as a tool for supervisors to address climate and nature-related risks within the banking and insurance sectors.

A policymaker stated that the CID calls for structured dialogue with sectors that want to engage in developing sectoral transition pathways to help evaluate the credibility of companies' commitments. These plans will not be complete solutions, but the process of dialogue within sectors can foster shared understanding of industry-specific challenges, including technological barriers.

3. Financing constraints and investment gaps: unlocking scalable, risk-tolerant capital

3.1 Institutional investment potential remains untapped due to insufficient incentives

A public representative detailed that although the fundamental problem of climate change is well understood, and both the necessary technologies and substantial financial resources are demonstrably available, with approximately \$100 trillion in global investment markets, only 2-4% is currently directed towards sustainable investments, and there is a critical lack of transparent and reliable information, which hinders appropriate allocation of capital.

An industry representative added that financial institutions, driven by fiduciary duties, require policy support, reliability, predictability, and economic incentives to increase investment in clean energy.

3.2 Public finance must catalyse, not substitute, private capital

A public representative emphasised that there should be bonds for private and retail investors, and this should form part of member states' investment plans. The Commission should be contributing at least €40 billion.

3.3 Flexible, long-term instruments required to manage price and demand volatility.

An official stated that, from a financial perspective, despite an overall decrease in electricity prices, which is partially attributable to renewable energy, price volatility remains a concern. Investors are interested in these long-term investments to expand capacity and find technological solutions for interconnections, but uncertainty is a barrier. Financial institutions require flexibility in financing arrangements to manage that volatility, because a decrease in prices means a decrease in revenues.

4. The role of financial institutions: from passive observers to active enablers

4.1 Banks and corporates must co-evolve through integrated transition plans

An industry representative explained that banks can channel capital through various tools, offering financial solutions and incentivising transitions with products like energy transition loans. Supporting the energy transition of corporates, the banks' customers, also presents an excellent business opportunity. A symbiotic relationship exists between banks and their customers, as a bank's own transition is dependent on its customers' transformations, given that 95% of a bank's carbon footprint stems from financed and invested emissions.

Another industry representative explained that in order to improve the quality of engagement with customers, its institution is trying to present the industry's vision to realize both economic growth and a decarbonized society based on government's strategy.

4.2 Data fragmentation and reporting overload threaten efficiency

A public representative provided the example of UPM Ten, a big forest company in Finland, which uses six different reporting schemes on a regular basis, depending on the investor and what they demand. That only adds to the administrative burden.

Despite the setbacks with the Omnibus, efforts must continue towards its implementation, with the aim being a system akin to accounting standards, in which CO2 emissions are assessed alongside return on investment or debt levels under International Financial Reporting Standards (IFRS).

4.3 Japan's experience illustrates effective public-private collaboration

An industry representative detailed that, in May 2021, the Japanese government, particularly the Financial Services Agency (FSA), the Ministry of Economy, Trade and Industry (METI) and the Ministry of Finance, issued guidelines on climate transition finance. These led to the development of nine sector-specific roadmaps, covering electric power, oil, gas, iron, steel, cement, chemicals, pulp and paper, shipping, and aviation. These roadmaps have significantly assisted the financial industry in evaluating whether a transition strategy aligns with the principles of transition finance.

5. Strategic coordination and global cooperation: avoiding competitive disarmament

5.1 The CID as a unifying industrial and climate strategy

A policymaker highlighted that the CID focuses on renewing and bolstering the competitiveness of European industries through strategic investment in clean technology and comprehensive decarbonisation of production processes, with energy prices identified as a key competitiveness challenge that requires focused attention.

Financing mechanisms are also a crucial part of the CID, which seeks to target European funds more effectively to maximise their catalytic impact, utilising innovative instruments such as new guarantees provided by the European Investment Bank to de-risk investments, and a proposed industrial decarbonisation bank to further support industry in its transition efforts.

5.2 International partnerships and value chain resilience are vital

A policymaker noted that robust international cooperation is another pillar to highlight. Europe

cannot be successful in its competitiveness and decarbonisation aims without ensuring it has resilient value chains, aiding in accelerating the global transition towards sustainability.

5.3 The political economy of transition: tackling lobbying and inertia

A public representative stated politicians, both those supportive and unsupportive of the green transition, should be contacted. They are being lobbied currently by fossil fuel industries, carbon capture and storage (CCS), steel and others, which is a major issue. Through such lobbying, Europe is tempted to support industries best described as the walking dead, which is an even greater challenge because they also conduct the most extensive and effective lobbying.