

Decarbonization of the Industrial Sector: Sustainable Finance As an Opportunity?

Hard-to-abate industrial sectors

Participants of the Group Discussions

DECARBONIZATION OF THE INDUSTRIAL SECTOR: SUSTAINABLE FINANCE AS AN OPPORTUNITY?



Website:

V4decarb.org

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Main objectives of the Focus Group

The CEE region faces a particular set of challenges: its energy mix still has coal and a heavy dependence on gas, while government support for decarbonisation has been more limited than in countries like Sweden, UK, or France. That said, the trajectory of policy and finance is clear: carbon intensive sectors are seen as riskier, and the pressures to decarbonise are rising.

A recent blog we published related to [decarbonisation barriers](#) which served as a starting point for the focus group discussions. Michal Wendolowski shared his thoughts on CO2 capture. His institution, Bellona and its project partners are addressing that challenge through the [CCS4CEE project](#), aiming to build momentum for CCS deployment in the CEE region.

DÓRA CSERNUS
EQUILIBRIUM INSTITUTE, HUNGARY

RÉKA SULYOK
EUROPEUM, CZECH REPUBLIC

WOJCIECH LEWANDOWSKI
WISEEUROPA, POLAND

KAREL VOLDŘICH
ISFC, CZECH REPUBLIC

PAVEL KUBIČKA
ČEZ ESCO, CZECH REPUBLIC

MICHAL WENDOŁOWSKI
BELLONA, BELGIUM

CHRISTIAN SCHRADER
ŠKODA AUTO, CZECH REPUBLIC

BARBARA BOTOS
MINISTRY OF INNOVATION AND TECHNOLOGY OF HUNGARY

LEVENTE ANDRÁS KOCZÓH
GREEN POLICY CENTRE, HUNGARY

OTTÓ MAGERA
CEMENT INDUSTRY SPECIALIST, HUNGARY

ISTVÁN SZABÓ
KPMG, HUNGARY

MARCEL LOEWERT
PROVADIS HOCHSCHULE, GERMANY

JAKUB VÍT
CONSULTANT, CZECH REPUBLIC

CHRISTIAN EGENHOFER
CEPS, BELGIUM

REBECCA LAMAS
EUI

MICHAL HRUBÝ
EUROPEUM, CZECH REPUBLIC

PAWEL GLADYSZ
AGH, POLAND

ROLAND FAZEKAS
CARBOFERR, HUNGARY

ROBERT KESZTE
CONTINENTAL, HUNGARY

EVA NEUDERTOVÁ
DELOITTE, CZECH REPUBLIC



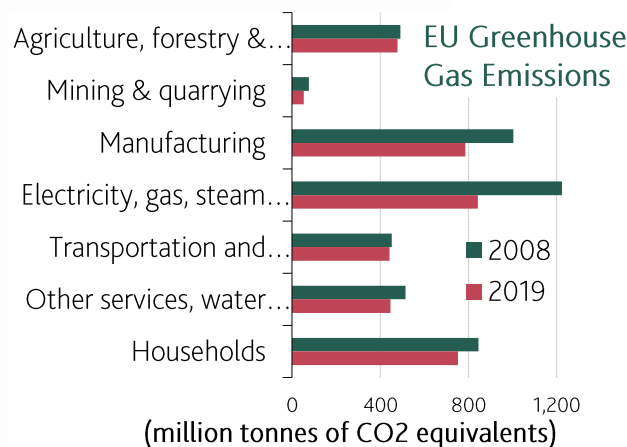
Keynote Speech by Michal Wendolowski Carbon Capture and Storage in CEE

THINK OF CCS AS ANALOGOUS TO THE SEWER SYSTEM

CO₂ capture, transport and storage emerge as the most cost competitive emission management option for some industries and might be the only option for cement industry to reach climate neutrality. Industrial clusters are naturally a good fit for pipeline transportation. The CO₂ transport pipeline could be considered as a public good and regulated as such. Buy-in from governments in CEE is still some ways off.

ETS FUNDS SUPPORT FOUR KEY PROJECTS IN EUROPE

CCS may have been the unpopular option for long, but the sentiment is shifting in Europe: At last, there is an EU-wide concept. The EU also granted financial support to four CCS projects in Finland, Belgium, Sweden, and France for their hydrogen, chemical, bioenergy and cement production, respectively.



Guardrails for Discussion

- Hard-to-abate industries have a double whammy of energy intensity and industrial process emissions.
- Barring fuel switch emission mitigation options can't deliver meaningful decarbonization.
- Demand and supply side adjustments need to go together. That is, material efficiency and reduction of demand for steel, cement and chemical produce is an important part of the puzzle.
- Information silos still exist among the industrial stakeholders on decarbonisation issues. Climate and carbon management capabilities are much needed in the corporate sector.
- There are innovative new policies that can go a long way in creating opportunities and pool risks of large scale decarbonization projects.

IPCC As the Advisor of the UN FCCC Negotiations Cautioned that the Industrial Sector in Developed Countries Must Cut CO₂ Emissions By 58–93% By 2050 From the 2010 Levels.

Implementing
partners of the project



Policy Barriers Emerged as the Area where group members listed the most issues.

Policy barriers

- Important strategies and policies are missing or deemed inadequate. Existing policy measures are often poorly described.
- Financial incentives to decarbonize are practically nil thanks to generous free allowances now and looming changes (CBAM) might not give a jolt.
- Assuming that the emission prices at about €100/tonnes of CO2 revenues could surge to €250 billion which gives ample room for public support.
- Green product standardization appears crucial step to foster specialization.

Technological barriers

- Businesses are hamstrung by uncertainty: They may have plans running up to 2030 but the innovation landscape is still quite unclear beyond that.
- Companies may be deterred by risk of technological problems that may occur at deployment at industrial scale.
- Hydrogen needs a vast expansion in capacities and its availability in CEE poses a challenge.
- CCS perceived risky as there is no hedge against the long-term liability risk of those projects. Large capital expenditures required to create the infrastructure necessary.

Financial barriers

- The IPCC Working Group 3 report showed that industrial decarbonization is economically possible.
- Planning cycles are limited by the technical capabilities.
- Support for the increase in CAPEX and OPEX can assist the industries to set more ambitious goals.

WHERE DO THE GREATEST CHALLENGES LIE WHEN WE TALK ABOUT INDUSTRIAL DECARBONIZATION IN CEE?

Absence of data and absence of certainty about policies sit on the top of the worry list. Disclosures, validated targets, and transition plans are much needed to have bankable projects and lock in the key financing. There is ample amount of funding available, but the CEE region is yet to tap into sustainable finance.

Business sector actors lack clarity about future climate policy pathways. For instance, ETS prices only recently started to flash a stronger signal and add the necessary cost push to act for industries.

HOW CAN POLICIES PROD INDUSTRIES INTO ACTION? HOW DID THE EU APPROACH THIS?

Policies should do more to create a supportive environment. Most importantly, a tighter carbon guidance would be necessary to encourage more forward-looking business models. Our panelist noted that in cement industry medium-term (5-8 years) there is some certainty about resource mobilization and acceleration of the transition but uncertainty looms beyond that horizon.

WHAT SHOULD BE THE KEY POLICY FOCUSES IN CEE TO ATTAIN TARGETS IN NEXT DECADE?

- Energy supply overhaul to have an abundance of renewables
- More policy pragmatism: Green market development; certificates, infrastructures and platforms, green procurement and harmonization of disclosure rules.
- Risk pooling through blended capital.
- A blueprint for public-private collaboration.
- Bridge the gap in planning between 2030-2050.