

Chair's Summary¹

Private high-level discussion on **Clean Power to fuel Europe's Green Deal**

5 November 2019, 5pm
De Warande (Zinnerstraat 1, 1000 Brussels)

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Europe's new leadership is set to shape a European Green Deal, which will represent an unprecedented opportunity to put in place a policy framework to deliver on the Paris Agreement, capable of promoting deep decarbonisation by seizing the economic and industrial opportunities it offers, and by ensuring its social inclusiveness. Delivering on these ambitions requires an increase of the EU's contribution to the fight against climate change. Europe is set to become the first climate neutral continent in the world by 2050: With the finalisation of the Clean Energy for All Europeans Package and the European Commission's 2050 long-term strategy for a prosperous, modern, competitive and climate-neutral economy, new frameworks have recently been created.

The EU power sector is committed to play a vital role towards the long-term goal as decarbonisation through electrification represents a historical occasion to modernise the EU's economy, revitalise its industry and ensure long-term growth and jobs. Public and private investments at major scale in clean energy and infrastructure will be needed as much as policy tools that can deliver decarbonisation in the most economically sound and societally acceptable way.

On 5 November 2019, the OECD Round Table on Sustainable Development together with Eurelectric brought together leading policy makers, senior business executives and high-level experts for a private, informal discussion on Clean Power to fuel Europe's Green Deal, covering pathways towards net zero emissions by 2050 and the enabling effective decarbonisation, innovation and just transition measures. The meeting was held under the Chatham House rule, with no media present, to encourage an uninhibited and lively exchange, focusing on the **key questions**:

- 1. What is holding back electrification? What are the main barriers and challenges?**
- 2. What should Europe's Green Deal contain to overcome the inertia and speed up electrification?**

A **background note** that supported the discussion is available [here](#).

¹ The Chair's Summary reflects views heard at the Round Table, which was held under the Chatham House rule. It does not reflect the views of the OECD Secretariat or its member countries. The RTSD is grateful to Eurelectric for their financial support. The Round Table on Sustainable Development is chaired by Connie Hedegaard, who served as European Commissioner for Climate Action during 2010-14, and is managed by Ziga Zarnic, Advisor in the OECD Office of the Secretary-General. The Chair's Summary and event organisation was prepared together with the Eurelectric team.

Key takeaways

1. Main barriers and challenges

- **Taxation and pricing systems are crucial.** The lack of consistent pricing is holding back progress. A case in point is the electrification of transport in Norway versus other EU countries, whereas in the latter the number of EVs sold is by far lower. This is due to the fact that in EU countries electricity is taxed higher than fossil fuels.
- **Further research in various technologies (such as CCS) is needed.** There are a few industrial processes where indirect electrification (Power-to-X) might help, however, the existing technologies are not able to avoid all emissions (aluminium production, even though electricity is provided by hydropower, cement production, thermal energy, long distance transportation).
- **There is not enough greenfield investment in Europe.** Beside first mover disadvantages, current regulation could constitute a barrier, such as the state aid guidelines. A view held by many participants of this Roundtable was that the EU should “**go to the boundaries of state aid**”, since too often different aspects of the state aid regulation work against disruptive innovation needed for a rapid green transition.
- **Missing Infrastructure.** In many cases, the technology is already known and well developed, however, the infrastructure to interconnect various sites is missing. In this context, there are several elements that have to be looked at closely: the power sector including Power-to-X (such as hydrogen), digitalisation as well as blockchains.
- **More focus should be shifted toward energy efficiency (first)** as not enough has been done yet. Energy efficiency is slowing down globally² (1.2% p.a. improvement since 2010, well below the needed average of 3%p.a. improvement consistent with the IEA's Efficient World Strategy). Energy efficiency measures will yield energy savings. Energy efficiency is tightly interlinked with electrification and decarbonisation due to the higher efficiency of electric solutions compared to conventional solutions for most applications. In some industrial cases (e.g. electric cracking), electrification might mean that more energy might be needed.
- **Administrative barriers are preventing new projects.** It is not enough to set specific targets (such as to devote 35% of Horizon 2020's budget to climate-related research), but also to address holistically the issue, i.e. to streamline administrative procedures, to manage money effectively and to train people. For example in Eastern Europe, smart financing for buildings may not work due to political inertia and sometimes lack of specific competence.

2. Possible solutions and policies

- **Demonstration projects and flagship initiatives are key.** We can improve in many fields, faster innovation should be enhanced. In this context, **public procurement** could be a basic driver for change, i.e. to finance demonstration projects. There is room to improve tenders, which could also be linked to public procurement, to bring in the technologies at a lower cost. State aid should be considered for European flagship projects. The way state aid is being done can be significantly improved, as it is not always conducive to decarbonisation.
- **Energy taxation is one of the key elements of the Green Deal and would need further adjustments.** Fiscal incentives are key, without providing subsidies to emitting technologies. Investments and financing are moving quickly. Further progress on taxonomy of finance regulation could be a game-changer.

² IEA (2019): Energy Efficiency 2019. The authoritative tracker of global energy efficiency trends.

https://www.iea.org/efficiency2019/?utm_source=newsletter&utm_medium=email&utm_campaign=newsletter_axiosgenerate&stream=top#_ga=2.71025430.762188166.1574085300-282056067.1574085300

- **Sector integration (by industry, energy carriers, demand and supply) could lead to changing business models as well as to novel approaches to strategic infrastructure planning:**
 - Interfaces between all sectors
 - Waste heat to be used in buildings
 - Smart charging

“Free rule zones”, such as FTAs, experimental zones could be an option worth considering to test new approaches and models that combine decarbonised electricity, chemicals, circular economy, recycling and waste, among others.

- **A socially just transition is needed.** There is an urgent need to decarbonise the electricity sector but we need to have a socially-just transition. The Green Deal would need to include carbon pricing that is necessary, but not sufficient to ensure efficient and socially just transition. Policy approaches have to cover social aspects on equity grounds, not only efficiency grounds. The case at hand is the coal transition, where the land used for coal could be used for renewable technologies. Coal regions are also areas with a high amount of well-skilled engineers. In this context, a topic to be further addressed is trust. This would involve talking to people who work in power plants and to rethink how new business models can be developed and applied.
- **A just transition would require sufficient funding and prioritisation in the multiannual financial framework (MFF).** MFF would need to be more generally targeted at the EU Green Deal objectives to raise funding for climate change mitigation efforts, complementary with increased use of public-private partnerships. This would be the first test of the new European Commission in a broader sense at the time when EU institutions are also negotiating the Sustainable Finance Framework for future investment in the power sector. Behavioural aspects besides pricing and taxing are equally important. Socially just transition would need to nudge people in a meaningful way not to end up in polarisation and radicalisation.
- **Local communities and consumers need to be at the heart of the Green Deal.** How to use resources better in communities, and how to connect better solutions among communities? There is a role for smart cities, looking more into automatization and self-sufficiency.
- **The ETS is having a good effect,** which will even be more visible with a higher CO₂ price, although but could have spurred more clean-technology innovations. To address carbon leakage, a carbon border tax is being considered.
- **Incremental but not fundamental changes should be key for the Green Deal** in order to not distort investments already flowing into the right areas for decarbonisation. Both regulatory and technological changes need to be anticipated in business investment plans in terms of potential risks and returns on investment. Renewables are giving a ROI in 10+ years to come, but not if the framework is changed. Renewables have very low marginal returns (around 6%), oil & gas returns on investment are still bigger. The risk of stranded assets in the latter needs to be considered. The Green Deal would need to envisage for these assets to operate and deliver returns in market-viable terms.
- **Digitalisation is key,** for example, involving standardisation and monitoring of algorithms. The first realised projects show that digitalisation saves money, rather than creates additional revenues.
- **Buildings should have a higher priority in the Green Deal.** In this context, a special focus would be needed to steer encourage R&D in Eastern Europe, with more focused research programmes on the regional context.