



GREEN. BUT NOT GREEN ENOUGH.

Accelerating Europe's energy transition

While Europe has made a commitment to green energy transition, the hard work has only just begun.

European companies must strike the right balance between investing in measures that reduce emissions today and preparing for future market opportunities to strengthen their competitiveness. Opportunity abounds. But the way forward is not as apparent as it might seem.

The greening of Europe

Europe is pioneering a new energy transition unlike anything the world has seen before. Coordinated and systematic change is happening at the highest levels. The European Union (EU) has set a target to achieve net-zero greenhouse gas (GHG) emissions by 2050. It has adopted this into law, as have several member states. It has developed comprehensive policy and regulatory strategy to achieve this target. And the Green Deal and momentum from the Next Generation EU recovery package can boost this activity.

There is a growing commitment from European businesses to reduce emissions across their operations, supply chains and products and services. In 2019, 882 of Europe's largest companies invested €124 billion—a full 12% of their capital expenditures—toward reducing their carbon footprint. This move delivered an estimated 2.4 gigatons of lifetime emissions savings.²

As of October 2020, close to 500 European companies have committed to science-based greenhouse gas emissions reduction targets—more than North America and Asia combined.¹

A reality check on progress

As dynamic as Europe's energy transition has been, it is still early days. Despite significant investment across the continent, much of emissions reduction potential in Europe remains untapped. Four trends are creating an imperative—and an opportunity—for swifter action from the corporate sector.

01

The pace is off on emissions targets.

Today's rate of emissions reduction will not meet the ambitions of the Paris Climate Agreement. Estimates suggest that European companies must double investment in reducing their carbon footprint for the EU to reach its net-zero carbon target by 2050.³ The hard truth? Delaying action to reduce emissions is costly. The negative impacts on society are estimated at \$0.6 trillion per year in 2020.⁴

02

The business case has clearly matured.

Industry is at a tipping point where fuel and technology switches offer direct business value. Case in point: Targeted investments in switching from coal to gas and to renewable energy in manufacturing could unlock tens of billions of dollars in value by 2025, while significantly reducing GHG emissions. Plus, additional financing allocated to green measures in EU recovery funding can reduce the payback time of such solutions.

03

The solutions fuel competitiveness.

Investment in low-carbon solutions drives competitiveness of European businesses. In the short term, such investments are the logical extension of the focus on specialisation, performance and efficiency that occurred in response to rising energy costs, trade barriers and global overcapacity. In the medium term, low-carbon solutions help European businesses strengthen their position in global markets in these areas.⁵

04

The buying public demands action.

Consumers are watching what companies are doing to drive the energy transition forward. And they are weighing in with their wallets, and their loyalty. In fact, more than half of European consumers (56%) say they give more preference to purpose-driven brands following the COVID-19 crisis. A similar percentage also now prefers sustainable products and services.⁶

A delicate balance

As much as European companies want to respond to these imperatives, developing a strategy often has them working at cross purposes. They know that some investments made today to lower emissions will not pay off for years. As such, pursuing these investments can be a delicate balance. There is a business case and consumer pressure pushing for action, but cash on hand is limited and controlling costs is paramount. Especially in industries battered by economic impact of the pandemic.

To accelerate Europe's energy transition, businesses should play both the short and long game. This means making smart moves now to prepare for the future—knowing that ROI is not immediate—while keeping the business viable through uncertainty.

Short game: Invest in technology and fuel switching

Companies can capitalise now on the business case for investing in technology and fuel switching. Take iron and steel production, for example. Accenture modelling suggests that switching from coal to gas and renewable energy can deliver close to €11 billion positive business value by 2025, as well as 65 Mt CO₂-eq. emissions reduction*. This cuts the sector's current emissions by about half. Similar opportunities exist in the European chemical sector from switching from fossil to green electricity in chlor-alkali production. Companies like Shell and BASF are investing in electric hydrocarbon crackers. Others, like Covestro and Borealis, are buying electricity from new wind and solar plants.

Long game: Position now for new opportunities.

Value plays are emerging for low-carbon solutions that will achieve scale in the next decade. Take the shift to electric mobility. This will create multiple new markets that are contestable for businesses from many industries. Consider the future market for electric vehicles. By 2030, 28% of Europe's passenger cars are expected to be electric.⁹ The number of charging points in Europe will need to rise from around 185,000 in 2019 to 1.3 million in 2025 and 3 million in 2030.¹⁰ This infrastructure will enable breakthrough service models across energy, mobility, payment and entertainment. European companies are starting to position themselves in these markets already.

* Energizing Industries - Generating >€200 billion per year by 2030 through European industrial decarbonization (Accenture 2020)

Powering change

The market for Li-ion batteries that power electric vehicles could grow to €14 billion in 2025.⁷ To date, Europe has played a small roll in manufacturing these batteries—with only a 3% market share in Li-ion cell production.⁸

To change this, the European Commission launched the European Battery Alliance. It convened industrial stakeholders and innovators to create a competitive manufacturing value chain in Europe.

The European differentiator? A sustainable battery cell production process. Currently, multiple European battery factories are under construction—built with the latest energy efficient technology and fully or mostly powered by low-carbon electricity.



Build on the momentum

The green energy transition in Europe is a profound source of change—for business, people and the planet. Momentum has begun in earnest. To extend it, businesses can pursue cost plays now and plan value plays for later. It's a delicate and sometimes tricky balance to strike. But the pressure is on—and the opportunity is extraordinary—for those companies that make smart moves now to create a new future of low-carbon solutions in existing and emerging industries across Europe.

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