Policy brief – Coordinating Governance Activities for Industry Decarbonisation

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Jannis Beutel, Jenny Kurwan, Annika Tönjes, Katja Witte
Wuppertal Institute for Climate, Environment and Energy

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Key messages:

- **Governance activities** centred on exchange and collaboration are important to move industry decarbonisation forward.

- **Mutual trust** is crucial to cross-actor governance activities – the right balance between confidentiality and transparency must be found when creating exchange formats.

- Many actors **lack the resources** necessary to organise or partake in exchange and collaboration processes. Taking their needs into consideration when designing exchange formats is crucial.

- **Intermediaries** functioning as a platform for exchange seem to be particularly well suited to carry out multi-stakeholder collaboration and should be strengthened.

- **Civil society** must be truly involved in exchange processes, not just as a box-ticking exercise but early in the process and in a way that is representative of different interests.

- The benefits and drawbacks of **technology openness** need to be re-evaluated regularly and on a case-by-case basis. Sometimes the promotion of a specific technology may be necessary in order to move decarbonisation along.

Introduction

In recent years, **a broad consensus has emerged regarding the overall objective to decarbonise energy-intensive industries.** In times of the Paris Agreement, the European Green Deal and countless industry roadmaps to carbon neutrality, it may be easy to forget that not long ago, there was considerable disagreement about heavy industry's role in tackling climate change. Now, as companies no longer assert the technological and economic impossibility of deep decarbonisation, and stakeholders generally agree on the desirability of avoiding carbon leakage, the question of *'what'* is no longer dominating discussion, making room for the *'how'*.

This is where things become more complex: the **direction, pace and mode of implementation** remain up for debate, as state and non-state actors alike push their agendas through their own sets of governance activities. Differing priorities, conflicting interests and even opposing goals can lead to tradeoffs. Working toward the common goal of climate neutrality, a deeper understanding of the synergies between individual activities can further advance climate governance. This policy brief looks into various governance activities, ways in which strategic exchange and collaboration on decarbonisation issues are taking place between different actors in an effort to create and utilise such synergies. We draw on findings from the *REINVENT* project, including a total of 18 interviews conducted in spring/summer 2020. The interviewees were representative of a broad range of actors, including from different levels of governance (EU, national, regional level) and across industry, public administration, politics, NGOs, academia and intermediary organisations (such as consultancies, think tanks, initiatives or foundations created solely for this purpose) to find out where synergies are being realised and where coordinated efforts are lacking.

This policy brief addresses the following questions:

- Where does successful exchange and collaboration between different actors and at different levels exist?
- Which areas require increased coordination between different actors' governance activities?
- How can synergies between different levels and actors be better exploited to foster decarbonisation?

What works …

Identifying potential synergies between different governance activities is challenging because of the wide range of actors involved across different scales. According to the data provided by our interview partners, we find a particularly high level of already existing strong collaboration between **energy-intensive industry actors and governments at the EU and national level**. One way in which direct public-private collaboration is functioning well here is in the shape of research funding for the development of breakthrough technologies. In addition, there are instances of cooperation on the development of regulatory framework conditions (e.g. consulting industry stakeholders in the process of amending laws and regulations pertinent to their ability to decarbonise). At the regional level, there is close collaboration not just between industry and government actors, but also with academia and non-state actors on issues such as technology development and concrete implementation projects. There is recognised potential for regional initiatives to generate supraregional impact: Staying well informed of activities in other regions or even strategically coordinating and focussing on different issues in different regional projects allows for mutual learning and prevents the need to constantly reinvent the wheel.

Synergies also arise from **direct collaboration between different industry actors**, often by forming regional networks or cross-industry alliances around specific goals, such as creating circular value chains, building a hydrogen economy or developing breakthrough technologies. In the steel and chemical industries, for example, there are instances of collaboration on issues like carbon capture and hydrogen utilisation.

Multi-actor networks and platforms are of particular relevance for the decarbonisation of energy-intensive industries and widely mentioned by our interview partners: The EU High-Level Expert Group on energy-intensive industries, the tripartite social dialogues between politics, industry and labour unions, the Dutch Task Force Infrastructure Climate Agreement Industry, the Swedish collaboration formats under the national roadmap for fossil-free competitiveness or initiatives at the regional level such as the climate discourse (KlimaDiskurs.NRW) or IN4Climate.NRW in North-Rhine Westphalia are practice examples. Overall, there appears to be an increasing number of projects charging intermediaries with the coordination of companies', governments' and NGOs' joint efforts.

… and what doesn't

Policymakers from different levels as well as representatives from the energy-intensive industry sectors assess current collaboration between politics and industry positively and generally acknowledge the necessity to include all kinds of stakeholders in the discourse on policy development. Yet, representatives of intermediary and non-governmental actors as well as some industry representatives criticise a **lack of representation of civil society organisations** within some of these dialogues. They call for more diverse actor groups to get involved earlier in the process, addressing questions of employment, mitigation of social consequences and compliance with climate targets. Apart from that, collaboration along value chains is currently largely lacking and should be increased.

With regard to the various challenges posed by industry decarbonisation, almost all surveyed actors identi-

fied **infrastructure** as one of the most critical areas in which overarching coordination is currently lacking. While research projects like INFRA-NEEDS[1] have already started to assess the energy infrastructure needs of different industries or countries, the EC Industrial Strategy of 2020 is rather thin in terms of infrastructure. It lacks a cross-national and cross-sectoral needs analysis and clear, forward-looking planning. This includes a focus on existing industrial clusters and surrounding infrastructure, as well as addressing the issue of financing. It is closely linked to the question of the demand and supply of green electricity and hydrogen, which particularly require cross-sectoral exchange and planning involving other energy-consuming sectors such as buildings and transport. Some recent progress on hydrogen has been made at different levels: The EU hydrogen strategy and, for example, Germany's national hydrogen strategy, as well as cross-border strategies like the Trilateral strategy for the chemical industry between the Netherlands, Flanders and North Rhine-Westphalia are welcomed as steps in the right direction.

The issue of financing infrastructure in particular leads to questions of **distributive justice within Europe**: While countries with greater financial resources and larger industrial clusters such as Germany and the Netherlands are more likely to be in a position to support their industries in building the necessary infrastructure, this is much more difficult for countries with smaller industrial clusters, such as Italy, the Czech Republic and Slovenia. A greater focus must be placed on these clusters: How can the opportunities of decarbonisation be shared inclusively?

Another big task that still needs to be tackled concerns the regulatory framework conditions. Although the EU Emissions Trading System is generally recognised to provide an important framework for industry transformation, it is by no means sufficient to drive forward decarbonisation at the necessary speed. A **clear and dependable overarching regulatory framework** that helps align long-term climate and societal goals with medium-term microeconomic interests is still missing, both at EU and member state level. A variety of instruments that would enable companies to make deep decarbonisation into a solid business case are being discussed by different stakeholders. These include, for example, carbon contracts for difference, public procurement of low-carbon materials as well as different versions of carbon pricing with mechanisms for border adjustment. Streamlining these discussions and deciding on a clear strategy and timeframe is crucial to address questions of financing breakthrough technologies, maintaining international competitiveness and preserving jobs.

In order to draw out different industries' innovative spirit and avoid continued shirking of responsibility, **binding sectoral targets** must be agreed at EU and member state level to ensure a Paris-compatible reduction path by 2050. This will clearly define the framework for action by industry.

Comprehensive and coordinated multi-actor exchange at different levels is necessary, in order to develop broadly accepted solutions for the unsolved questions of infrastructure and green energy supply, small industry regions in danger of being left behind, a reliable regulatory framework creating investment security and burden sharing between sectors. In that context, the **UN Sustainable Development Goals** (SDGs) are acknowledged to be generally beneficial as a common language reference framework on a system level. Moreover they can be considered an important turning point towards the focus on interdependencies of economic, ecological and social development challenges. However, industrial as well as political actors struggle to apply the SDGs in that holistic spirit when it comes to concrete industry decarbonisation pathways due to their complexity and, in some instances, contradictory nature.

Success factors

So what is stopping private and public climate governance initiatives from moving forward in a coordinated manner – and how can these barriers be overcome? Overall, there is a great need for common and permanent strategic planning at different levels and between different actors. In addition to a common goal the following points are decisive for enabling synergies between different levels and actors to decarbonise energy-intensive industry.

In the case of exchange processes between political and non-political actors, it is crucial that all relevant political entities are represented, for example DG CLIMA *and* DG ENER/DG GROW, and promote **decarbonisation as a cross-cutting issue**. Early and clear political leadership, as demonstrated by the EU within the framework of its 2050 long-term strategy also helps to motivate non-state actors.

Another barrier mentioned by industry and academic actors as well as by intermediaries is policymakers 'hiding' behind the principle of **technology openness** and thus creating uncertainty and slowing down progress. Not restricting oneself to one technological path on the basis of on-going developments can sometimes be politically wise. Yet the main disadvantage of such an approach is that it causes companies to hesitate to invest in new technologies for fear of betting on the wrong horse. There have been notable examples in the past where clear-cut technological paths were chosen to move a transition along, such as wind and solar energy as well as battery electric vehicles. More recently, national and EU hydrogen strategies, accompanied by investment commitments, have signalled to companies that investments in H2 technology are unlikely to result in stranded assets. Generally speaking, the drawbacks and advantages of technology openness need to be reviewed regularly and on a case-by-case basis.

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[1] https://wupperinst.org/en/p/wi/p/s/pd/818/

Many actors pointed out that governance activities must above all be characterised by **trust**. This is fostered, for example, by transparent handling of data (also by companies) and openness in explaining what is really necessary. Particularly when negotiating regulatory frameworks, a transparent exchange of information seems to promote trust, as otherwise the impression can quickly arise that the interests of industry, but also of employees and civil society, are hardly taken into account.

For achieving an **atmosphere of cooperation** rather than antagonism, the industry players and intermediaries surveyed consider it necessary to create a 'safe space' that allows groups of actors with sometimes conflicting interests – such as companies, climate NGOs and trade unions – to move away from their established positions and jointly develop new solutions. The industry players and intermediaries surveyed state that a safe space is often only achieved by ensuring that representatives of different groups of actors can discuss without a public audience and can trust that any statements made remain confidential. However, the democratic principle and the comprehensive involvement of civil society (as opposed to exclusive representation by a few selected representatives) require that exchange processes be made transparent and comprehensible, for example through publicly accessible documentation. It must be considered in a differentiated manner, which level of transparency is suitable for which step. Even where confidentiality is key, a basic level of transparency should be strived for, for example by publicising at least basic information prior to the exchange (who, what, when) as well as publishing coordinated interim reports. Some industry and intermediary representatives also stated that it can be helpful if actors with conflicting interests are given the opportunity to enter into dialogue without the presence of political representatives, at least during early stages of discussion. This is more likely to allow them an open and productive discussion rather than repeating their maximum demands.

Concerning the question of whom to involve in exchange formats about industry decarbonisation, more attention must be paid to civil society. Governance structures for the development and implementation of European, national and regional goals and measures must allow for the actual **participation of civil society** in order to make the overall transition process democratic and to ensure social acceptance of industrial transition pathways. Firstly, it is crucial that civil society actors are called upon from the very beginning of the discussions and not only after fundamental goals and measures have already been decided upon. Secondly, civil society is not a homogeneous actor, but is made up of many different groups of actors and interests. It is not sufficient to include one or two chosen NGOs as a 'box-ticking exercise'. Rather, different actors representing the interests of both those most affected by climate change and those most affected by industrial transformation must be included to broaden the focus from technical aspects towards societal issues such as just transition and climate justice or land use. Examples for relevant civil actors include consumer protection organisations, various NGOs, trade unions and (especially at the regional level) citizens' initiatives. At EU level, for example, the instrument of an independent industrial transition observatory as proposed by the High Level Group on Energy Intensive Industries – which in the end was not adopted in the EU industrial strategy – could have offered the possibility of creating a space for civil society to monitor industry's progress and advise on course corrections.

It is crucial to acknowledge that exchange and collaboration, as well as creating, organising and maintaining the structures necessary to solidify collaboration, require **financial and human resources**. Private actors, both NGOs and industrial actors, often lack such resources. Especially in companies, exchange is seen as more of a 'soft factor', thus being less likely than technology or product development projects to receive the resources necessary for professional project management. In many companies and industry associations, participation in collaborative formats for decarbonisation comes down to just one person. By ensuring that climate goals permeate throughout the whole organisation with its different levels and units, the responsi-

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Consequences of the COVID-19 pandemic for industry transformation

Stakeholders from industry, politics as well as civil organisations see both opportunities and risks in regard to the consequences of the ongoing coronavirus pandemics. Across all groups of actors, it is widely acknowledged that there is a **need to align economic recovery programmes with transformation strategies**. Especially research and intermediary actors state that the crisis even opened a window of opportunity for more ambitious reforms and especially higher investments via the EU mechanisms as political barriers for deficit spending are now re-evaluated. A majority of actors also referred to lower barriers for new digital collaboration formats and flexible forms of work that may have long-term potential to enhance collaboration.

However, as the corona crisis unsettles business planning and economies as a whole, the resulting economic uncertainty may cause companies to postpone large investments for the time being. At the same time, the short-term availability of recovery funds could trigger premature investments into less climate-friendly technologies because new ones are not yet available at scale. Especially where recovery programmes are less ambitious in terms of climate, actors see a **high risk of creating lock-in effects**. Furthermore, there are long-term fiscal risks for climate investments, when countries are significantly higher in debt, which also increases already existing inequalities between relatively well-funded states in Northwest Europe and their neighbours to the south and east.

bilities become more evenly distributed and less dependent on one particular employee. The question of resources is particularly relevant in **small and medium-sized enterprises** (SMEs). In the discourse around the decarbonisation of energy-intensive industries, the focus often lies on large corporations. In some industries in particular, like paper or aluminium, SMEs play an important role. Including them in dialogue and collaborative efforts and, in doing so, taking their specific needs into consideration, is key for more inclusive coordination in governance. **NGO**s consider exchange and collaboration to be very important but often have too few resources for meaningful participation, especially at the national and regional level. As a consequence, working resource needs into the design of collaborative projects as well as targeted government incentives for exchange-centred projects can help speed up sustainable transition developments.

To account for the complexity and long-term responsibility of industry decarbonisation, collaborative governance cannot be carried by one-off dialogue formats. Exchange formats must be strategically organised and take place with some form of **regularity and continuity**. Recording and communicating results and identifying action points allow stakeholders to gradually build on previous discussions. The responsibilities tied to organising and coordinating exchange cannot always be carried effectively by the involved parties.

For this reason, **intermediaries** seem to be particularly well suited for complex multi-stakeholder exchange. Since they principally function as a platform or actor network for different forms of stakeholder collaboration, they do not have their own agenda regarding preferred transition pathways and instruments. This allows them to focus on mediating between the demands of a diverse network of actors in order to develop common solutions towards climate neutrality. Thus government as well as non-state actors can benefit from assigning responsibilities for multi-actor collaboration processes to intermediary agents. In the complex context of industry decarbonisation, intermediaries are particularly effective when accompanied by scientific support that allows them to constantly adapt to new knowledge. Moreover, scientific actors themselves can be well suited to take on an intermediary role, as they enjoy a particularly high level of trust both in civil society and among industry actors.

Looking ahead

Deep decarbonisation of energy-intensive industries is a complex challenge: Not only is industry a vastly heterogeneous sector, but there are critical intersections with other sectors, particularly energy. For many industries it is currently still uncertain how transformation pathways can be shaped technologically and economically. To create the systemic change necessary to reach climate neutrality, a system in which each company takes its own independent steps within a framework constructed by top-down regulation reaches its limits. **Exchange-centred governance activities** by a wide range of public and private actors at different scale levels are key to identifying and exploiting synergies and moving decarbonisation along at the necessary pace.

Doing so successfully requires regular and continuous exchange, mutual trust, an atmosphere of cooperation, the necessary financial and human resources, the comprehensive involvement of civil society, the strengthening of intermediary organisations, as well as the political will to treat climate as a cross-cutting issue, to set ambitious climate targets and to choose clear technological pathways where necessary.

Exchange-centred governance activities need to be **consistent** at different scale levels and robust under unstable conditions. Binding sectoral reduction targets are yet to be implemented, and even at an overall level, climate targets remain up for debate. In order to limit global warming in accordance with the Paris Agreement, it is not only crucial that the EU become climate-neutral by 2050, but also how many emissions are still emitted on the way to greenhouse gas neutrality. The question of whether and to what extent the **interim target for 2030** should consequently be raised is highly controversial, both between different EU member states and between non-state actors such as industry and NGOs. Here, narratives such as "climate versus economy" and "NGOs versus industry" have started to regain traction, raising the question of how robust the cross-actor consensus on decarbonisation really is.

This once again highlights the need for comprehensive exchange processes in order to both broaden the social consensus on the long-term target by adding common interim goals, and ensure the development and implementation of a transition pathway for industry that is inherently consistent and well integrated into the overall transition.