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1. Introduction

The European Union's commitment to climate neutrality by 2050, alongside a 90% reduction in greenhouse gas emissions by 2040, requires a fundamental transformation of both the energy system and the wider economy. The transition demands a simultaneous acceleration of electrification, the expansion of renewable and low carbon electricity generation, improvements in energy efficiency, sustainable fuels, hydrogen and carbon management. At the same time, dependence on fossil fuels must be reduced in a manner that is just, orderly and maintains economic competitiveness.

Ambitious EU objectives and policy frameworks have re-established the Union's strategic direction. The growing integration of climate and industrial policy is a significant positive development. Initiatives such as the Green Deal Industrial Plan, EU Climate Act, the Clean Energy Investment Strategy and the Industrial Accelerator Act reflect recognition that decarbonisation, competitiveness and security of supply must be pursued together.

At the same time, delivery at the operational level remains fragmented. While renewable power generation and parts of the energy supply system are advancing rapidly, progress in hard-to-abate sectors, energy infrastructure, alternative fuels and industrial scale-up remains significantly slower. Many companies—particularly in energy-intensive and infrastructure-dependent sectors—are ready to invest in decarbonisation and have detailed transition plans to that end. However, their investment decisions are often delayed or constrained by missing infrastructure, slow permitting processes, unclear regulatory signals, insufficient demand guarantees or unstable policy incentives.

For banks, this results in a reduced capacity to scale transition finance, not due to lack of risk appetite, but because projects fail to reach bankable Final Investment Decision (FID). This gap between ambition and delivery risks undermining climate objectives, industrial competitiveness, and energy security.

As one of Europe's leading financial institutions, ING wants to make a key contribution to this transition. ING has set targets to align its lending portfolio in its highest emitting sectors with net-zero by 2050, supported by sector-specific interim targets for 2030. Through our Terra approach, we monitor progress across these sectors, leading to a clear insight: decarbonisation and large scale mobilisation of private finance succeed when three conditions are met: technology maturity, policy clarity and support, and revenue certainty.

When these enabling conditions are absent or fragmented, progress stalls—even when companies have credible transition plans and banks are willing to provide financing. Challenges vary by sector – ranging from alternative fuels in aviation and shipping, to green hydrogen for industrial use (such as steel and aluminum), the scale-up of Carbon Capture Utilisation & Storage (CCUS) in cement, cost incentives and the greening of the energy mix for deep building renovations and large-scale industrial decarbonisation projects. Across sectors, however, ING observes the same structural constraints:

- **Weak or inconsistent demand-side mandates** (e.g. blending requirements for biofuels), limiting long-term offtake certainty;

- **High risk profiles for first-of-a-kind and scale-up projects**, coupled with insufficient risk-sharing mechanisms;
- **Fragmented national implementation** of EU frameworks, leading to uneven investment conditions;
- **Competitive pressure from imports** subject to lower standards (notwithstanding mechanisms such as CBAM).

Box: a lack of policy driven demand and immature technologies

A prospect aimed to produce renewable liquid gas from organic waste and biomass (rDME) did not reach the final investment decision back in 2024 because the market was lacking binding policy-driven demand and structured price support mechanisms, while relying on still-maturing technologies and a fragmented value chain for the feedstock. As a result, the project remained exposed to significant execution and merchant risks and its sponsors decided to not take final investment decision.

3. Policy suggestions

3.1 Provide clear, stable sectoral transition pathways

Sector-specific transition pathways at both EU and national level are essential to create credible investment signals. Clear timelines, binding standards, and consistent implementation help align corporate strategies, supply chains and financing decisions. Predictability beyond 2030—and the avoidance of policy reversals—is critical for capital-intensive investments.

3.2 Strengthen demand side mandates

Supply-side support alone is insufficient. The success of renewable electricity illustrated clearly where all the enabling factors come together. Long-term support mechanisms, clear regulatory frameworks and predictable cash flows have allowed rapid scale-up, cost reductions and strong bankability. Similar dynamics are emerging in areas such as electric vehicle charging, battery storage and parts of energy efficiency and building renovation, where regulations, standards and incentives are aligned.

For energy transition projects to become bankable, **offtake agreements must be (i) long-term and (ii) based on predictable cash flows and (iii) binding**. Current market output prices often fail to deliver an acceptable rate of return, due to low-cost alternatives imported from non-EU countries (e.g. SAF, plastics), a lack of stable projected long-term cash flows to achieve Final Investment Decision (FID), and the absence of binding purchase agreements.

Contracts for Difference (CfDs) can guarantee predictable cash flows by bridging the gap between market prices and required fixed prices, whilst ensuring the most competitive level of support to be provided by government and taxpayers. This approach has proven successful in scaling wind and solar energy, which now operate with minimal subsidies. Importantly, however, offtake arrangements must be binding. Experience shows that where support schemes relied on non-binding instruments such as Memoranda of Understanding, these did not consistently translate into firm contracts, thereby undermining investment certainty.

Box: Policy-driven demand is critical to enable new transition assets

The dynamic that demand-side policies can successfully support EU taxonomy aligned decarbonisation projects to become financially viable, is highlighted by the [TESSAF](#) project. Emerging low-carbon fuel solutions remain dependent on policy-driven demand to create the underlying market, secure revenues and attract private capital, and justify first-mover investments by large European industrial players.

The TESSAF project (a joint venture between TotalEnergies and Saria Group) raised [bank financing](#) in March 2026 to convert TotalEnergies' Grandpuits refinery near Paris into a zero-crude biorefinery. The biorefinery is to produce bioSAF (aviation fuels) and Hydrotreated Vegetable Oil (HVO - renewable diesel made from sustainable waste materials). The project's bankability is underpinned by **(i) the EU regulatory framework 'ReFuelEU'** mandating the progressive incorporation of sustainable aviation fuel in aircraft fuel mixes, effectively creating a structural demand floor for SAF, and **(ii) RED III mandating** increasing shares of renewable energy in transport, structurally driving demand for compliant biofuels such as HVO.

3.3 Further improve pricing signals

A well-functioning EU ETS is a key market mechanism for strengthening price signals and reducing regulatory uncertainty. It is important that the system remains stable, credible, and sufficiently ambitious in order to provide confidence and predictability to investors. This applies both to equity investors and debt providers. In light of the upcoming reform of the EU ETS, it is essential to:

- **Protect market integrity and stability** - As bank, we support effective mechanisms to cushion both excesses and shortages in emission allowances, as this will underpin more predictable carbon prices. The Market Stability Reserve should provide flexibility to fulfil its role in both surplus and tight market conditions, as this will ensure that minimum carbon price expectations become more stable. This improves bankability of low-carbon investments and reduces policy uncertainty.
- **Provide for a gradual and predictable phasing out of free allowances** - This should be done in a way that preserves investment certainty and bankability. This is essential to maintain forward price visibility and avoid change-of-law risk, which can weaken financing business cases. This process should be closely aligned with CBAM to prevent exposures to imports that are not subject to equivalent carbon pricing, thereby safeguarding the competitiveness of EU industry during the transition.
- **Ensure coherence between EU ETS and the broader EU growth agenda** - By linking ETS revenues to the industrial support mechanisms as set out in the Industrial Accelerator Act, carbon pricing revenues can be recycled into de-fossilisation investments through instruments such as the Industrial Decarbonisation Bank and EU Innovation fund. This helps close the loop, whereby the system not only penalises emissions but also finances low-carbon alternatives.

3.4 Strengthen the role of the EIB and EU public financial instruments

EU public finance has a critical role in bridging the gap between policy ambition and bankable investment. The EIB has a wide range of financial products at its disposal, from equity and guarantees to loans and advisory services. Equity and risk bearing instruments are predominantly available for smaller clients as well as for new technologies in the growth and start-up phase. For large and infrastructure projects, the role the EIB takes in such transactions is largely limited to

senior debt, while this portion of the funding can be provided by commercial banks. The added value of the EIB can be significantly enhanced through:

Targeted risk-sharing, not crowding-out: The EIB and national promotional banks should focus on areas where private finance alone cannot carry the risk—such as first-of-a-kind projects, scale-up phases of new technologies and large industrial decarbonisation investments. Public finance should complement, not compete with, commercial banks acting as senior lenders.

Greater use of subordinated and equity-like instruments: Many strategic projects fail due to a lack of risk-bearing equity rather than debt. Expanding the EIB's ability—within a safeguarded mandate—to provide subordinated debt, guarantees or equity-like participation for large transition projects would materially improve bankability and prevent project delays or failures that damage investor confidence.

Alignment with industrial and demand-side policy: Public finance instruments should be used not only to support and de-risk supply but also help to create demand in direct support of EU industrial and climate policies under the Clean Energy Strategy and Industrial Accelerator Act. De-risking supply without ensuring credible demand undermines effectiveness.

3.4 Better recognise transition finance in the regulatory framework

A credible transition depends on financing activities that are not yet fully taxonomy-aligned but are essential to decarbonisation. Disclosure and prudential frameworks should more clearly recognise transition activities alongside green assets, acknowledging that green investment are not inherently risk-free, and avoid creating disincentives for banks that finance clients that are credibly moving in the right direction.

3.5 Engage with the public

Delivering an affordable, reliable, and climate-neutral energy system requires sustained public engagement and realistic expectations. The energy transition will take time, with significant upfront investment required before the full economic and social benefits materialise. Clear communication on costs, trade-offs, and long-term gains is essential to maintain public support and ensure the durability of green investment frameworks.

4. Conclusion

Europe has set the right direction, but delivery now depends on resolving system-level bottlenecks and ensuring that public and private finance work effectively in tandem. By focusing on implementation, demand creation, infrastructure and effective public-private risk-sharing mechanisms, the EU and its Member States can achieve climate objectives while strengthening Europe's industrial and economic resilience and unlocking private capital at scale. Maintaining public support through clear communication on costs, trade-offs and realistic timelines will be essential to sustain durable investment frameworks. ING remains committed to supporting and financing the energy transition, in line with its climate commitments and its role as a global and systemically important bank.
