SUMMARY OF DISCUSSION POINTS

What Do The Green Deal And Green Stimulus Mean For Governments and Business?

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MEHMET OGUTCU (CHAIRMAN, LONDON ENERGY CLUB)

- The Green New Deal is inspired by US President Roosevelt's New Deal because his administration unilaterally dismantled the gold standard – the globalised financial system of his day – and stripped Wall Street of its power to dictate economic policy. It became possible to resolve the banking crisis of that time; to end the Great Depression; to raise finance and use fiscal policy to create jobs and income and end inequality.

- We are now considering whether a green recovery could be engineered along a similar initiative through a package of environmental, regulatory and fiscal reforms to recover prosperity after the COVID-19 pandemic.

- There has been broad support from political parties, governments, activists and academia across the European Union, the United Kingdom, the United States, and other countries to ensure that investment to lift countries out of economic recession is spent in a way that stops global warming from the use of coal, oil and gas, and to invest in clean transport, energy, buildings, and corporate or financial practices.

- Compared to the proposed Green New Deal stimulus package of United States, or the proposal for a "Green New Deal for Europe", the planned rate of decarbonisation of the economy is lower, with the EU aiming to become net-zero over three decades instead of within ten years. The overarching aim of the European Green Deal is for the European Union to become the world's first "climate-neutral bloc" by 2050. It has goals extending to many different sectors, including construction, biodiversity, transport and food.

- COVID-19 has led to different thinking and working processes, which may assist in speeding the transition to carbon neutrality.

- But there are the same underlying problems which existed before the advent of COVID-19. In particular, the geopolitical challenges around the world, and specifically the developing technology and trade war between the US and China, which could possibly lead to a new cold war era.

- Our meeting will shed light on how realistic the green deal, stimulus packages, carbon neutrality and recovery plans are and how these all will affect not only our countries and but also relations with the rest of the world. We hope to generate some messages for government and business leaders going forward.

JULIAN POPOV (EUROPEAN CLIMATE FOUNDATION)

- How will the Green Deal affect our lives?

- There are several green deals in the overall plan. But the official Green Deal was agreed by the Commission on 11th December 2019. The aim is to achieve climate neutrality by 2050 through a set of strategies. There is a comprehensive strategic overview and then various subsets in areas such as: biodiversity, agriculture, investment and farm to fork.

- Some of these areas are not fully negotiated but final decisions are due in the near future.

- The financial package has been included in the EU budget for the next 7 years, as a Recovery Fund and a Next Generation Fund. Much of the costs will be borne by the next generation. The total package amounts to EUR 1.8 Trillion. The funding is not yet finally agreed; the European Parliament is scrutinising. They want a say in the future funding of the EU, in particular R&D and climate costs. It is expected that budget will be agreed by the end of 2020.

- In terms of the Budget:

- 30% of the money is tied to climate target projects. The rest are "do not do damage" projects, and exclude fossil fuels.
- The Border Adjustment Mechanism is a carbon tax on imports to the EU. This could have an impact on trade with Europe. It is not yet clear how this will work. But is of concern to countries exporting into the EU; Russia in particular is concerned.
- Move to hydrogen battery storage. Which is ambitious.
- Targets and objectives to be put into national law.

- These actions will have a significant impact on carbon emissions. The UK enacted a law along these lines in 2008, with a target of zero emissions by 2050. So can be done.
- So is the plan realistic.
- Much of what is proposed in not new. Deals with existing policies. The coal industry is already in terminal decline, and pre-dates the Green Deal.
- The reducing costs of renewable energy is an assistance to the process.
- Eastern European nations are in opposition to some aspects of the Green Deal. Poland has not accepted the 2050 zero carbon date. Public money in Eastern Europe is still being invested in fossil fuel projects.
- There is a need for a new generation of industries to be closely involved in delivering the outcomes.
- Based on all this, the EU will achieve the 2050 target. The trajectory and technology demands are realistic unless there are significant structural issues within the EU itself over the period.

JEROEN VAN HOOF (PWC – Energy Utility and Resources Global Lead)

- How does PWC deal with these new initiatives?

- Energy transition was already hastening prior to COVID-19. The new perspectives created by COVID-19 has highlighted that we need to do things differently, and this includes the methods for achieving carbon reduction.

- Government will assist through large infrastructure projects, to stimulate flagging economies. Hydrogen will be a key element in moving towards net zero carbon.

- The challenge is that the task, delivery and costs have been underestimated. EUR €70 trillion will be required in the next two decades, and EUR €260bn a year for the next decade, to meet the goals.

- Government will have to spend considerably to support, but the private sector will have to be involved, as the main funder.

- The regulatory barriers mean that private funds are prohibited from key areas such as the grids.

- There needs to be a stable and consistent set of rules, and clarity about carbon taxes. The EU and governments need to set these revised parameters if the new business model is to move from oil to natural energy, with the key support of private capital.

- The EUR €260bn per year will go in to:
    - Solar
    - Wind
    - Hydrogen
    - The grid
    - Green electricity
    - Storage

- But the EU is not energy independent. The region cannot produce enough energy for internal requirements, itself. So, areas such as the Middle East, which is having to consider a life after oil, could provide large scale PV (for instance), which would assist in diversifying their economies. So, there are wider effects, than just in Europe.

- But the transition from fossil to green will create considerable strains.

- Companies have a considerable challenge in their balance sheet and profitability while remodelling themselves into totally different businesses, while facing the challenges of shareholders and dividends. This balancing act is a significant challenge. BP, Shell and others are making strategic moves which reshape their businesses. But will they succeed?

- The EU is not in isolation. In parallel, the USA, China, India and Japan are continuing to emit high levels of CO2, and are not in step with the EU proposals. So, this presents another set of geopolitical challenges.

- China and wider Asia have enormous and growing energy requirements and a transition to green energy is an advantage and may offer significant EU business opportunities to help them achieve this.

DAVID RUSNOK (CLIMATE & CO)

- The first impression of the Green Deal is that it looks great, in terms of funding. In Germany EUR €350bn has been committed to the rescue package and EUR €820bn to the generation fund. So, considerable sums are committed.

- In a recession, this money will provide a vital stimulus to the economy, and EU economies.

- But when you analyse the budget more closely, only EUR €80bn is really green. The remainder may be invested in green projects, or not. Of the EUR €1.8 trillion, about EUR €800bn will go to green projects in the end. But could actually be as little as EUR €80bn.

- In order to invest EUR €260bn per year, the regulatory environment must change. The private sector needs to take the lead. If the conditions are right, private capital will be mobilised.

- Grey and brown industries – the old ones – will not be able to move into the new world. How can a smooth transition be ensured? The structural change will cause considerable pain. Politicians will need to handle this carefully and sensitively. There was a transition fund of EUR €35bn, for handling this. This has now been reduced to EUR €10bn, and is included in the budget.

- Germany is spending EUR €30bn just in phasing out coal. The industry only employs 20-30,000. This works out at EUR €1.5m per employee and illustrates the danger of moving to solving obvious problems late in the day, when costs have escalated.

- In terms of residual industries, there needs to be solidarity in Europe; expect that Poland will receive the largest share.

JOHN ROBERTS (THE ATLANTIC COUNCIL)

- The cost of renewables has fallen considerably; much more than anticipated.

- The UK Government funded six new green energy plants in September 2019 with the cost of electricity being EUR €43 to EUR €45/mWh – 20% less than the expected average wholesale price in 2024/25, when they become operational. And, at a price that is half the guaranteed price of the nuclear electricity to be produced by Hinckley Point, when operational. A game changer.

- Solar is now producing energy at EUR €40/mWh (in India and the USA is as low as EUR 30/mWh).

- In addition, battery costs are falling. Tesla is reporting at E67/kWh; two thirds of what it was expected to be.

- But the assumption that diesel/petrol cars will disappear in the medium term is erroneous. There is significant capital cost in these vehicles and in relatively poor economies, such as China and India, drivers will continue using and will be phased out very slowly.

- New companies are jumping into alternative energy, and current oil and gas companies such as BP, Shell and Exxon-Mobil are involved in the energy revolution. BP and Shell have embarked on significant strategic change.

- COVID-19 has meant that we are less reliant on fossil fuels. It is a buyers' market and projects like Nordstream 2 (which is being held back by political constraints) if it is not completed will not have an impact on the population in Germany.

- Renewables have significant advantages in potential geographical distribution, in particular to poorer areas, but there are significant challenges:
    - Intermittency
    - Volatility
    - Need for a sophisticated grid
    - Vulnerability to cyber attack

- And traditional geopolitical tensions will continue. In particular access to rare earths, and lithium, will present new challenges. India is expected to provide 25% of all world energy growth in the next 20 years. But China holds a majority of the rare earths. There will be new tensions around this area, in a similar way that there have been for oil. India and China are likely to have significant tensions.

- In terms of EU relations with the USA, technology partnerships and sharing should make the transition smoother. But, until the outcome of the November US election is clear, we will not be sure about their energy policy and exports. The US can also assist by converting their gas infrastructure to receive hydrogen.

- In Russia and China, with their centralised governments, they are likely to embark on large scale fossil fuel development projects, within and between them. A big exception to the potential progress to green energy.

KEY MESSAGES

- Rapid change is taking place in the energy industry.

- The Green Deal supports the reducing cost of renewables and the growth of additional technologies.

- In the carbon agenda, there is fierce international competition in bringing prices down, which will increase forward momentum.

- In terms of geopolitics, Russia, the Gulf and elsewhere are reacting to these developments with considerable concern and are developing ambitious projects in the new technologies.

- There need to be a clear and consistent set of more flexible EU and government regulations to attract private investment, which is critical to the success of the programme.

- Maintain a clear and realistic view of what transition means. There needs to be collaboration going forward to promote the opportunities.

- We have passed the tipping point towards renewables, through the significant reduction in costs. Not if, but how.

- Need to maintain a clear vision to achieve the 2050 target. But, it will need a revolution to achieve the 2050 target.

- The Green Deal has a role. Budgets going forward should be 30-40% focused on achieving the target.

- Private investment will be critical in achieving the 2050 target. Capital will flow to the right investments. The regulatory framework to achieve this is not yet there. Need to amend and set in place an emissions trading scheme.

- Delay is not an option. In 10 years will be too late and too expensive.

- Is the EU aligned closely on the Green Deal? Don’t think so. Central vision and policy guidance required.

- COVID-19 is at the top of the policy agenda. May cut across the Green Deal, in terms of expenditure. A challenge.

- There needs to be unity within the EU about the Green Deal. Foreign policy issues also need to be tackled. There are internal tensions. Eastern Europe has more authoritarian tendencies, which may well spill over into the climate issue.

- The reduction in costs for renewables means that it can be spread more widely geographically and may eliminate energy poverty.

- Don’t ignore the current geopolitical constraints – Nordstream and Ukraine.

- Prepare for India and China to have issues over the availability of rare earth minerals.

- We need to be prepared for cyber attacks on this new energy system.

- It is clear that we need to stimulate growth and create opportunities if the target of zero carbon by 2050 is to be achieved. Private sector finance must be involved to make it work.
- In this process, the grey and brown companies cannot be forgotten. Need to deal with today's problem as well.
- The next generation of young is our best renewable resource and will achieve the 2050 target.

Membership: Please contact A.watson@londonenergyclub.org for enquiries regarding membership.