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Contact

Kevin Bourne
Managing Director,
Sustainable Finance
kevin.bourne1@ihsmarkit.com
Telephone +44 (0)203 159 3553

Authors

Susan Farrell
Vice President,
Gas, Power, and Energy Futures
susan.farrell@ihsmarkit.com

Steven Knell
Senior Director,
Gas, Power, and Energy Futures
steven.knell@ihsmarkit.com

Climate and Sustainable Finance

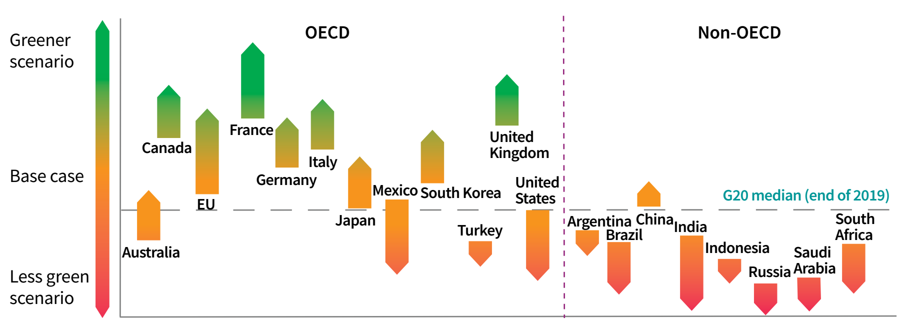
Climate: Is the energy transition helped or hindered by COVID-19 response measures?

Key Implications

The billions of dollars being allocated for coronavirus 2019 (COVID-19) pandemic recession-related rescue and recovery plans have presented a unique opportunity for countries to tie aid and grants to future low carbon commitments. But has it been happening? IHS Markit reviewed over 100 fiscal and regulatory measures announced from March to June 2020 to assess whether the actions and associated qualifications would help or hinder the transition towards a lower carbon economy. Measures which would further a transition moved in the direction of our greener long-term energy scenario, while those which supported the status quo moved towards the less green.

- The OECD countries have been leaders in furthering the energy transition, by attaching climate-related strings to recovery packages especially in Europe and Canada. The United States and Mexico are notable exceptions, with the US rolling back fuel economy standards and Mexico's putting a hold on new wind and solar projects.

COVID-19 G20 stimulus and recovery responses: Helping with the energy transition?



G20 median is the median value of the G20 "composite national climate policy assessment" scores.
Source: IHS Markit
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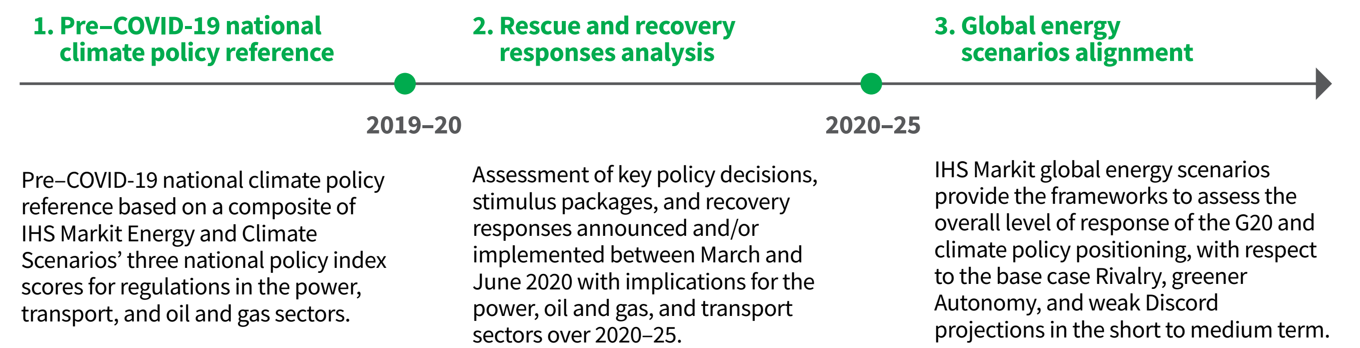
- Non-OECD countries in the main reinforced existing energy policies; the exception is China, the world's largest GHG emitter, which has implemented some measures in line with a less carbon-intensive pathway

- Many countries have provided aid to large energy-consumers such as airlines, but in different ways. Brazil's $680 million relief plan for the top three airlines had no conditions attached. France provided a state-backed loan of €4 billion to Air France-KLM and Air France. In addition, a direct shareholder's loan of €3 billion to Air France required it to halve its overall carbon dioxide emissions per passenger-kilometer by 2030 compared with 2005 levels, with even higher targets for domestic flights.

The three components of the G20 rescue and recovery responses assessment



Source: IHS Markit

The data-backed assessment of G20 governments' climate policy status before the COVID-19 outbreak was based on a composite of IHS Markit Energy and Climate Scenarios' three national climate policy index scores. The three indexes focus on regulations in the power (14 categories), transport (26 categories), and oil and gas (16 categories) sectors and assess the strength of a country's policy framework for reducing GHG emissions. In this case we were referencing end 2019 as a baseline in order to compare with the "rescue" measures proposed for 2020, and the longer term "recovery" measures through 2025 that would have greater implications for the energy transition.

A full 70% of the measures were geared to short term rescue using a mix of financial aid, tax incentives and subsidies. Only a few governments were looking longer term with recovery measures that include regulatory changes to standards and reporting rules, as well as national budget allocations beyond 2020. A number of countries are implementing both positive and negative measures, which we assessed and weighted to determine overall country direction.

Some examples of country measures include:

COVID-19 rescue and recovery measures		
	Overview	**Sector(s)**
Brazil	1. Postponement of renewable energy auctions. 2. Announced relief plan of at least US$9 billion to large companies affected by the COVID-19 crisis, including airlines, energy companies, and large retailers (under negotiations). 3. Relief plan for top three airlines of US$680 million aid package; LATAM Airlines Group's US bankruptcy filing will delay its potential bailout to Brazil to at least July (no green conditions attached). Postponement of payment of air navigation fees by airlines between March and June for six months. 4. Bailout package for power distribution firms set to about US$3 billion (no green conditions attached). 5. The Investment Partnership Program council has given the green light for the completion of unit 3 of the Angra 3 nuclear power plant.	1. Power 2. Cross-sectoral 3. Transport — aviation 4. Power 5. Nuclear
France	1. Green conditions for Air France bailout. State-backed loan of €4 billion to Air France-KLM and Air France, in addition to a direct shareholder's loan of €3 billion. The French government required Air France to halve its overall carbon dioxide emissions per passenger-kilometer by 2030 compared with 2005 levels, with more stringent targets for domestic flights. A €1.5 billion fund over three years in research and development (R&D) of new technologies in the aviation sector to have the first emissions-free aircraft by 2035. The French government plans to ban low-cost carriers to operate short-haul domestic routes that Air France must leave as part of its bailout. 2. Stimulus plan worth €8 billion for the automotive industry. It includes incentives for the purchase of new electric cars up to €7,000 from the current €6,000. Companies purchasing electric fleet cars are eligible for €5,000. The purchase of new diesel or petrol cars could also qualify for up to a €3,000 incentive, if the new vehicle is cleaner than the old one.	1. Transport — aviation 2. Transport — automotive
United States	1. Rollback of Corporate Average Fuel Economy standards. 2. US$2 trillion rescue bill including a US$500 billion fund to help hard-hit industries (no green conditions). 3. US$25 billion bailout to airlines (no green conditions).	1. Transport — automotive 2. Cross-sectoral 3. Transport — aviation

By far the most progressive fiscal packages favoring an energy transition were set forth by the European Union:

COVID-19 rescue and recovery measures		
	Overview (updated in July)	**Sector(s)**
European Union	1. European Council agreement: Next Generation EU fund of €750 billion (€390 billion grants + €360 billion loans) raised in the financial market. Along with the recovery fund, the Council agreed on the next long-term budget “Multiannual Financial Framework” (2021–27) of €1,074 billion to support EU programs for a green, digital, and resilient recovery. 30% of total spending targets climate action. The agreement includes: • European Recovery and Resilience Facility—€672.5 billion for green and digital transitions and the resilience of national economies • Recovery Assistance for Cohesion and the Territories of Europe—(ReactEU) €47.5 billion for cohesion policy funding • Just Transition Fund— €10 billion to alleviate the socioeconomic impacts of the transition in the regions most affected. For Member States not yet committed to implement the carbon neutrality target by 2050, access to the fund will be limited to 50% of the agreed national allocation. Access to the remaining 50% will be upon acceptance of carbon neutrality commitment. • Rural Development—€7.5 billion to support rural areas in making the structural changes necessary in line with the European Green Deal • InvestEU—€5.6 billion to support investments in sustainable infrastructure, research and innovation, and digitization, small and medium-sized enterprises and midcaps, social investment, and skills across the European Union Existing programs strengthened: • Horizon Europe—€5 billion to increase support for health and climate-related research and innovation activities • Digital Europe—€6.8 billion to boost the European Union’s cyber defenses and support the digital transition • Natural Resources and Environment: €356 billion (40% of the Common Agricultural Policy budget to be destined to climate action). 2. Adoption of Taxonomy Regulation: a classification of green economic activities that will contribute to the implementation of the European Green Deal by boosting private sector investment in green and sustainable projects. 3. Grant of €148 million allocated to 36 companies contributing to the recovery plan across several sectors and projects, including the development of sustainable projects that support energy efficiency improvements and sustainable recycling practices of manufacturers.	1–3. Cross-sectoral

Note: Figures in 2018 prices.

Source: IHS Markit

Countries re-enforced trends in play before the pandemic

In the main, those countries with more stringent policies to reduce GHG emissions already in place have reinforced their pre–COVID-19 positions. This is the case with the European Union and its member states, as well as Canada.

- European countries, including the EU and the United Kingdom, continue to lead with strong climate-focused interventions, reinforcing their pre–COVID-19 positions, in line with the stronger regulatory environment and lower emissions outcomes of the greener scenario.

- North and South American countries' responses are in the main aligned with the weaker and less green outlook scenario. The exception is Canada: it has allocated recovery funds to the reduction of emissions in the oil and gas sector and used climate risk disclosure as a requirement for access to financing.

- OECD countries had a more climate-focused starting point before the pandemic, and 7 of 12 used fiscal measures to enhance their climate policies, some with notable intensity.

- Seven of eight non-OECD market responses exhibit potential negative implications for climate. The exception is China, the world's largest GHG emitter, which showed a greater focus on the development of "new infrastructure," including electric vehicle (EV) charging stations and ultra-high-voltage (UHV) power facilities.

Susan Farrell
Vice President, Energy Futures, IHS Markit

Susan Farrell, vice president at IHS Markit, leads the Energy and Climate Scenarios, and the executive energy briefing service Strategic Horizons

Ms. Farrell heads the IHS Markit Energy and Climate Scenarios, which project three different integrated trajectories for wind, solar, nuclear, oil, gas, coal and other energy sources out to 2050 at a global and key country level. Low emissions outlooks that meet the Paris Climate targets are also included under two different sets of assumptions. These integrated scenarios and low emissions cases provide energy transition outcomes for fuel changes and GHG emissions that include different climate policy, technology and cost assumptions. She also directs the Strategic Horizons executive energy service, which provides summaries of IHS Markit views across the energy sector and includes Industry Outlook briefings. Ms. Farrell has extensive experience with presentations to executive teams and boards of directors discussing the outlook for industry drivers, markets, and company strategies. Previously, Ms. Farrell led the global strategy groups of two major service sector companies. She lived and worked in Europe for more than 10 years and traveled extensively in Asia Pacific and the Middle East. Ms. Farrell holds a Bachelor of Arts in economics from Brown University and an MBA with a specialization in finance from Boston University, United States.

Dr. Steven Knell, Ph.D
Senior Director

Steven Knell, Ph.D., senior director with the Gas, Power, and Energy Futures team at IHS Markit, is a specialist in low-carbon energy transitions.

Dr. Knell's principal expertise lies in analysis of environmental regulatory frameworks and their impacts on company strategy and the energy market landscape. He is a lead for the Energy and Climate Scenarios capability and is a main contributor to global climate policy and greenhouse gas emission research across IHS Markit.

Dr. Knell's current research and consulting work focus is on the impact of the COVID-19 pandemic on climate action; energy company and investor responses to the recommendations of the Task Force on Climate-related Financial Disclosures; the implications of the Paris Agreement and national climate policies like carbon pricing on conventional energy production and consumption; and the features and applications of low-emission cases and 1.5/2-degree Celsius–consistent global energy scenarios.

Dr. Knell has previously served in the Canadian Federal Ministry of Environment and with the United Nations Development Programme in Croatia. Educated in the United Kingdom, he holds a Bachelor of Arts from the University of Kent at Canterbury, a Master of Science from the London School of Economics, and a doctorate from the University of Sussex.

IHS Markit Customer Care
CustomerCare@ihsmarkit.com
Americas: +1 800 IHS CARE (+1 800 447 2273)
Europe, Middle East, and Africa: +44 (0) 1344 328 300
Asia and the Pacific Rim: +604 291 3600

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