

ENERGY UNION

POLICY BRIEF

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#GREEN DEAL

#INNOVATION

#CLIMATE

# WHAT BUSINESSES CAN DO FOR THE EUROPEAN GREEN DEAL

## NINE CLIMATE, INNOVATION AND SOCIAL ACTIONS FOR CEOs IN A CLIMATE EMERGENCY



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Last month, the European Union launched its most significant endeavour since the creation of the Single Market: The European Green Deal.

The European Green Deal and its 47 related actions will shape the energy, transport, industry, finance, construction, food, tourism, and digital industries and markets for decades to come. This offers an opportunity for businesses leaders to engage their directors, employees and stakeholders in transformative climate and innovation actions that deliver key social and economic impacts and meet the urgency of the climate crisis in this decade.

Global average temperatures have already risen by more than 1°C<sup>1</sup>. Extreme weather events are more frequent and more intense, most clearly visible in Australia at the time of writing. Yet amid loud calls for climate

action, we are not collectively moving fast enough to avoid irreversible climate devastation<sup>2</sup>.

The 2020s can be different. At the end of 2019, the European Parliament declared a climate emergency<sup>3</sup>, the European Commission proposed the 'European Green Deal'<sup>4</sup> and the European Council endorsed "the objective of achieving a climate-neutral EU by 2050"<sup>5</sup>. This means that the world's largest market for goods and services decided to align its entire economy with the goals of the Paris Agreement. No business will be left behind, unless it wilfully ignores the climate and social reality of this new decade.

At the 2020 World Economic Forum in Davos, the world's leading CEOs will have their first opportunity to engage with the ambition of the European Green Deal. This briefing unwraps this new political reality

1. Alan Buis, *A degree of concern : why global temperatures matter*, NASA, 19 June 2019.

2. International Panel on Climate Change, *1,5°C Report*, 2018.

3. European Parliament, *Resolution on the climate and environment emergency*, 28 November 2019.

4. European Commission, *The European Green Deal*, Communication, 11 December 2019.

5. European Council, *Conclusions*, 12 December 2019.

and its impact on businesses, and proposes nine concrete actions CEOs can undertake to engage in a decade of climate emergency.

## Business leaders face a new political reality that will impact them ■

**Dealing with the climate emergency is a top priority for European citizens.** Climate polls higher than migration, terrorism and unemployment for Europeans voting in the 2019 elections<sup>6</sup>. Furthermore, new European Commission President Ursula von der Leyen described the climate threat as “an existential issue for Europe – and for the world”. To tackle it, she made the European Green Deal her number one priority, seeing it as Europe’s “new growth strategy”.<sup>7</sup>

**This new political reality is defined from the bottom-up (by a company’s clients – European citizens) and from the top-down by the market’s regulator (EU Commission, Parliament and Council). This new reality will translate into new EU policy decisions.**

The Commission has announced 47 policy actions in the context of the EU Green Deal that include the revision of recently adopted legislation (such as CO2 emissions standards for vehicles, the share of renewables in the energy mix, etc.) and the consideration of all options (including carbon border adjustment mechanisms<sup>8</sup>, the harmonisation of national energy taxation, and the specific treatment of green public spending under the Eurozone rules).

In the face of this new political reality, as a CEO you have three options:

**1. Business as usual.** You can hope that the European Green Deal will not impact your business. You will be in great company along with: Kodak, Blockbuster, Sear’s, Hummer and Enron. A leader building a tower who ignores an increasing earthquake risk may

look good for a week, a month or maybe a few years, but when the ground moves under your feet, it is time to make adequate changes before it is too late. If your firm chooses not to adapt to the new political reality in Europe, you roll the dice in a casino which is beginning to look empty and where the odds are increasingly stacked against you. Remember “the trend is your friend”.

**2. Layering.** Many of you feel good because your climate hedges paid off for you in the last decade. You offset CO2 emissions, bought clean power and use recycled paper. You have a great sustainability report, your climate efforts are genuine, well-motivated and you have talked the climate talk at Davos and other conferences around the world. You may run a car company who is investing in EVs (but delivers more SUVs), or an oil and gas company with a big green lab (but you still hope to burn more reserves than what is the maximum to respect the Paris Agreement). The European Green Deal will profoundly impact corporate investments and you will need to review them anew this decade. In the 2020s, your shareholders will also be onto you (many already are) and with the EU taxonomy on sustainable finance, the tools that are available to them to understand the materiality (or lack of it) of your incremental approach and expose your reported and unreported actions.

**3. Full-on Engagement.** Few people fully engage with the term “emergency” until they get the midnight call saying “move now, as the wildfire is travelling at 70 km/h in your direction and you have 20 minutes”. You have been warned. Engaging in a structural change to make your company’s entire business ‘future-proof’ is the only coherent option in a climate emergency. This non-linear, genuine transformation is something which is increasingly understood by shareholders and senior managers. It must permeate every business unit and

<sup>6</sup>. European Parliament and Kantar, *The 2019 elections – a pro-Europe and young electorate with clear expectations*, 2019. Answers based on 13,651 respondents who voted.

<sup>7</sup>. Ursula Von der Leyen, Speech at the European Parliament, 27 November 2019

<sup>8</sup>. Pascal Lamy, Geneviève Pons, Pierre Leturcq, *Greening the European Union’s trade policy*, Jacques Delors Institute, December 2019.

operational site, it should form a part of the firm's culture and makes those who are not "on board" stand out like a smoker in your conference room. This will be challenging for you (CEOs who are still reading): you will need to overcome the massive internal inertia which only you understand; among your colleagues, your direct and indirect reports and in the vast supply chains which serve you. Fortunately, Europe also just defined a taxonomy of climate mitigation actions, so at least you will no longer be speaking a different language with those who are yet to understand what you are doing. At the time of writing, you are also in great company as 769 of you are adopting Science Based Targets for your entire firms<sup>9</sup>.

With her proposal for an 'EU Climate Pact', Ursula von der Leyen is reaching out to all of you. You can personally heed this call, ignore it, or throw it to your team, but recognise that this is the moment, and there may not be another. Those who walk the walk in 2020 will be remembered for what they did. This brief suggests **nine concrete actions you can consider** as you debate how to react to the climate emergency in Europe and the Green Deal you are being offered. Even better, we have divided them into three easy to remember themes:

## 1 ■ Nothing will make sense unless it works in a climate neutral economy

There will be a time when your business is operating in a zero net emissions environment, sooner or later. If you do not know what your company is doing then, and your key operations managers do not know and your suppliers do not know, then you should not be surprised when your shareholders sell their holdings in this decade. The vast amount (70-80%) of your firm's enterprise value is beyond the net operating cash flow you will deliver in the next ten years<sup>10</sup>.

9. <https://sciencebasedtargets.org/approved-targets-map/>

10. Discounted cash flow model's Terminal value calculation: <https://www.value-enterprise.com/terminal-value/>

11. *i.e.* to reduce EU greenhouse gas emissions to such an extent that it becomes possible to offset the remaining emissions (*e.g.* coming from the military or the aviation sector) with carbon sinks (*e.g.* forest, agriculture, carbon capture and storage/usage).

Your Chief Financial Officer knows it, buy-side analysts know it, the ratings agencies know it and the markets know it. While apparently you are judged on next quarter's performance, the bulk of your enterprise value depends upon what people believe you will be doing after 2030. As the EU enshrines its climate-neutrality<sup>11</sup> by 2050 objective in its first-ever EU Climate Law, what does your business need to be prepared?

**1. Net-zero 2050 Vision:** You, the CEO, need to be able to tell your kids what the firm you lead is doing in 2050, and show how you are a part of the solution, and not the problem. You will know you got it right when they swell with pride and head off to school to explain it to their friends. If you can explain this to your kids, the Environmental, Social and Governance (ESG) analysts on your quarterly calls will seem like a walk in the park. If a CEO is still unable to do this, this year, he/she can establish a special "emergency" task force to rally some of your best talents to give you a response that you can deliver to your next annual general meeting.

**2. Climate-infused business processes.** Climate impacts must be imbedded in all material business decisions: such as make an acquisition, sign a power purchase agreement or engage a new supplier. It certainly helps if your internal business management systems have the climate-related, energy and emissions fields imbedded so that climate impacts naturally flow through your management and reporting systems. This will also help the sustainability team avoid *ad hoc* reports. You can also include **a climate-based financial incentive to your top managers**, and – like ENEL – link the delivery of climate objectives to your financial instruments and even your own CEO's bonus. To help get started, there are a few "no brainers" (which last decade were called "low hanging fruits") and they include: energy efficiency, buy 100%

renewable energy (RE100 companies are on this), fleet switch to EVs (with EV100 firms), replace all lights with LEDs, deep renovation of company buildings, and please instruct your lobbyists to back off anything which is not aligned with the Paris Agreement.

**3. Put your money where your mouth is.** You need a 'climate neutral' test for all your corporate investments (by 2050, or earlier in Austria or Finland). This will help you assess whether each investment is likely to benefit from or be harmed by forthcoming European Green Deal, and its 47 connected actions.

## 2 ■ Don't wait, innovate

A company's capacity to innovate has always been key to its survival. The transition to climate neutrality and alignment with EU Green Deal-inspired policies will generate a wave of climate-related opportunities and risks that only companies that innovate will be able to ride.

**4. Materiality matters.** Europe needs a lot more private and public investment in research and innovation in Europe, including in clean energy innovation<sup>12</sup>. In the past decade, the private sector invested too little in it. For instance, EU energy incumbents typically invested between 0.1% and 0.9% of their annual turnover in research and innovation (R&I)<sup>13</sup>. How does that work in a European Union that pledges to increase R&I investment from 2% of GDP to 3% of GDP<sup>14</sup>? There seems to be an order of magnitude problem here. As part of the EU Climate Pact, companies should include a pledge

to double or triple their climate-related R&I. Not all those investments will work, and it is not all about quantity, but as it takes over 10 years to get an idea from lab to massive market, we really do need this now.

**5. Stop "soon stranded" R&I, as climate quality matters.** CEOs have a responsibility to invest in the future they want. Yet, most recent data suggests that 75% of the private sector energy research and development still goes to oil and gas, with less than 5% going to alternative energy<sup>15</sup>. In a clean energy future, and with R&D paying off in 10-30 years, perhaps by 2030 it will be 75% of private R&D going to alternative energy and just under 5% going to fossil-fuel innovation.

**6. Help better spend public R&I.** The EU's flagship R&I programme "Horizon Europe" will be one of the biggest in the world, and 35% of it has to be climate-related. CEOs should be more vocal about the key role of public funding to support their innovation<sup>16</sup>. Business Europe, the EU's largest representation of businesses, want Horizon Europe to be at least €120 billion from 2021-27<sup>17</sup>. Those of you in Davos should dedicate some minutes of your meetings with your national governments to emphasise the importance of EU public innovation investments for your firm (as those same national governments are the ones who decide on the budget size of Horizon Europe). Furthermore, your company can engage with the four EU Green Deal R&I Missions, for instance to see how your innovative capacity can help European cities to become climate neutral<sup>18</sup>.

<sup>12</sup> Climate Strategy & Partners, *Funding Innovation to Deliver EU Competitive Climate Leadership*, October 2018

<sup>13</sup> Thomas Pellerin-Carlin *et al.*, *Making the energy transition a European success*, Jacques Delors Institute, September 2017.

<sup>14</sup> See the Europe 2020 Strategy.

<sup>15</sup> Jim Skea *et al.*, *Energy Innovation for the 21st Century*, Edward Elgar Publishing, 2019.

<sup>16</sup> Mariana Mazzucato, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths*, 2015

<sup>17</sup> Business Europe, *Join Statement for an Ambitious horizon Europe Programme*, September 2019.

<sup>18</sup> Charlotte Roig-Ramos, Thomas Pellerin-Carlin, *Cities in Europe : what EU innovation can do for climate neutrality*, Jacques Delors Institute, September 2019.

### 3 ■ Bring your people with you

The transition to a climate neutral economy is not *by nature* a social one. But without the proper supporting framework, it can weaken social justice and lead to unrest. With it, we can make European societies more just, and more politically stable.

In this context, your businesses can take three steps to bring your people and stakeholders along with you and the societies who provide your license to operate:

**7. Retrain and redeploy.** If you have company workers who are engaged in activities that are incompatible with climate neutrality, like oil and gas exploration<sup>19</sup>, they might be better off working on emerging sectors, like offshore wind and deep geothermal. Such retraining and deployment is also likely to be in the company's interests as the discovery of new stranded assets does not seem like a smart occupation.

**8. See what you can do in regions which are more likely to suffer job losses.** There is political pressure to support the just transition of these regions. This is why the European Commission proposed €100 billion for the Just Transition.<sup>20</sup> Your business can therefore expect public support and funding if you increase relevant investments in regions that are phasing-out coal<sup>21</sup>.

**9. Finally, lead the wave of better buildings.** You all work in, produce in, live in and own buildings. In Europe, buildings account for 40% of energy use and 36% of emissions and they are mostly old and unfit for purpose in our climate future.<sup>22</sup> Modernising those buildings will require a lot of innovation and create many local jobs. This is what the

European Green Deal's "renovation wave" aims to address, and it impacts us all. If you are in the construction sector or a producer of building materials, you can create new value chains, processes and materials for the deep retrofit of buildings. If you are a building owner or user, you may be surprised at how many small upgrades will pay for themselves and engage your workforce in the millions of smaller components of the renovation wave. Finally, there will be increasing public funding available to help you develop solutions for the 50 million EU families that are currently experiencing energy poverty<sup>23</sup> in dwellings unfit for purpose.

So in Davos, take a look around and see how the ground is moving under your feet. Think of Australia, and the climate emergency as articulated by our children, and reflect on the changes you've seen at home, on your holidays and on business trips. Use that internal fire to ignite corporate action in this decade as we have never seen before. Feel the exhilarating but challenging winds of change, and be the innovative leader which society and your stakeholders are looking for, and will follow. And if – for some strange reason – your stakeholders are not looking for you to be that leader, innovate anyway and change them, as the future is for forward-looking visionaries and not for those walking backwards into it. When you do nothing, or as little as you can get away with, you still make a choice – the difference is that in this decade and in Europe that will be the riskiest one, whether you see it, or not.

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20. European Commission, Proposal for a regulation establishing the Just Transition Fund, Brussels, 14 January 2020.

21. Thomas Pellerin-Carlin, Monika Oczkowska, *Just Energy transition: A reality test in Europe's Coal regions*, Jacques Delors Institute.

22. Buildings Performance Institute Europe, *State of the building stock briefing*.

23. European Energy Poverty Observatory, *What is energy poverty ?*, 2019.