Chatham House COP26
Diplomatic Briefing Series: Will COVID-19 Accelerate or Slow the Energy Transition? Implications for NDCs

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Introduction

The sixth event in the Chatham House COP26 Diplomatic Briefing Series – ‘Will COVID-19 Accelerate or Slow the Energy Transition? Implications for NDCs’ – took place on Wednesday 30 June 2020. Due to COVID-19, it was held as a webinar. The event was chaired by Dr Daniel Quiggin, Senior Research Fellow in the Energy, Environment and Resources Programme of Chatham House, and the panel consisted of:

- Tom Nelson, Head, Natural Resources, at Ninety One;
- Sara Lechtenberg-Kasten, Research Fellow at the King Abdullah Petroleum Studies and Research Center (KAPSARC);
- Marta Krajewska, Deputy Director, Power, at Energy UK; and
- Simon Sharpe, Deputy Director, COP26 Policy Themes, in the UK Cabinet Office.

The webinar was attended primarily by diplomats based in London and UK government officials.

Key messages

- The energy transition refers to a transformation of the global energy system away from fossil fuels to low-carbon sources of energy. This shift was well under way before the COVID-19 outbreak, and most of the speakers generally agreed that the pandemic is unlikely to delay the transition in a significant way, given the relative investment attractiveness of renewables. Simon Sharpe and Marta Krajewska did, however, highlight that the outcome will depend on what actions governments undertake in response to COVID-19. Decisions made in the current context will have long-term consequences, and it is important that the UK government, as President of the 26th Session of the Conference of the Parties to the UN Framework Convention for Climate Change (COP26), engages with other countries now in order to encourage actions that are compatible with the goals of the Paris Agreement.

- Investments in the energy sector can contribute both to the achievement of net-zero emissions targets and the post-pandemic economic recovery. In the UK, such investments might entail enhancing energy efficiency, developing hydrogen solutions, incentivising the switch to electric vehicles, promoting flexible power solutions, and developing more controversial and emerging technologies such as carbon capture, use and storage (CCUS). Targeted investments and market-creating policies have been the main drivers of the energy transition to date. Carbon pricing can, however, also play an important role.

- The speakers stressed the importance of addressing social issues and promoting a just (or equitable) transition. Tom Nelson underlined that a transition which generates negative social outcomes cannot be considered a success. Sharpe noted that at the start of a transition, almost no one has an interest in the transition succeeding but that, towards the end of it, everyone does. It is therefore critical to try to align the interests of various stakeholders with the goals of the transition at an early stage.

The energy transition: an unstoppable train?

Daniel Quiggin introduced the theme. He noted that oil prices had collapsed during COVID-19, and that some analysts predict that the demand for oil will peak three years earlier than previously anticipated. It is also the case that renewable energy has contributed to meeting a larger share of electricity demand during the pandemic. There are, however, those who fear that depressed oil prices could undermine the cost-competitiveness of renewable energy, and that COVID-19 might thereby slow the energy transition.
An important determinant of whether the pandemic will lead to a prolonged oil price slump is the extent to which the behavioural changes that COVID-19 has prompted are a temporary or a permanent phenomenon. Quiggin noted that BP and Shell are working on the assumption that oil prices will remain low for an extended period, and that these companies recently announced significant write-downs of their oil assets. Quiggin also referred to the potential impact of post-pandemic economic stimulus measures on the energy transition: will governments prioritize green technologies or fossil fuel-based industries?

Tom Nelson underscored that the energy transition was well under way before COVID-19 emerged, and that the process had accelerated significantly since the adoption of the Paris Agreement in 2015. He highlighted four factors that have been particularly important in driving this trend. The first is that the understanding of the science behind climate change – and the understanding of climate-related risks – has improved. The second is that there have been important changes in policy, which have incentivized the shift towards renewables. Moreover, innovation in areas like electric vehicles, solar, wind and battery technology have been crucial, as has the increased cost-competitiveness of renewable sources of energy. The last two factors – innovation and the falling price of renewable energy – are especially important from an investor perspective, according to Nelson. He did not think that COVID-19 would derail the energy transition, given that the transformation is driven to a large extent by the improving economics of renewables.

Sara Lechtenberg-Kasten shared the assessment that COVID-19 is unlikely to delay the energy transition in a significant way. Marta Krajewska and Simon Sharpe commented that the pandemic could either slow or accelerate the shift, depending on what actions governments undertake. Sharpe stressed that decisions made in the near term will have significant and long-term consequences, and that this increases the pressure on the UK government – as president of COP26 – to interact with other countries now, despite the difficulties caused by COVID-19.

Lechtenberg-Kasten emphasized the importance of the upcoming presidential election in the US for the energy transition. A victory for the Democrats would mean that the US would likely re-join the Paris Agreement and perhaps assume more of a leadership role in global climate action, while a re-election of President Donald Trump would likely entail further rollbacks of environmental regulations over the coming years.

What should be done?

Krajewska’s presentation focused on how investments in the energy sector could contribute to both the UK’s economic recovery after COVID-19 and the achievement of the net-zero emissions target. She stressed that improving energy efficiency is critical from a climate perspective, and that it lowers household bills. She also highlighted the need to incentivize the switch to electric vehicles, to invest in flexible power solutions, and to continue building on policy frameworks that have proven successful in encouraging private investment in low-carbon power generation. Energy UK is currently working on a ‘low-carbon heat sector deal’ with the UK’s Department for Business, Energy and Industrial Strategy (BEIS) which, according to Krajewska, will support job creation and training, and contribute to furthering the energy transition. She also mentioned that the UK should support the development of hydrogen and CCUS solutions, both of which will play an important role in decarbonizing the harder-to-abate economic sectors, according to Krajewska.
Sharpe stressed the importance of targeted investments and market-creating policies in driving the energy transition. He referred to a report by the Carbon Trust, which finds that 80 per cent of the reduction in the price of wind power in the UK over the past decade is the result of market-creating policy. This example is no exception; the rise of renewable energy worldwide has almost exclusively been driven by policies and targeted investments, according to Sharpe. Carbon pricing can, however, also have an important role to play. In the UK, the introduction of a carbon floor price made coal uncompetitive from a cost perspective, which led to the closure of several coal plants. Sharpe emphasized that the shift to low-carbon energy will be achieved faster if countries work together on innovation, deployment and standard-setting. For example, the more countries that install similar technologies, the quicker the cost of these technologies will decrease.

The importance of equity and of ensuring a ‘just transition’ was emphasized by Nelson, Sharpe and Lechtenberg-Kasten. Sharpe highlighted that interests change over the course of a transition. At the start of the transition, almost no one has an interest in it succeeding. Towards the end of the transition, however, everyone does. Efforts that seek to align the interests of various stakeholders with the goals of the transition at an early stage of the process are therefore very important. Nelson mentioned that Ninety-One is increasingly considering both climate and social issues when making investment decisions. He noted that an energy transition which delivers negative social outcomes cannot be considered a success.

Discussion

The presentations by the speakers were followed by a Q&A session, which was held under the Chatham House Rule. An attendee asked if a long COVID-induced recession might slow the energy transition. One speaker commented that there could be a temporary slowdown, but that it was unlikely that the transition would be derailed completely given the relative investment attractiveness of renewables. Another speaker agreed and emphasized that relative investment matters more than absolute investment; in a scenario where there is less investment undertaken overall, renewables might attract more capital than fossil fuel alternatives. This speaker also emphasized the importance of policy in determining the attractiveness of various sources of energy.

The discussion reverted to the potential impact of the oil price on the energy transition. One speaker commented that it is exceptionally difficult to predict future oil price levels and that the price plays an increasingly small role in influencing the investment decisions of the company that the speaker works for. Another speaker highlighted that market stability matters more than the price per barrel. The role of energy demand was also discussed. One speaker commented that it is important to focus on achieving a rapid transition to net-zero emissions in every sector, and that this will generate opportunities for meeting future energy demand.

The challenge of how to further the energy transition in countries where key constituencies, and/or the government, oppose such change was raised by an attendee. One speaker commented that it is not necessary to work with all countries to effect change at the global level. The key is to form coalitions of the stakeholders that are influential (and willing). The speaker also mentioned that there exist a range of different interests within one country, and that it might be possible to discuss issues such as ‘air pollution’, should the topic of climate change itself be controversial.

Finally, the role of Nationally Determined Contributions (NDCs) was discussed. One speaker highlighted that more transparency in relation to NDC implementation might increase trust in the process. Another

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1 The report has not yet been published.
The speaker emphasized that it is relatively easy to set a collective goal, but that it is significantly harder to translate such a commitment into individual actions. The NDCs are important because they do exactly that – translate the collectively agreed goals of the Paris Agreement into country plans.