

DRAFT of 13 April 2021

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Members of the Geopolitical Advisory Council

COP 26: the approach of the major state actors, likely outcomes, and the implications for bp

The geopolitics of climate and the energy transition

This agenda item is about the likely outcome of COP 26, the extent to which the Biden Administration will succeed in delivering its Green Deal in the US, progress on the EU's Green New Deal; whether our own strategy will resonate with these outcomes and where the geopolitical tensions are likely to lie. The purpose to consider how BP can best position itself on this political agenda and what the limits are.

The aim of this paper is to describe the context and to set out questions for discussion.

Summary of main points

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Context: COP 26

The 2021 United Nations Climate Change Conference is due to take place in Glasgow on 1-12 November, under the Presidency of the UK (one year later than planned). It is the first meeting since COP 21 (at which the Paris Accords were signed) at which signatories will be asked to upgrade their Paris goals).

The former Business Secretary Alok Sharma has taken charge of preparations. Other senior figures are involved, such as Mark Carney the PM's COP 26 Finance Advisor, and 6 COP 26 Ambassadors. Sharma and they are supported by a secretariat (the COP 26 Unit), which faces the extra task of ensuring that the event complies with whatever COVID-19 rules are in force at the time. There has been some talk of another postponement. In any case there is likely to be less personal and more virtual contact than in the past, in a city which does not have the most developed urban infrastructure in the UK. This will not help.

The UK government has a generally positive record on the climate change issue, by international standards, and is in a good position to try to inspire countries to tighten up their contributions (NDCs). We judge that the government has a clear idea of what success at Glasgow will look like: a broad international agreement backed up by tangible commitments and credible costed plans.

Commented [WT1]: I would say 'positive.' The UK is leading the pack on renewables among the G7, for instance.

The threats to this happy scenario are familiar, and there have been many unsuccessful COPs in the past. At Glasgow we might see some of the following:

- Insufficient international trust;
- Countries may want to withhold full cooperation for geopolitical reasons;
- Emerging economies may demand compensation and funding from rich ones;
- The pandemic (weakened economies and societies, grievances over vaccine nationalism) may have created a hostile environment.
- China, posing as a champion, might ask less developed countries to choose between itself and the West

In addition, there have been some questions about the very commitment of the UK government, in addition to the familiar stance of the NGOs. In winter of 2021 two parliamentary committees criticised the government for its handling of the issue, one (Public Accounts) noting that government lacked a plan for net zero, that it had not engaged with the public, and that departments had not taken net zero goals into account when drawing up other programmes. The government has also made messaging missteps (e.g. over a coal mine).

In preparation for COP 26 bp's Strategy and Sustainability team has already proposed a detailed set of policy positions - both those which will be negotiated at COP 26, and those to be settled at national level. This process is current. COP 26 presents bp with an opportunity to present its net zero ambitions as well as to engage with policy makers and stakeholders. The "asks" at various levels include a long-term net zero goal, a strategy for hydrogen and CCUS, a price on carbon, natural climate solutions, and a recognition of the important role of cities and regions to deliver emissions reductions.

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The UK government wants to involve business in COP 26, including energy companies although none is sponsoring the event. bp's presence will be somewhat limited by the fact that we have not yet been able to sign up to "Race to Zero" accreditation which would give us showcasing opportunities at the event. We will present bp as a "greening" company

Despite this bp is very closely aligned with the UK government's Ten Point Plan for a Green Industrial Revolution, since our planned operations can contribute to 8 of its goals (the exceptions being nuclear, and public transport). The government acknowledges this. If we can achieve some milestones by autumn then our position at COP 26 will be strengthened.

The approach of the Biden Administration

In September the Geopolitical Committee discussed a paper in which we noted that in July Biden had revealed his plan to put America on a path to net zero by 2050. Key points included the achievement of a 100% clean energy economy and net-zero emissions no later than 2050; a series of new executive orders with unprecedented reach; \$2 trillion in new spending; investment of \$400 billion over 10 years in clean energy research and innovation; the intention of rallying the rest of the world to meet the threat of climate change; the integration of climate change into foreign, security and trade policies; support for CCUS, green hydrogen, EVs, and natural climate solutions. We noted that there was no call for carbon pricing (which bp sees as an important part of any low-carbon plan). We judged the plan to roll back much of Trump's deregulation was not bad for bp, especially as we reposition ourselves. Biden set out his plans to raise the corporate tax rate from 21% to 28%. (Trump had brought it down from 35%. In any event few companies pay the full amount).

Since taking office Biden has done much of what he can by executive order. He has appointed the formidable John Kerry as an international climate change envoy; and Kerry has since then been highly active - in Europe, the Middle East and Asia. The relationship between him and his Chinese counterpart Xie Zhenhua - newly-appointed yet highly experienced - will be crucial. (COP 26 can only be a success if this bilateral relationship works).

Commented [WT2]: I would eliminate this...

Commented [WT3]: What matters is (1) how China wants to position itself on this issue domestically and (2) the overall state of US-China relations. I don't think Kerry or Xie have much influence on these matters.

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[[placeholder - update this section on 24 April - Biden has called an international climate summit on 22-23 April to which he invited Xi Jinping, and at which the US set out its ambitious NDCs for COP 26]]]

In the wake of his successful proposal to Congress of a \$1.9tn recovery plan, in spring 2021 Biden unveiled a proposal for infrastructure development *and* for decarbonisation, which (for political reasons) is called the American Jobs Plan. This draws on many (but not all) of the proposals in the July 2020 plan, and costs them. Examples of proposals include:

- a \$174bn plan to “win the EV market”;
- Modernizing power generation to deliver clean electricity;
- a \$35bn investment to establish the US as a leader in climate science, innovation and R&D;
- a \$46bn investment to jumpstart clean energy through federal improvement.

Much of the attention has been focussed on how this will be funded - whether by deficit, or by taxation. Biden has stressed the latter, repeating his call for an increase in corporate tax but also calling on developed economies to establish a minimum rate. There is (as expected) no proposal for a carbon tax.

The raising of the corporate rate has been criticised by business groups. Bp has not aligned itself with them: we simply and quickly expressed support for the plan: “*bp applauds President Biden’s American Jobs Plan that aims to revitalize the nation’s infrastructure, create jobs and advance a net zero economy. bp shares this ambition.*”

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What are the chances of the American Jobs Plan succeeding? Firstly, it is only the start of a process. There will be debates in and out of Congress about each component. Biden has been successful so far in Congress, but the alignment of forces mean that he has only a small majority - made vulnerable in particular by one senator (Manchin of West Virginia) who is sceptical. Biden may be able to find compromises in such cases (using so-called “earmarks”, which are pork-barrel. He will

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find it extremely difficult to find 60 votes, and so will seek filibuster-free methods, which will limit the plan.

The Role of Europe

In January 2020 the GPC looked at the climate proposals of the incoming EU Commission (the Green New Deal). bp examined these proposals in detail, and the implications for us of each one (risks, opportunities, openings for advocacy). We continue to do so as the plan unfurls. We noted then that the Commission hoped that increasing the EU's targets would influence major economies to follow suit, ahead of COP 26. The main features of this were (and are):

- a target to achieve net-zero emissions in the EU 2050
- an increase to the EU's current 2030 target for GHG emissions
- upward revisions of the key directives and regulations;
- revised rules on energy taxation;
- a new "Just Transition Fund";
- a Sustainable Finance Strategy;
- a zero-pollution action plan;
- a plan for sustainable and smart mobility.

Of all the proposals the most contentious is the one for a Carbon Border Adjustment Mechanism (CBAM) - a tariff on carbon-intensive imports to the EU, aimed at levelling the playing-field. Then as now this faces the biggest hurdles, as it causes trade tensions with key partners - not only the US and China - and it may have a potentially disruptive impact at COP 26. In March 2021 John Kerry raised this issue with the EU as being an impediment to partnership. The EU is well aware of the sensitivity of the CBAM, and will try handle the issue carefully, coaxing and explaining it without enforcing it brutally. This diplomacy may or may not succeed, and it will be a key issue in 2021 and in Glasgow.

The European Parliament welcomed the plan. But as ever tensions between political factions and between member states (East-West, North-South, Left-Right) can slow progress; and the crisis caused by the pandemic (in which the Commission has not excelled) has provided a diversion.

One new political feature which might have an impact on EU plans and on COP 26 is political change in Germany, a country which is central to EU climate policy. Germany will have a new Chancellor in September

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2021, possibly from the Green Party. This would intensify EU ambitions at COP 26.

The role of China

China's policy-making obviously does not face the legislative pressures present in democracies, but there are many other constraints and ambiguities: the relative strength of lobbies, and the weight that climate issues can command relative to the broader demands of the economy; and the wider difficult geopolitical context. Following are some features of the current situation.

In September and December 2020 China set out at the highest level highly ambitious targets: net zero by 2060, and an emissions peak by 2030. For this to be reached, the most recent (14th) 5-Year Plan, which was finalised in March 2021, should ideally have set out an aggressive agenda. But in the view of many Chinese and outside commentators it does not provide a radical departure. This is probably because it seeks to address recovery from the pandemic.

The message from the top, however, is clear and unambiguous, coming from a Xi Jinping who is wholly dominant and authoritative: Chinese officials can be expected to stick to the "30-60" message. But we are not quite sure who is running policy. Li Keqiang and the government (State Council) take overall responsibility, but the Ministry of Environment Ecology (MEE) and the NDRC are both involved, and potential rivals; and the climate envoy Xie Zhenhua has an office in the MEE. There is not a Party Leading Group, but one might yet be set up. Lines of influence may become clearer as we approach Glasgow.

The wider geopolitical context is currently highly unconducive to international cooperation. John Kerry and Xie Zhenhua will be able to succeed at COP 26 only if they are able to protect their work from the wider politics. A serious escalation in relations this year (for example a naval conflict, or a move on Taiwan) could make their task impossible. But even without this there is a deficit of trust.

bp in China is following these developments very closely and engaging where possible. Despite West-China tension, cooperation with Chinese partners is strong. There are significant opportunities for bp in an ambitious 30-60 plan, and we will watch as they crystallise.

Commented [WT7]: 2060 is not 'highly ambitious' – it's a long way out. Moreover, there is no definition on the absolute level that peak emissions are supposed to reach... thus, there could be a major increase in emissions before 2030, and China would still hit its target...

Commented [WT8]: The government's Work Plan addresses pandemic recovery. The FYP is looking ahead. I'd omit this.

Commented [WT9]: Decarbonisation is a by-product of Xi's real priorities, which are detailed in the FYP (e.g. national economic security.) Decarbonisation is a means to that end, but not the main driver.

I'd agree that the FYP does reflect China's real agenda, which does not prioritize decarbonisation in the near-term.

Commented [WT10]: I'd omit this. Climate politics does not exist in a vacuum chamber.

Commented [WT11]: I'd eliminate this. Relations are already difficult. The question is whether climate policy can be an area of fruitful negotiation (a 'tradable' in Blinken's words) by the time COP rolls around, or whether tensions over human rights and trade will make engagement too difficult.

The role of India

India is a major emitter, although not in *per capita* terms. It has chosen not at this stage to commit itself to a carbon neutral target (such as net zero by 2050). It is focussing on managing the pandemic (and is facing major problems), and battling to revive growth and protect livelihoods. During a visit by Alok Sharma India noted that it was boosting renewables, and had set a 2030 renewable energy target (of 450 GW, which will be challenging). It has not yet drawn up a plan to phase out coal.

Commented [WT12]: The key point is that India is likely to be one of the fastest drivers of emissions growth over the next several decades, according to our own Energy Outlook.

John Kerry visited India in April to urge more ambition. He was impressed by an apparent sense of purpose and direction ("...*best round of talks*..."). But it was clear from a press interview that there is a hangover from the US's withdrawal from Paris under Trump; and there was a clear sense that India was looking for financial support for any ambitious climate goals (a long-running theme).

Commented [WT13]: Despite rapid renewables growth, the percentage of India's electricity generation that comes from coal increased last year – to 79%. This is because overall power demand is growing so rapidly.

Examples of two other bp countries: the UAE and Australia

The UAE has attracted attention as a mover in this area. Countries in the Gulf and MENA do have decarbonisation programmes, but the UAE stands out as the most ambitious. It has a clear national energy plan which aims for 50% renewable and nuclear by 2050. The principle renewable energy company Masdar is keen to raise its international profile and offers some opportunities. ADNOC is a pioneer in CCUS technology. The 6 pillars of Dubai Smart City align with our RC&S strategy. John Kerry has visited projects in the UAE and has praised them.

Australia has had a mixed record on climate change policies, at one stage taking a retrogressive stance. The disruptive impacts of climate change - fires, drought and flooding - have changed public perceptions, and conservatives who were against decarbonisation are now in a rump. The PM Scott Morrison (who once held aloft a lump of coal in parliament) is sensitive about not being seen as a climate change leader. The government is looking for a more progressive policy in advance of a general election. This offers opportunities for bp: we have several joint projects underway in wind, solar and low carbon fuels.

Commented [WT14]: Although a carbon tax is out of the question, at least until after next year's election. Richard W would agree, I'm sure!

Questions for discussion at the GAC

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- The main participants (led by Kerry?) will put effort into making it work, but there are some significant impediments. What is the likelihood of failure; and if this happens, then what next?

Commented [WT15]: I wouldn't over-emphasise JK's role...
- Are there political dangers for bp and other IECs at COP 26 (apart from the ones presented by activists)?
- How will less developed countries act? Are we right to see a danger that China will try to get them on its side?
- Are we right to judge that the China and US might be able to set aside their geopolitical differences? Or are we heading for an inevitable bilateral showdown?
- What are the eventual chances for success of the EU Green Deal?

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[[Drafted by Richard Bridge, 13 April 2021]]