



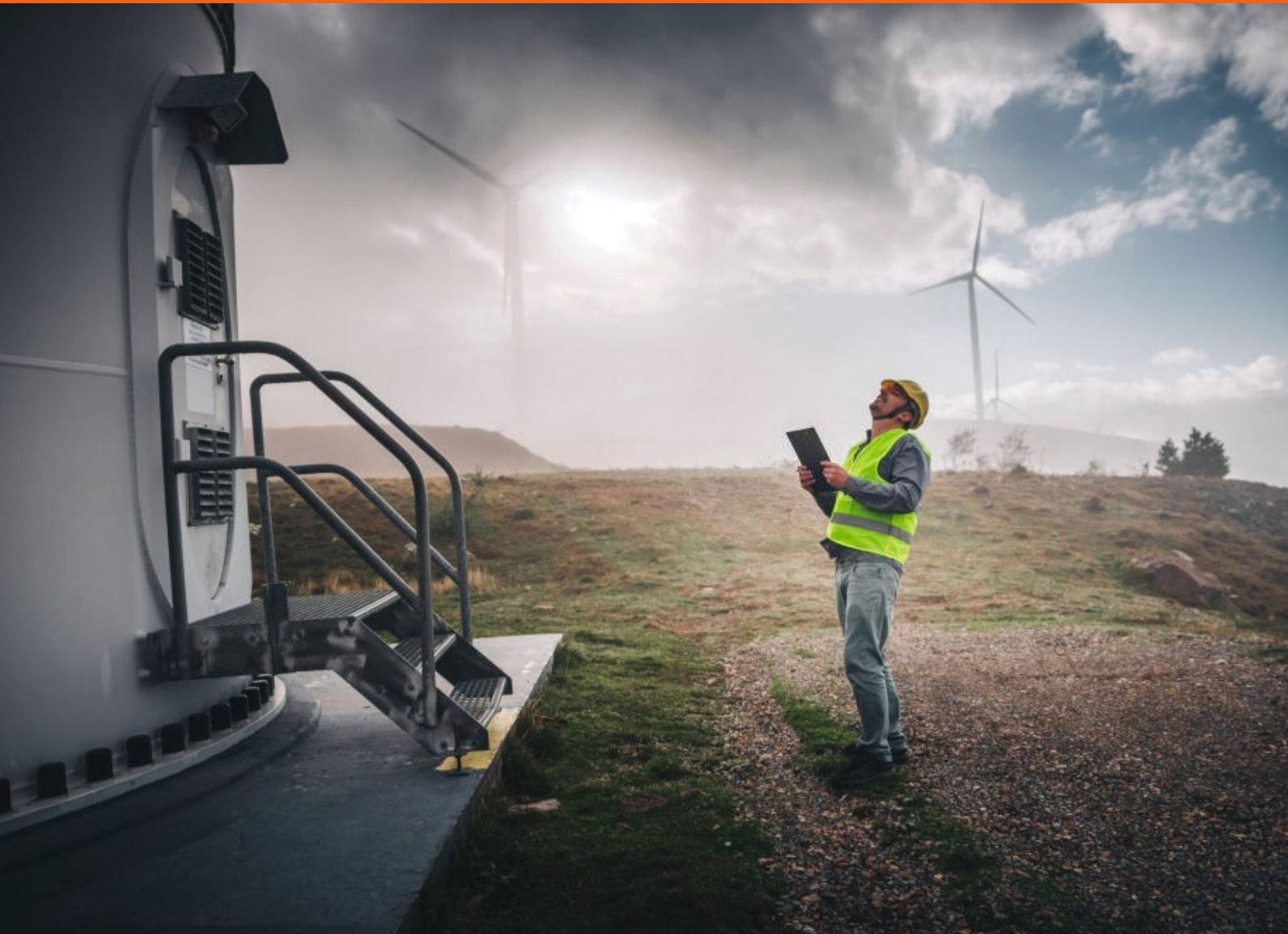
REUTERS EVENTS™

Produced in Conjunction with

**Baker
McKenzie.**

European Energy Transition Industry Insight Report

How Europe is performing on the path to net zero



Contents

Foreword	3
Introduction.....	4
Leadership, governance and COP26.....	5
Finance and the energy transition	8
Technology, solutions and enablers.....	12
Social impact and a just transition.....	14
Energy transition risk.....	15
Conclusion and takeaways	17
About Reuters Events	18
About Baker McKenzie	18
References.....	18

Foreword



Baker McKenzie is delighted to work in conjunction with Reuters Events on producing this EMEA survey into the energy transition. The energy sector's shift from fossil-based systems of energy production and consumption to renewable energy sources is one of the biggest transformational changes that the world is undergoing right now. Driven by the policy makers, shareholders, employees, consumers and investors and made possible through fast developing viable technologies, the energy transition isn't a question of if, but when.

With COP26 - the 26th annual Conference of the Parties to the UN Framework Convention on Climate Change, taking place in Glasgow, UK in November 2021, this is the year when the governments are expected to step up their commitments to tackling climate change. Countries have been setting goals for net zero greenhouse gas emissions by 2050s, and intermediate objectives for cuts by the 2030s. The energy transition plays a fundamental part in achieving net zero.

The focus for this survey is to ask: How does this play out thought at the corporate level and how far along are companies to delivering on these goals?

The energy transition is a huge transformational challenge for every O&G market player and any energy company using fossil fuels. Many of these companies are pursuing new business opportunities, investing in renewables, battery storage, and hydrogen. The metals and mining sector is facing unprecedented demand for commodities required for the energy transition. Extraordinary partnerships are being forged between the technology companies and the energy, mining and metals market players. However, the energy transition is not limited to those industries - it affects anyone who consumes energy, including businesses and individuals. The transportation sector and many business across industrials, manufacturing and digital

sectors (to name a few) are all faced with challenges on their path to decarbonisation. Individuals, as consumers of energy, are faced with choices in relation powering their homes and cars, some of which are not easy. Our society's values are changing and in a highly competitive workforce market, it is the companies that are placing more emphasis on sustainability that are often able to attract the best young talent.

"What do all of the regulatory changes mean for my business? Who should bear the cost of the energy transition? How quickly do we need to transform? What transformation opportunities should we pursue? Which technologies should be adopted first?" - these are just a few dilemmas that all market players are facing right now.

The transition to a carbon-neutral economy is a seismic shift on a global scale, leaving no sector untouched. The urgent strategic, operational and reputational challenges are considerable, but so are the opportunities for growth. Baker McKenzie's multi-disciplinary global team helps energy producers, investors and users forge their energy transition journey in an increasingly complex regulatory environment and enables them to transform, powerfully. We trust you find this survey informative.

Richard Blunt, Partner, head of Corporate EMI (London), head of Projects, EMEA



Introduction

Europe's energy transition credentials will be on the line as representatives from nations worldwide come together for climate talks this year. The European Union has typically taken a leading role at the United Nations Climate Change Conferences, and this year's event, commonly known as COP26, is expected to be no different.

Whilst creating a net-zero carbon economy has been central in Europe's coronavirus pandemic recovery plans, the need to move to low-carbon energy sources has been further highlighted this summer by the impact of soaring natural gas prices. For companies implementing the European Union's low-carbon ambitions, however, navigating the energy transition is not always easy. The transition carries no small amount of risk.



Our research indicates that corporate leaders face a diverse risk landscape when confronting the energy transition, with changes in regulation representing the largest single area of threat

To explore what corporate leaders think of Europe's energy transition efforts and the strategies they are employing to deliver on their net zero ambitions, Reuters Events has teamed up with the leading global law firm Baker McKenzie to develop this report. We surveyed over 400 executive decision makers within the energy transition community and engaged on a range of energy, environmental, social and corporate governance issues.

Whilst engagement is high, there appears to be varying approaches and attitudes on many questions relating to the energy transition. This potentially reflects the emerging nature of low-carbon tools and technologies, such as hydrogen, but also highlights the need for continued clear leadership from policymakers and companies alike.

Our research indicates that corporate leaders face a diverse risk landscape when confronting the energy transition, with changes in regulation representing the largest single area of threat. For European policymakers seeking to determine a path to a low-carbon economy at COP26, the message is clear: companies are willing to do their bit but could be greatly helped by the removal of regulatory risk to their operations.





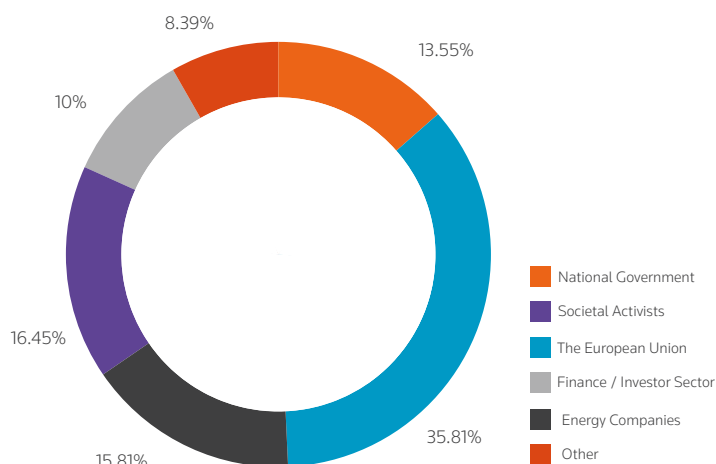
Leadership, governance and **COP26**

Getting to net zero emissions is a critical task not just for the European Union but also for the whole of humanity. Who is leading this vital effort in Europe, Middle East and Africa (EMEA)? More than a third of those surveyed felt it was EU policymakers who were driving the process.

Roughly one-sixth of respondents meanwhile believed societal activists were leading the charge, with similar numbers also pointing to energy companies and national governments. Only one in 10 said investors were leading Europe's energy transition.

While this finding could be viewed as positive, with a major contribution towards climate change mitigation coming from the top within the EU and significant minor contributions coming from other stakeholders, respondents also felt more diversity could be needed. When asked about the ideal mix to push through the energy transition, the biggest vote of confidence was for a broad combination of EU and national governments with energy companies, activists, investors and other stakeholders.

Who is driving the energy transition in EMEA?

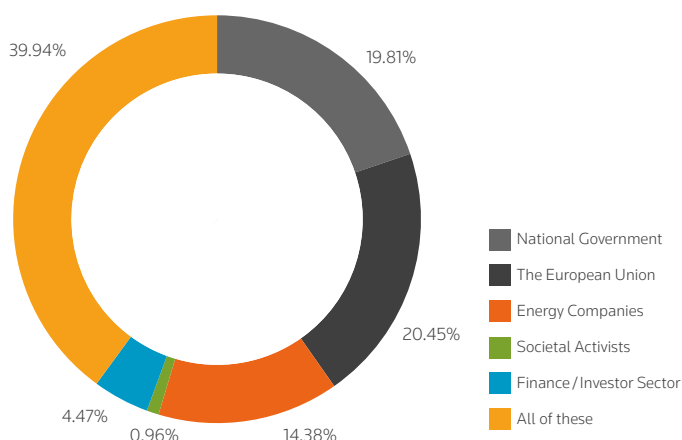




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“The energy transition ... is not coordinated and just basically operating in silos. You cannot simply turn towards electricity for powering everything that is currently diesel, for example, without considering the vast infrastructure that is required. Both things are being looked at, but too independently of each other.”

Who should be driving the energy transition in EMEA?



Respondents believed strong public sector leadership is crucial to achieving the energy transition—although most also noted that the process currently faces a governance deficit. This governance deficit apparently does not extend to leaders’ own corporations, which are generally seen as being highly engaged in terms of ESG reporting and disclosure.



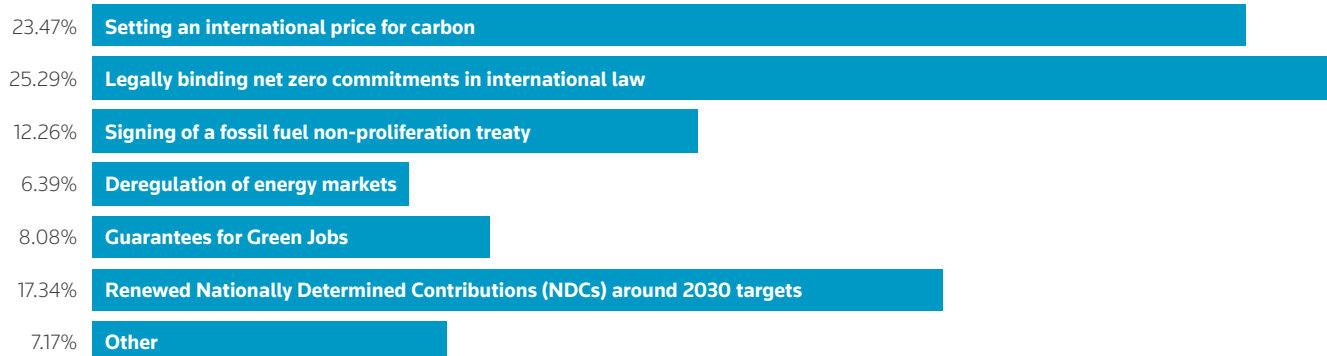
Statement	Strongly agree	Somewhat agree	Neither agree nor disagree	Somewhat disagree	Strongly disagree
The energy transition faces a governance deficit	38.89%	41.18%	12.09%	6.54%	1.31%
The energy transition is failing	13.31%	25.97%	24.35%	29.55%	6.82%
Strong public sector leadership is crucial to achieving a successful energy transition	58.58%	30.74%	5.18%	1.94%	3.56%
The IEA's recent 1.5-degree scenario has directly impacted on business strategy	19.93%	36.60%	29.41%	9.15%	4.90%
My organisation is actively engaged on reporting and disclosure related to climate change and/or ESG risks and opportunities	39.61%	29.87%	19.16%	5.84%	5.52%

As for what success at COP26 would look like, respondents were keen to see legally binding net-zero commitments and an international price for carbon alongside renewed nationally determined contributions for 2030. Perhaps surprisingly, though, the survey revealed only limited appetite for energy market deregulation and green jobs to emerge from COP26.



“Remove subsidies, which distort the market and inhibit innovation. Subsidies should be focused on R&D. Make all industries responsible for the waste created by their products—including but not limited to carbon.”

“For COP26 to be a success for the energy sector it must result in...”



Finance and the energy transition

In the long run, the energy transition should in theory result in opportunities for all. Initially, though, it is clear a significant investment will be needed to adapt current carbon-based infrastructure and processes to a low-carbon environment. Our research revealed a disparity of views about who should shoulder this cost. Energy consumers and companies were each singled

out by roughly a fifth of the respondents.

But the most popular answer was 'other,' which according to most of the detailed responses translates as 'all of the above.' Only 6 percent of respondents believed private finance should bear most of the cost for the energy transition.

Who do you think should primarily bear the cost of energy transition?

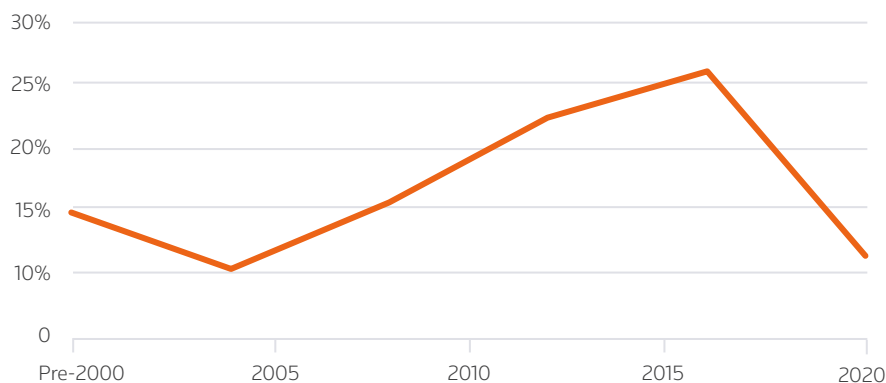




“True energy transition, as defined by science, is reduced fossil fuel production. This does not cost more—it reduces the percentage of gross domestic product spent on energy. Reduced congestion is a saving. Reduced pollution is a saving. Shifting demand to low-carbon offerings is growth, not cost.”

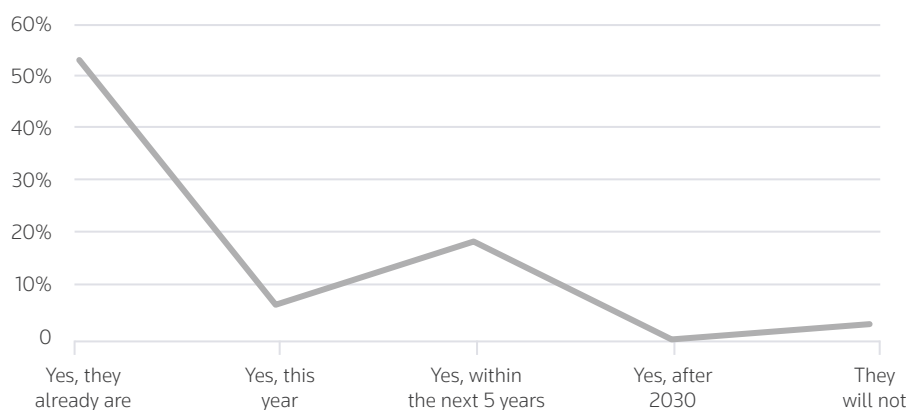
Perhaps that is because many company leaders believe they have already been investing in clean energy and sustainability for a long time. The proportion of companies allocating resources to the energy transition has been rising steadily since 2005, and today only around 9 percent of businesses do not have a clean energy investment strategy in place.

When did your organisation begin allocating more resource around clean energy/sustainability strategies?



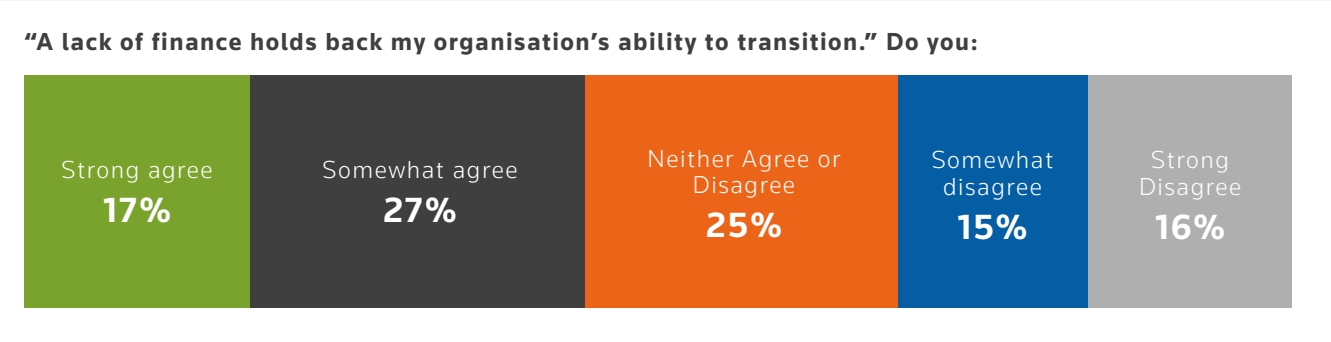
This spend is continuing to increase in 63 percent of companies, with a further 9 percent expecting to boost spending later this year and 23 percent within the next five years. Less than 5 percent of leaders did not expect to increase clean energy or sustainability spending in the foreseeable future.

Do you expect your organisation to increase spending on clean energy/sustainability strategies? If yes, when do you expect to see this growth?

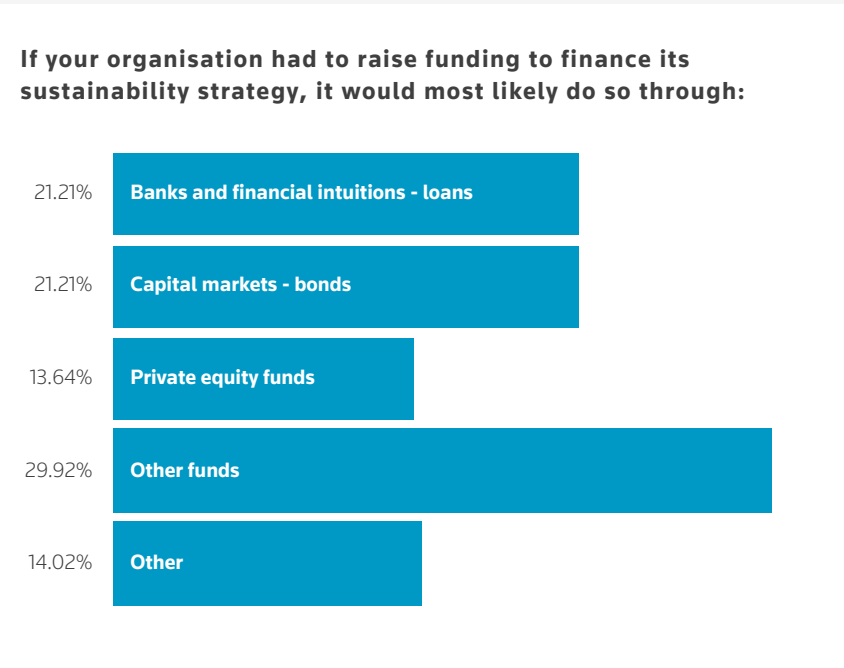




There is also evidence that companies would spend more if they could: 44 percent of respondents claimed a lack of finance was holding back their ability to transition to low-carbon infrastructure and operations.



For companies looking to raise additional funds to finance sustainability, there is at least a wide range of options. Respondents seemed almost equally happy sourcing finance from financial institutions, capital markets, private equity and other sources.



“We are investing in new projects ourselves to provide more emissions-compliant products to the market.”

Against this, most leaders believed they could benefit from a better understanding of power-purchase agreements (PPAs) and state incentives.



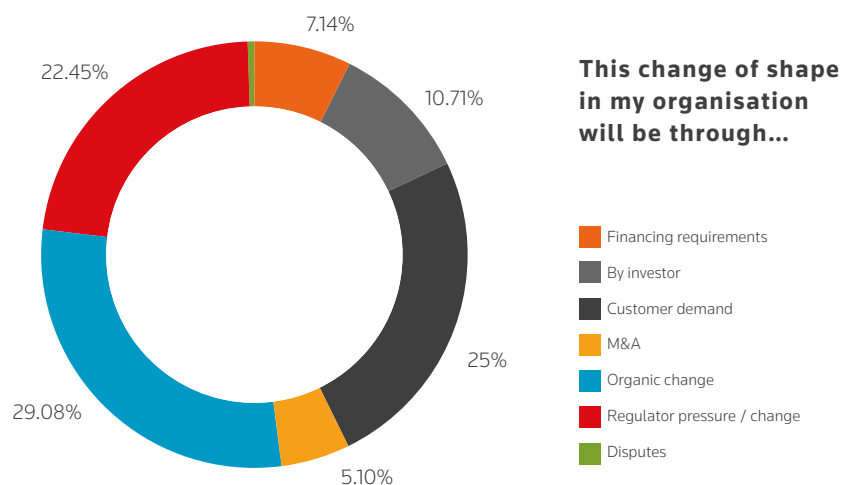
Statement	Strongly agree	Somewhat agree	Neither agree nor disagree	Somewhat disagree	Strongly disagree
"My organisation is leveraging the corporate renewable PPA market to achieve its sustainability goals"	14.56%	28.35%	35.25%	11.11%	10.73%
"My organisation could benefit from a better understanding of corporate PPA structures, pricing and regulatory issues"	17.62%	41.76%	29.12%	5.75%	5.75%
"My organisation could benefit from a better understanding of state funding, tax and other incentives currently available for energy transition in EMEA"	28.14%	39.16%	21.67%	6.08%	4.94%

Leaders seemed fully aware of the transformational nature of the energy transition, with 73 percent expecting the shape of their organisation to change due to the move to net zero.

Do you expect the shape of your organisation to change as a result of carbon factors?



Almost three out of 10 respondents believed this change will be organic, and a quarter saw it affecting customer demand. Pressure from regulatory changes was also seen as a major area of disruption.





Technology, solutions and enablers

While the need to reach net zero is widely understood, the pathway to get there remains uncertain. Our survey respondents selected a variety of potential solutions to the energy transition problem, with technology favoured by just over a quarter of those surveyed. Almost one in five, meanwhile, felt it will be important to develop new business models, while 16 percent looked to regulation and governance for solutions. Notably, getting finance was seen as the least important factor in overcoming energy transition challenges.

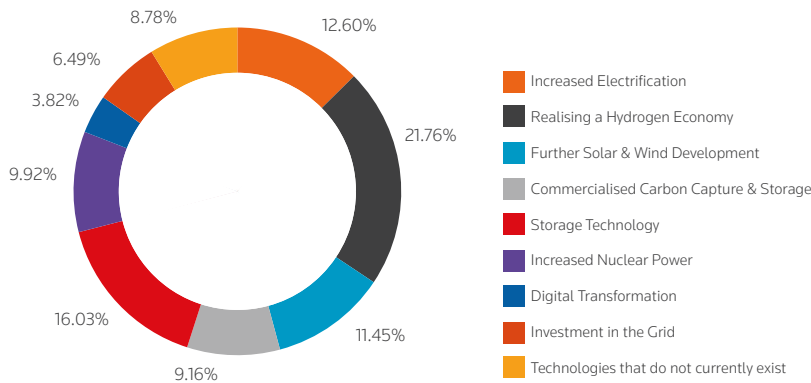
Within which of the following areas are you actively seeking solutions for challenges?

Regulation and governance	15.99%
Technology to meet climate goals	25.61%
Developing a new business model	19.38%
Gaining finance or investment	10.30%
Digital transformation	15.99%
Workforce development	12.74%

Of the energy transition technology options currently on the table, hydrogen was felt to hold the greatest promise for achieving net zero by 2050, followed by storage. Almost 12 percent of the sample espoused further solar and wind development, roughly the same as the proportion of respondents backing increased electrification.

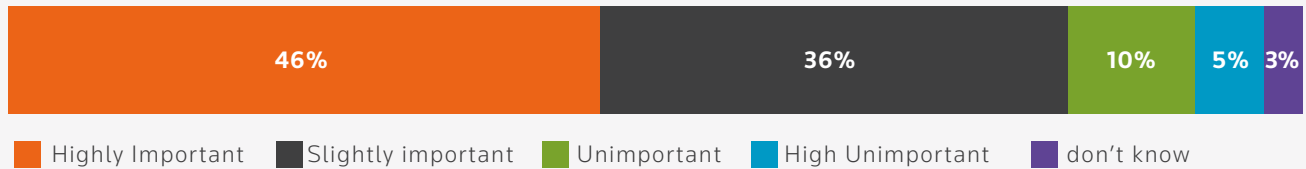
Less than one in 10 saw carbon capture and storage (CCS) as having the most critical role in net zero plans.

Which of the following factors do you feel is most important to achieving net zero by 2050, or sooner?



This does not mean CCS is irrelevant to net-zero pathways, however. Quite the opposite: 81 percent of respondents said the technology could have a role to play, and 45 percent said it could be highly important. This finding is consistent with recent forecasts from bodies such as the Intergovernmental Panel on Climate Change and the International Energy Agency. These say it is now too late to avoid global warming through emissions reductions alone, making CCS a requirement.¹

How important will carbon capture and storage be to achieving net zero?



Elsewhere, hydrogen's role as the top net-zero enabler is above all linked to its potential to decarbonise industrial processes, a fact recognised by almost 29 percent of the survey. Energy storage and transportation were seen as two other application areas suited to hydrogen.

Which industries/sectors do you feel are best suited to hydrogen, within the transition?





Social impact and a **just transition**

An oft-quoted feature of the energy transition is that it is expected to create jobs and help with wealth redistribution by delivering sustainable economic opportunities to disadvantaged sectors of society. Certainly, it appears the transition has already prompted many companies to adopt more sustainable approaches to business, with around three fifths of those polled claiming their organisation had made structural changes to address ESG goals.

At the same time, the prospects for job creation may be well founded, since around three fifths again of respondents said the energy transition faces a workforce deficit.

Despite this, an almost equal proportion felt their own organisations had the staff and skills they needed to achieve net zero. In tackling skills shortages, one

potential avenue of action would be to increase the diversity of the workforce, which almost 56 percent of respondents said was lacking.

Finally, almost four fifths of those surveyed were concerned about the ability of all countries in EMEA to pay for the transition to net zero. The inference here is that international support could be key in decarbonising the entire region in an equitable way.



How far do you agree with the following statements?

Statement	Strongly agree	Somewhat agree	Neither agree nor disagree	Somewhat disagree	Strongly disagree
My organisation made significant structural changes to address its ESG goals and the energy transition more generally	29.50%	31.03%	19.92%	11.11%	8.43%
The energy transition faces a workforce deficit.	23.55%	38.61%	24.32%	10.04%	3.47%
I am confident my company has the staff and skills needed to achieve net zero.	26.05%	34.48%	18.77%	14.56%	6.13%
The energy sector lacks diversity of workforce.	23.44%	32.42%	26.17%	11.72%	6.25%
Not every country in the EMEA region can afford transition to net zero - international state support is key to decarbonising the region in an equitable way	43.80%	34.50%	12.02%	6.20%	3.49%





Energy transition risk

While there is no doubt the energy transition will force many organisations into new ways of doing business, less than a third of respondents could say firmly that they had carried out a stress-testing exercise or scenario analysis to evaluate risks. However, this finding should be qualified by the fact that a similar proportion of respondents was unsure of whether any stress testing had been carried out. Only two fifths of the survey could confirm it hadn't.

Does your company have a stress testing exercise or scenario analysis to assess energy transition risks to the business?



The biggest perceived risk was in changes to regulation and policy frameworks, followed by taxes and pricing initiatives. This finding is perhaps not surprising: regulatory change has historically been a challenge in EMEA markets and the period during which the fieldwork was carried out saw soaring energy prices in several European countries.

Potentially more significant is that climate litigation, while seen as the least significant of the risk factors listed, was still scored quite highly in the survey. Ultimately, the even spread of scores across different areas of risk arguably highlights the fact that there are many points of potential exposure.





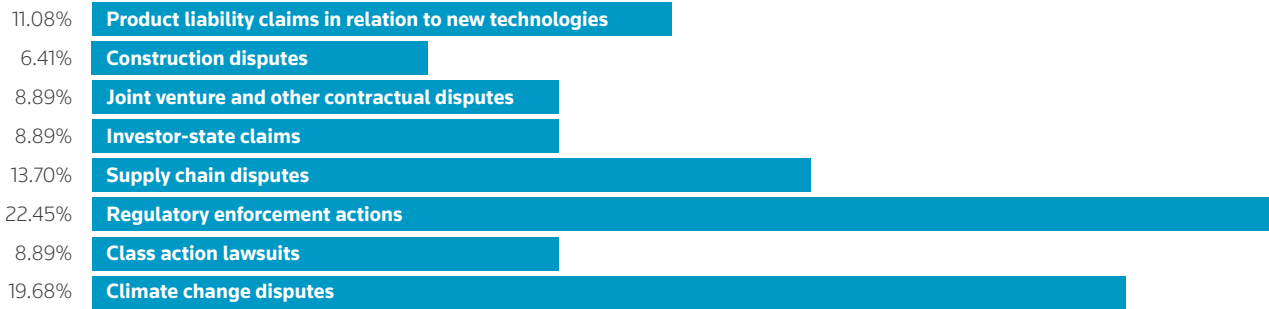
Which of the following poses the biggest exposure of risk to the business during the energy transition?

Risk area	Mean
Regulation and policy frameworks	63.92
Taxes and pricing initiatives	61.25
Demand and production volume	56.49
New technologies	55.55
Binding targets	49.87
Consumer activism	49.82
Competition	48.15
Climate litigation	47.95

Note: 'Mean' here refers to the mean average of responses, when ranking the exposure of risk for a given area between 0 and 100.

Consistent with concerns over changes in regulation, the respondents said they were more likely to enter disputes over regulatory enforcement actions than any other kind of legal action due to the energy transition. Climate change disputes were also seen as a potential front for legal action, cited by a fifth of respondents.

Which of the following types of disputes do you feel are likely to be the most prevalent as a result of the energy transition?



While the energy transition risk landscape is complex, those interviewed were largely confident of their ability to respond to challenges. Less than 12 percent of respondents felt their company was either probably or definitely unequipped to respond to energy transition risks.

Answer	%
Yes, definitely	26.17%
Yes, probably	38.67%
Unsure	23.44%
Probably not	9.38%
Definitely not	2.34%



Conclusion and takeaways

One consistent pattern that emerged in this research was a diversity of views on almost all subjects covered. Throughout the survey, whilst there was often a lead response, there was rarely significant convergence on single option with view remaining varied. This finding is consistent with the fact that many facets of the energy transition remain shrouded in uncertainty. Low-carbon hydrogen is expected to fulfil some of the functions of oil and gas today, for example, but nobody knows how many, how much, or by when.

Similarly, CCS is seen as critical to cutting atmospheric carbon levels but there is still a great deal of uncertainty over how much of a role it can play.ⁱⁱ Uncertainty is rarely good from a risk perspective, and so it is unsurprising that our survey respondents identified a wide of potential business threats arising from the energy transition.

Foremost among these is regulatory enforcement, an area where European corporations have had bad experiences in the past. Only this summer, for example, the advent of all-time-high energy prices brought back the spectre of retroactive changes to renewable plant earnings in Spain.ⁱⁱⁱ

There are many other areas of risk that will be hard to avoid as the energy transition progresses. For policymakers, though, the need for clear guidance on policy should been seen as paramount in removing at least one degree of uncertainty from the energy transition.



About Reuters Events

Operating from a single central London base as part of Reuters News & Media Ltd, Reuters Events is one of the largest and fastest growing events companies anywhere in the world. It serves a diverse range of industries and places a focus on the challenges and opportunities resulting from technological and strategic innovation.

The dedicated, semi-autonomous industry teams at Reuters Events work to foster close relationships with the customers they serve; and gain a deep understanding of the strategic challenges they face. Our Energy division provides year-round events and content for companies operating across the energy value chain.

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About Baker McKenzie

Baker McKenzie helps clients overcome the challenges of competing in the global economy. We solve complex legal problems across borders and practice areas. Our unique culture, developed over 65 years, enables our 13,000 people to understand local markets and navigate multiple jurisdictions, working together as trusted colleagues and friends to instil confidence in our clients.

www.bakermckenzie.com

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- ⁱ See for example International Energy Agency, May 2021: Net Zero by 2050. Available at <https://www.iea.org/reports/net-zero-by-2050>.
- ⁱⁱ Jason Deign, Canary Media, October 1, 2021: The carbon capture project that couldn't: Chevron misses targets for its huge Australia facility. Available at <https://www.canarymedia.com/articles/carbon-capture/the-carbon-capture-project-that-couldnt-chevron-misses-targets-for-its-huge-australia-facility>.
- ⁱⁱⁱ Asociación Empresarial Eólica press release, September 23, 2021: Posición del sector eólico ante la respuesta aclaratoria de MITECO sobre el cálculo de la minoración del exceso de retribución del mercado eléctrico del Real Decreto ley 17/2021. Available at <https://mailchi.mp/aeolica.org/nota-de-prensa-el-sector-elico-espaol-apuesta-por-retos-tecnologicos-y-competitividad-a-nivel-mundial-5016434?e=c0e398f498>.