

# Energy Transition Dialogues

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## INTELLIGENCE BRIEFING

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**SCROLL DOWN**

### The End of the Road for Climate!

*Where the Ganges meets the sea, the stress of global warming becomes too much. . .*

**Bill Spindle, Council on Foreign Relations, International Affairs Fellow in India**

I had zig-zagged through the Sundarbans for five days, from the populated western side to the wildlife reserve in the east and then half way back, before I finally reached a pair of islands located where the Ganges River meets the Bay of Bengal.

Here I met Sourav Giri, who had agreed to be my guide to the islands of Ghoramara and Gangasagar. We greeted each other after my car pulled into what's known by its map coordinates as Lot 8. This is where the ferries depart from.

I had explained to Sourav that my mission was to report on the impacts of climate change. Within minutes of setting off toward the first of these islands, the bright, energetic 32-year-old – a guy who taught himself to speak English by conversing alone in front of a mirror – was exclaiming to me, “Who will save us?”

He was exclaiming, rather than asking, because when it comes to the dwindling population of Ghoramara, it is too late for saving.

Getting this far in my Sundarbans journey had already been an adventure. Five days earlier I had bumped along potholed and buckling roads from the nearest big city, Kolkata (once known as Calcutta). Three days aboard a boat with a team of researchers transported me across the Sundarbans. Another five-hour jostling car ride and I was in the village of Purba Shridharpur, where I saw how everything from housing to education helps build climate resilience.



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## Edward Bell Senior Director, Market Economics Emirates NBD

### Middle East Economies have Compelling Need to Lower their Carbon Emissions.

Carbon credits are financial instruments that permit emissions from a company's operations under a set national limit, usually reducing on an annual basis. A carbon offset is a certificate generated by a project that draws carbon out of the atmosphere, through development of a natural resource like a forest, or a project that doesn't add carbon - a renewable energy facility for instance. Carbon trading can take place under mandatory rules, such as the EU's Emissions Trading System (ETS), in which credits are auctioned or allocated to participating companies who then make use of the credits to cover their emissions and then buy or sell more if needed or they have too many. Voluntary carbon trading markets exist as well in which companies buy offsets from qualifying projects to offset their carbon emissions. Etihad in the UAE has made use of voluntary offsets to help reduce some of its carbon emissions.

The 2021 UN Climate Change Conference, COP 26 held in Glasgow last year, achieved a global breakthrough on carbon market operations to avoid double counting any reduction in emissions. It also allowed for voluntary carbon trading to be counted toward a nation's Nationally Determined Contribution (NDC), the carbon reduction plans submitted to the UN as part of the Paris Agreement on climate change. That should help to empower the development of domestic or regional carbon markets and channel investment toward more offsetting projects.

There is a compelling need for economies in the Middle East, and in particular the GCC, to lower their carbon emissions. Compared against peer economies, carbon emissions on a per capita basis are substantially higher. The UAE's carbon emissions per capita was nearly 25 metric tons CO<sub>2</sub> in 2020 compared with around 14 metric tons in the US or 7 metric tons in Germany.

*\*Paraphrased Comments*

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**W**hy are so Many Brands Late to the Sustainability Game?

Many consumer goods companies have made solid gains to promote sustainability through such moves as reducing their carbon footprint and water usage. However, relatively few have made sustainability a big part of their brands. To understand the obstacles keeping them from developing sustainable brands, Bain & Company interviewed senior executives at 20 of the largest consumer goods companies. In those interviews, 100% of participants said they made sustainability a priority and are devoting more time to it. But only 5% said they had successfully embedded sustainability in their brands. The multiple rewards of building sustainable brands are well documented. When we surveyed 8,000 consumers on their views, nearly 75% said they are willing to pay more for sustainable products. Sustainable incumbent brands are growing two times faster than nonsustainable brands, according to our research, with sustainable insurgent brands growing ten times faster. Incumbent brands can use sustainability to reignite their relevance.

**If the message is so clear, why are so many traditional brands late to the game? Executives cited three main barriers:**

**1. Consumers want it all**

On the one hand, consumers want sustainable products. Yet consumers also demonstrate an unwillingness to compromise on taste, convenience, quality, or price for sustainability and often perceive a trade-off. Consumer goods companies can overcome this obstacle by authentically making sustainability one of the reasons consumers love their brand. That starts by establishing a sustainability ambition and asking a fundamental question: How

strongly do we want to tie our brand purpose and proposition to sustainability?

There is a science that can help brands address this choice. To understand what underpins a consumer's perception of brand value, we identified 30 Elements of Value® in four categories: functional, emotional, life-changing, and global impact. When making sustainability part of the value proposition, a common route is to start at the bottom of the Elements of Value pyramid with threshold-level sustainability elements. However, brands that achieve the most from sustainability climb the pyramid to the top delivering elements at all four levels.

After determining how ambitiously to embed sustainability into their DNA, winning brands decide which specific sustainability topics they want to use to actively engage with consumers—which they want them to care about and love their brand for (call them “swords”) and which they want to be important to their broad stakeholders, where the brands want to set objectives and achieve a range of benefits (call them “shields”).

Based on their ambition and chosen swords and shields, brands need to make well-thought-out changes within and beyond their product offerings. The moves within an offering include portfolio adaptations to deliver more sustainable products, such as renovations to best-selling SKUs, core extensions, adjacencies, and even new business models. Changes inside the offering should represent the bulk of the effort as much as 90%. Any remaining energy may be devoted to additional community or philanthropic activities to reinforce the brand's contributions to the global sustainability agenda.

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## CONTINUATION...

To bring sustainability messages authentically to consumers, the best brands develop a sensitive consumer-engagement strategy. Our research found that brands must devote a higher share of voice to sustainability in both the volume and percentage of their messages if they want to change consumer perception. Markets test and learn to identify the best way of bringing sustainability messages to life for their target consumers, and how to balance this with core performance messages.

Despite the need to thoughtfully communicate, many companies have so far failed to embed sustainability in a large share of their top brands' communications, according to our research. In fact, about 90% of incumbent brands do not embed sustainability frequently in their communications.

Finally, there is the issue of pricing. Some brands have overcome the tough situation in which consumers will not pay more for what they perceive as the same product and retailers will not readily accept price increases, even for sustainable goods. Some winning brands price below the elasticity barrier, but with modest increases as they make continuous improvements. Others have found that retailers and consumers are more willing to accept higher prices if, say, the proceeds go directly to farmers or help fund sustainability causes. Other brands have raised prices with major product changes, including sustainability, or with the introduction of new sustainable product lines. Of course, not all the value will result from increased prices; greater volume growth, market share gain, and repeat purchases, even at the same price, are all benefits sustainable brands can garner.

### 2. Where are the solutions?

The second hurdle involves the difficulty of finding the right solutions at the right cost. Half of the executives interviewed said solutions are not available, and 75% said that added costs hurt the business case for sustainability.

The reality is that companies can position themselves to overcome these issues. For example, to mitigate the cost impact from sustainability, the best companies explore three areas. First, they manage costs within the company. One company used better packaging—thinner containers and improved shapes that are more efficient to produce and easier to stack—to cut costs as much as 11% while substantially reducing materials requirements, including the use of plastic. Second, leaders manage costs throughout the industry, by defining higher industrywide minimum standards or forming associations to support activities such as bottle collection and recycling. And third, they manage costs with innovative approaches along the value chain through such moves as pooling volumes.

### 3. Uncooperative operating models

Our executive interviews underscored a final major hurdle to embedding sustainability into brands: existing operating models hold them back. Managers cling to a financial value mindset, or sustainability feels like the private domain of a separate team. Moreover, time horizons and incentives are not in line with sustainability targets.

The best brands take a cross-functional approach, embedding sustainability within divisions and business units while linking incentives to sustainability targets. These companies treat sustainability as if it were any other business process. Perhaps most important, top leadership inspires a culture that fosters sustainability in brands.

It all may sound daunting, but when consumer products executives work to overcome sustainability's three biggest hurdles, they typically watch the benefits multiply. Their brands outpace competitors in growth, older brands gain new relevance in consumers' eyes, and their passion reignites employee engagement. Helping the planet helps these companies thrive.

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# A CARBON BRIEF REPORT

## China Quietly Releases Energy Roadmap for Next 5 Years

On March 22<sup>nd</sup>, Beijing quietly dropped its 14<sup>th</sup> five-year plan (FYP) for the energy sector, a much-anticipated document that sets the tone for the industry's development from 2021 to 2025. The plan came on the same day as China's vice premier stressed the importance of the "clean and efficient" use of coal.

**WHAT:** China's central government published the long-awaited 14FYP for the energy sector on 22 March, laying out a general direction – as well as specific tasks and goals – for the energy system for the next five years. The overarching objective of the plan is to "accelerate" the development of a "modern energy system" – which, according to a government spokesperson, stands for a "clean, low-carbon, secure and highly efficient" energy system. The plan was jointly published by the National Development and Reform Commission (NDRC), the state economic planner, and the National Energy Administration (NEA), the state energy regulator.

**KEY POINTS:** The document doubles down on recent government instructions of enhancing energy efficiency by setting quantitative targets on energy production (especially for oil and gas) and reasserting the role of coal and coal power. It also underscores the urgency of speeding up the "low-carbon" transition to adapt to the "large-scale" development of renewable energy. A few key targets are missing, including caps for total energy consumption and coal consumption, as well as projected total electricity consumption.



However, Carbon Brief understands there are two new targets: one requires the ratio of non-fossil power generation to reach "about" 39% in the total power generation by 2025; the other stipulates that electric power account for "about" 30% of final energy consumption by 2025. (According to China Electricity Council, a state-approved trade association, non-fossil power generation made up for 34.6% of the total power generation by the end of 2021.)

**MAIN GOALS:** The document lists five main goals. To summarise, it stipulates that the country should strive towards "more safe and solid" energy security, achieve "remarkably effective" energy transition, "significantly" raise energy efficiency, "obviously" enhance innovation capabilities and "continuously" improve general energy service levels.

**TARGETS:** The plan commands that by 2025, China should have the "comprehensive energy production

capacity" of "above" 4.6bn tonnes of standard coal equivalent (tce) annually as well as producing 200m tonnes of oil and more than 230bn cubic metres of gas a year. (These figures are not new. This government document from last December explained how they were calculated. It also said that the "comprehensive energy production capacity" means the production capacity of primary energy including coal, oil, gas and non-fossil energy. The document also projected China's total energy consumption to reach 5.45-5.5bn tce in 2025. It estimated the "domestic self-sufficiency" rate to be at 84% in 2025 and the domestic energy production to be "above" 4.6bn tce. Production of "raw coal" and energy were expected to be "about" 4.2bn tonnes and 4.7bn tce, respectively, in 2025. None of those figures appears in the final 14FYP for energy.) The new energy plan also notes that the total installed capacity for power generation should reach "about" 3,000 gigawatts (GW), which Bloomberg described as "a huge increase".

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**MORE TARGETS:** The plan repeats several key objectives from the overall 14FYP and China's updated nationally determined contribution (NDC): an 18% reduction target for CO<sub>2</sub> intensity (the CO<sub>2</sub> emissions per unit of GDP), a 13.5% reduction target for energy intensity (the energy consumption per unit of GDP) and an increase to "about" 20% for the share of non-fossil energy in total energy consumption, all from 2021 to 2025.

**NAME:** One of the biggest differences between this five-year energy plan and its previous incarnations is in the name. Instead of being called the "plan for energy development", the latest document is titled the 14FYP for a "modern energy system". A spokesperson at the state energy regulator said the name change indicates that the government has recognised the necessity of accelerating the development of a "low carbon, intelligent, diversified and multi-polarised" energy system to follow the global trend and adapt to a modern economic system. In explaining the definition of a "modern energy system", the spokesperson pointed to previous instructions from China's president Xi Jinping, who had urged for a "clean, low-carbon, secure and highly efficient" energy system. Xi issued the orders in two high-level meetings, one in January and one in mid-March.

**13FYP VS 14FYP:** A blog post penned by Yin Ming, a Chinese energy market analyst, has compared the new plan with the 13FYP energy plan. The piece said that the new plan has not set a target for the "domestic self-sufficiency" rate for energy – a move it said would enable the country to stock up on international energy commodities amid "uncertain" global market conditions. It also noted that the plan has set a target for the production capacity – instead of the production – of primary energy to ensure that energy supply could be boosted quickly in case of global shortages. Calculations by researchers from China-based Guosheng Securities showed that China's total



energy consumption is projected to grow to 5.92bn tce during the 14FYP period – a much higher projection than the government's previous estimation, see above – compared to 4.98bn tce in 2020 (a 19% increase). (The 13FYP for energy capped the total energy consumption at "within 5bn tce".) Guosheng also estimated China's non-fossil energy consumption to increase from 0.79bn tce in 2020 to 1.18bn tce by 2025 (a 49% rise but still only sufficient to cover 41% of demand growth overall).

**ENERGY SECURITY:** The plan calls for an enhancement in the "stability and security" of energy supply chains. Specifically, it demands an increase in the "supply capabilities" of oil and gas (China largely relies on imports for both). It stresses coal's role in "ensuring the basic energy needs" and highlights coal power's importance in supporting the power system and providing flexible peaking services to help raise the share of renewables in the power grid. It also instructs the nation to increase its capabilities in storing gas.

**ON COAL:** On Tuesday – the same day as the publication of the 14FYP energy plan – China's vice premier, Han Zheng, convened a high-level meeting in Beijing to emphasise the "clean and efficient" use of coal,

reported Xinhua. According to the state news agency, Han – who also leads China's leaders group on hitting the "dual-carbon" targets – stressed the "extreme importance" of ensuring national energy security under "new circumstances". The newswire said that Han urged the country to "give full play to coal's role" in meeting the nation's "basic energy needs". He said "clean and efficient" use of coal was "an important means" to achieve the carbon peaking and carbon neutrality goals. (Carbon Brief has explained Han's role in China's climate efforts.) But TransitionZero – a London-based "climate analytics firm" – said on Twitter that China's "major ramp-up of coal mining... will deal a blow to its near-term climate performance" and "is not a sustainable solution for energy security". Read its thread.

**MEDIA REACTION:** According to Bloomberg, the energy plan intends to increase China's power generating capacity by 800GW – or "about twice the size of India's entire power fleet" – between 2021 and 2025. Reuters reported that China aims to "increase renewable power, maintain crude oil output and boost natural gas production". Han Xiaoping – chief information officer of China Energy Net, an "energy information and consulting service provider" – told the Chinese financial outlet

National Business Daily that the plan is “very important” and will “impact [China’s] future energy development profoundly” as the next five years represent a key window for energy restructuring ahead of China’s targeted timeline for carbon peaking. The Hong Kong-based South China Morning Post focused on the plan’s wording that China is in a “critical stage” of ensuring energy security when new and old risks become “intertwined”. Shanghai-based Sixth Tone reported that China “seeks to minimise its reliance on fossil fuels and adopt more forms of renewable energy”.

**TWITTER REACTION:** Yan Qin – a carbon analyst at Refinitiv Carbon – said the headline figures were “largely in line” with previous announcements, stressing a gradual transition towards China’s climate goals as well as an emphasis on energy security, following power cuts last year. While there are no specific targets for how many gigawatts (GW) of wind, solar or coal will feature within the 800GW power generation growth goal, independent journalist Liu Hongqiao (formerly of Carbon Brief) calculated that there is 442GW unaccounted for after previous nuclear, hydropower, wind and solar announcements.

(Earlier this year, China Briefing reported that major state-owned power firms planned to build 600GW of wind and solar during the 14FYP period.) Liu also noted that “for the first time” in a domestic policy document, the new plan features Xi’s announcement about not building new overseas coal power. According to Lauri Myllyvirta – lead analyst at the Centre for Research on Energy and Clean Air – “whether these clean energy additions are sufficient to peak emissions will depend entirely on energy demand growth, which in turn depends above all on economic policy”.

**Q&A**

**China Briefing asks: *What is the significance of China’s 14FYP energy plan?***

**DR YANG MUYI – senior electricity policy analyst of Asia at Ember – said:** “The plan has set a very clear direction: China’s energy transition has moved from its initial stage to a breakthrough phase. Its further progress requires not only clean energy uptake. More importantly, the whole energy system also needs to be reconfigured to accommodate the changing energy mix. Against such a background, the role of coal power has also become clear: it will not simply be abandoned, but to be used as a connecting link between the old and new systems. In my view, the government’s focus for the next five years is to adjust the energy system – in addition to the energy mix – which in itself is a more complex and unpredictable process. It is, therefore, understandable why the government has not further scaled up its policy targets for energy decarbonisation. This would give some leeway for the country to configure its energy system, especially in the backdrop of substantial external uncertainties.”

**JIN BOYANG – senior analyst for energy transition at Refinitiv – said:** “[The plan] is significant since it is the master plan for energy development during the 14FYP. In the plan, there’s a special column about achievements in the energy sector during the 13FYP. If you take a closer look, you will notice that most of the achievements are in line with the targets proposed in the same plan for 13FYP five years ago. Judging from that, we can tell that China is quite serious about its plan on energy and the Chinese government will spare no effort to materialise the desired targets. In the plan, the NDRC (China’s state economic planner) reaffirmed China’s resolution to abide by The UN Framework Convention on Climate Change and the Paris Agreement and promoted cooperation with the US, the EU and countries in the Global South on climate agenda. Considering the importance of the plan, the significance to China’s commitment to climate change is self-explanatory.”

**LI SHUO – senior global policy advisor at Greenpeace East Asia – said:** “I think the time of being too literal about these five-year plans and pretending that they offer us much insight that we did not know before is over. In some cases, China has realised that much in its macro economy and energy system cannot be planned. In others, huge political divergence exists. Therefore, it is not possible to land anything on paper (they did not have a coal capacity target in this plan because they are never going to agree on a number). All of these is to say the five-year plans have become an instrument of backloading consensus that is already there, not a forward-looking document that will fortunetell the future. This, by default, makes the plans the ultimate killer of news. This is just another way of saying text analysis of these plans are useful, [although it] is probably two years behind China’s climate and energy trends.”

**YUAN JIAHAI – professor at the North China Electric Power University in Beijing – said:** “Considering China’s basic system of planning its social and economic development on a five-year basis, this document is a master plan, laying out how the energy system will implement the ‘dual carbon’ goals in the next five years. General-secretary Xi Jinping has given important instructions regarding carbon peaking and carbon neutrality works at two recent meetings. The first task he stressed was to develop a clean, low-carbon, secure and highly efficient energy system. From a global perspective, energy transition is deepening and China needs to conform to this international trend. From the perspective of China’s development stage, energy plays a critical role in promoting social and economic development, which calls for a new energy system that can adapt to China’s new economic system.”

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# SOUNDING

## Energy Transition Dialogues SOUNDINGS

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“Increasing the share of clean energy in the power mix is a pillar of the UAE’s climate action and its shift to a low carbon green economy, in order to achieve sustainable economic development in line with the UAE Net Zero by 2050 Strategic Initiative. The Barakah nuclear power plant significantly supports our energy transition, considerably reducing GHG emissions and slashing the country’s carbon footprint. This advances climate action and brings us closer to meeting our climate neutrality ambitions.”

**Her Excellency Mariam bint Mohammed Almheiri**  
Minister of Climate Change and Environment, UAE



# THIS WEEK’S EVENT

## Energy Transition Dialogues

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### TWO MINUTE WARNING INTERVIEW SERIES

**Mohit Kaul**  
Founder  
Enerdatics

WEDNESDAY /// APRIL 6<sup>th</sup> /// 12:00 (UAE)

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