COMMENT BY PROXY P

Markets in general

Stock markets had a strong start during the beginning of the year as a result of the long-awaited trade agreement, also known as the Phase 1 deal, between the US and China. No tariffs were pulled back, but the agreement stipulates no further tariff hikes and substantial Chinese purchases of US goods. The market was relieved by the fact that the uncertainty factor was diminished and given the strong Chinese Yuan, which is supportive of Chinese imports and world trade, the stock market continued the positive trend which started in Q4 last year. However, it was unexpectedly disrupted by the news that a new virus, the Corona virus, had a breakout in Wuhan, China, and was spreading fast. World health organizations were talking about the risk of a pandemic and markets had a new element of uncertainty and dropped as a result.

Transition in energy markets

Last year, Germany was the first European country introducing a plan on how to fight greenhouse emissions and be carbon neutral. It was an ambitious and well received plan which many believed could be a blueprint for the rest of Europe. In December, the European Commission presented “The European Green Deal”, a policy roadmap aimed at making climate policy the new growth strategy for the European Union and making the continent climate neutral by 2050. The plan covers all sectors of the economy, notably transport, energy, agriculture, buildings, and industries such as steel, cement, information and communications technology (ICT), textiles and chemicals. The European Commission aims to boost energy efficiency (including by doubling or even tripling the renovation rate of buildings), to interconnect energy systems, to better integrate renewables to the grids, to decarbonize the gas sector and to develop the full potential of European offshore wind.
The plan requires investments and the European Commission will present an Investment Plan in early 2020. It estimates that achieving the current 2030 climate and energy targets would require €260bn per year of additional investment, representing about 1.5% of GDP. It also plans to dedicate at least 25% of the EU's long-term budget to climate action.

The European regulator has also opened the door to a new evaluation method for vehicle CO2 emissions which will have wide implications for the auto industry and taxes. The new method broadens the review of a vehicle´s environmental impact from current TtW (Tank to Wheel), where ICE (Internal Combustion Engine) cars are being punished relative to electric vehicles (EVs), to WtW where the production of fuel is included. The new method would punish EV´s running on coal fired power instead of renewable electricity. But it is also a burden for ICE cars since oil extraction and refining it into fuel and transports are a large source of emissions. The purpose is clearly not to hold back the development of EV´s and at the same time support renewable energy sources.
Germany has one of the most ambitious green agendas in the world with a target of phasing out coal by 2038. The energy sector, led by coal plants, emits about a third of all carbon emissions. Germany has targeted a share of 65% for clean power in the energy mix by 2030, compared with 43% by the end of last year. Chancellor Angela Merkel’s cabinet approved legislation that sets out the timetable to close more than 100 coal power plants across Germany, cementing the essence of a program to make Europe’s biggest economy greener. The bill foresees €50.8bn of compensation for regions and companies that rely on coal.

We welcome the fact that Europe has turned out to be the global champion in fighting emissions and believe that there will be interesting investment opportunities consequently.

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