

Politics and climate policy

August 2024



The past year has seen record-breaking heat, with global temperatures reaching unprecedented levels. While climate scientists continue to press for urgent action, it will be politics that shapes climate policy. With more than 70 countries holding elections in 2024, political change could make the investment case for climate solutions less attractive, at least over the shorter term, as policy uncertainty reigns. We examine below the changes that have taken place over the year to date, and what's still to come.

United Kingdom

On 4 July, Labour ended 14 years of Conservative rule in a historic victory. In Labour's manifesto, Keir Starmer declared, "The climate and nature crisis is the greatest long-term global challenge that we face", while outlining his vision for Britain as a "clean energy superpower". Ed Miliband, a seasoned climate diplomat, has been appointed as Energy Secretary. The key components of their plan include:

- ◆ A commitment to **clean power by 2030**, through zero-carbon electricity and banning the sale of new petrol and diesel cars by 2030.
- ◆ The establishment of **Great British Energy** to reduce bills, achieve energy independence and create high-quality jobs. £8.3 billion will support clean, homegrown energy production.
- ◆ **Renewable energy expansion**, with goals to double onshore wind power, triple solar power and quadruple offshore wind power by 2030. The previous ban on onshore wind development has already been reversed.
- ◆ A £13.2 billion plan to fund **energy efficiency upgrades** in households, including solar panels and home insulation.
- ◆ Curtailing future fossil-fuel production by **prohibiting new coal licenses and banning fracking**. On **North Sea oil and gas**, Labour will not revoke approved licenses but won't grant new ones.
- ◆ A **windfall tax will be imposed on oil and gas** companies.
- ◆ A commitment to **cleaner rivers and seas**, holding water companies accountable for cleaning up rivers and seas, and imposing fines and criminal charges for pollution.
- ◆ Expanding **nature-rich habitats**, including wetlands, peat bogs and forests, as part of a circular economy.
- ◆ A desire to **reclaim the UK's climate leadership** role through an international Clean Power Alliance.

In the context of the High Court's ruling in May 2024 that the Conservative government's net zero plans were "unlawful", this Labour government's ambition is positive. But implementation will be critical amid tight public finances and lingering uncertainties. The initial promise of £28 billion annually for green investments has been abandoned, leading critics to argue that the revised budget falls short of addressing the urgent crisis.

Despite the cuts, Labour is confident that they can reduce the UK's reliance on foreign fossil fuels, lower energy bills and make electricity 100% clean by 2030. However, addressing the climate crisis effectively requires coordinated global action.

Europe

The beginning of 2024 saw farmers' protests across the continent. This latest showing of discontent was in reaction to EU legislation aimed at decreasing agricultural emissions, which removed subsidies for farm diesel and more strictly regulated the use of pesticides.

In early June, the 27 EU member states voted for their representative 720 MEPs in the European Parliament. Tensions around shared issues of inflation, immigration and additional costs imposed by environmental legislation translated into increased support for Europe's far-right parties, commonly the strongest opposition to climate policy, albeit such groups remain a minority. The two largest, more centrist parties managed to retain many of their seats, with the Greens gaining some seats in countries, such as Denmark and Spain, while losing support elsewhere.

It remains unlikely that the changed political landscape will see the reversal of current legislation. However, it may become more difficult to pass new legislation in support of current climate targets, such as the European Green Deal, which is intended to enable the transition to net zero by 2050. Many key votes, including the ban on Internal Combustion Engine cars by 2035, could also be hampered.

France

The EU elections, which saw a decline in support for President Macron's Renaissance party, prompted a surprise, snap election. A range of policy proposals were put forward, with the New Popular Front (a left-leaning coalition) proposing the creation of an international court for climate and environmental justice and making France a leader in marine energy, while Ensemble (President Macron's coalition) proposed retaining the commitment to reducing greenhouse gas emissions by 55% relative to 1990 by 2030 (in line with the European Green Deal) while retaining support for nuclear energy with the proposed construction of eight new reactors.

In contrast, the right-wing National Rally proposed rejecting "punitive ecology" that negatively impacts economic growth, adopting "common-sense ecology" to protect the standard of living while exiting EU rules that set energy prices.

Germany

Germany's own right-wing party, AfD, also saw a surge in support during the European Parliamentary elections, gaining a record 16% of the vote and becoming the second-largest German party. While the party has garnered support with its anti-immigration stance, its rise occurred amid a backlash over government discussions of banning new oil and gas heating systems. The party has also adopted a stance of climate-change denial, stating that it would return to using fossil fuels if it came into power.

USA

No political event has greater potential to impact the planet's climate than the US Presidential Election on 5 November. The US is the world's second-largest emitter of greenhouse gases after China and produced a record-breaking daily average of 12.9 million barrels of crude oil in 2023. Climate change has not yet been a major focus of this presidential campaign, which is overshadowed by economic concerns, immigration and foreign policy. However, in key swing states, the stark divide between Republicans and Democrats on climate policy could be decisive.

During Donald Trump's presidency, he withdrew the US from the Paris Agreement, an international accord aimed at limiting greenhouse gas emissions, and actively promoted expansive oil and gas exploration across the US. He shrank the Environmental Protection Agency (EPA) and required that the words "climate change" be removed from its website. In 2024, Trump continues to advocate a pro-oil and gas agenda with promises to ease industry regulations.

President Biden has consistently emphasised the urgent need to combat climate change and has called for global cooperation on environmental issues. He committed the US to rejoin the Paris climate agreement following his election in January 2021, and enacted ambitious climate policies through the Inflation Reduction Act, which functions as a comprehensive climate law. Biden has allocated \$300 billion (£239 billion) to clean energy and climate initiatives under this Act, aiming to stimulate the green energy economy and create new jobs while cutting greenhouse gas emissions and promoting vehicle electrification.

However, since President Biden has been replaced as Democratic nominee by Vice President Kamala Harris, attention has shifted. Harris has a history of acting on climate issues and was an early co-sponsor to the Green

New Deal while senator. Alongside Biden, Harris set the “ambitious goal” of cutting greenhouse gas emissions 50% by 2030 and reaching net zero by 2050, through investment in clean energy and electric vehicles. Harris has also taken a strong stance on climate resilience and equity.

In March 2024, Carbon Brief projected that a Trump victory in November could lead to over four billion additional tons of US emissions by 2030, demonstrating the potential impact of the election outcome. However, despite strong support for climate action among key constituencies, including young people and progressives, many Americans remain unaware of the Democrats’ climate positions, underscoring the importance of clear communication in bridging this gap.

What does this mean for investors?

The need for long-term change is evident, and a stable policy environment to make the necessary capital commitments to climate solutions serves to reduce risk. However, with the political right demonstrating an ability to harness public discontent over climate (and other) issues, converting this into support at the ballot box, investors continue to face policy and geopolitical uncertainty when considering investment in the energy transition.

Many risks can still be mitigated through the careful selection of suitable investments, emphasising the need to select managers with the requisite experience. However, asset owners wishing to take a step further should not overlook their ability to advocate for policies, either directly or via asset managers, that support long-term investment decision-making.

Is it enough?

Many countries have pledged to reduce their greenhouse gas emissions to combat climate change. But current pledges and policy will not be enough. To achieve ambitious climate goals, there must be a heightened sense of urgency and the implementation of bolder, enforceable policies. Governments should look at removing subsidies and tax incentives from fossil fuels while addressing the bottlenecks in development and planning for energy-transition projects.

Robust international cooperation will undoubtedly reduce the global costs of the transition, with nations sharing technological advancements and aligning climate goals. Governments must also focus on just-transition policies that support workers and communities dependent on high-carbon industries, ensuring an inclusive and equitable shift to a sustainable economy.

The UK and EU need to push for more ambitious policies to maintain their leadership role and create clear incentives for change. The US must continue to build on climate investments and avoid any setbacks that a Trump re-election threatens. The climate crisis demands decisive, courageous action, and the UK, EU and US must lead this global effort.

If you’d like to discuss anything covered in this publication, please get in touch with your usual Hymans Robertson Consultant or one of our authors below.



Mhairi Gooch
Senior Responsible
Investment Consultant

020 7082 6396
mhairi.gooch@hymans.co.uk



Alice Jenkins
Investment Intern



Gemma Osborne
Investment Intern