

# Decarbonising large portfolios

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# The energy transition challenge

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Transition in the real economy:

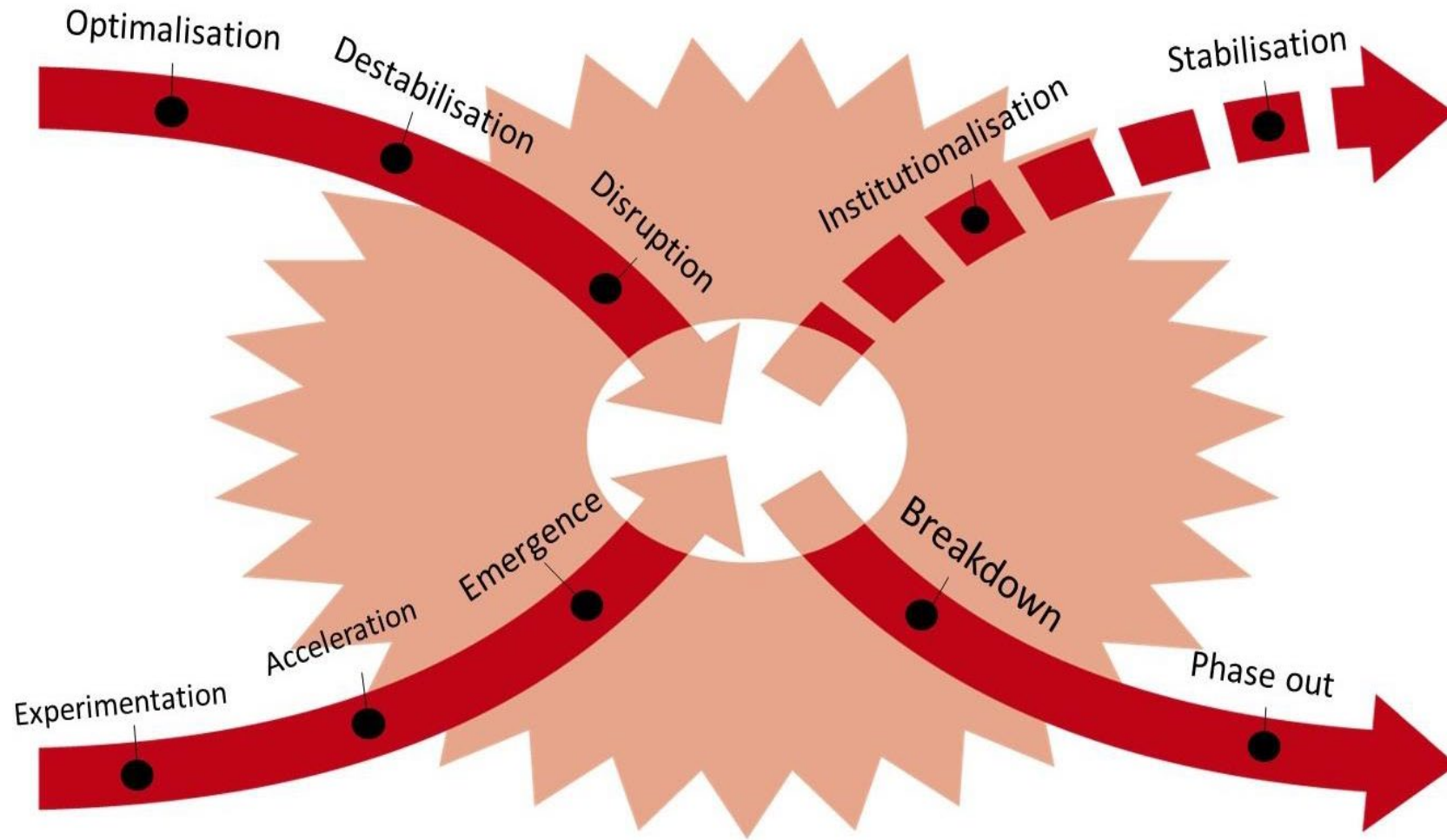
- Exogenous, or
- Endogenous?

What are the roles of the players?

1. Governments
  2. Institutional investors
  3. Companies
- Sweet spot is **effective cooperation** to speed up transition

# Energy transition

**High carbon society**



**Net-zero:  
renewables**

**New  
ventures**

**Fossil fuels  
phased out**

**Equilibrium economics** is working horse model (e.g. CAPM)

- What goes up (e.g. stock prices due to ESG preferences), comes down
- Transition risk is increasingly seen as a **systematic risk**, but still considered to be **exogenous**

But transition is about **structural change** from current high-carbon state to net-zero state

- Need for **systems approach**
- Solutions depend on action of key players in system -> **endogenous**

Example of systems approach

- Montreal Protocol put a **regulatory ban** on CFCs that deplete the ozone-layer

## **Ecological constraint** is binding

- Limited carbon budget for 1.5° / 2° Celsius limit
- Transition of high-carbon sectors
  - Supply: oil & gas companies
  - Demand: transport, real-estate, carbon-intensive manufacturing

## Role of key players – **government**

- **Shaping markets** (e.g. market for hydrogen) to get transition from fossil to renewable
- Full range of policy: R&D subsidy, tax, regulation, public procurement and **investment**
- Complementary role investors -> **co-investing** in new ventures, infrastructure, etc.

## Role of key players - **investors**

- Transition of high-carbon sectors
  - Supply: oil & gas companies
  - Demand: transport, real-estate, carbon-intensive manufacturing

## Three types of companies

1. **Green** → you can just invest
2. **Grey, that wants to change** → you can invest with engagement to speed up transition
3. **Grey, that does not want to change** → you should stay away (stranded asset)

Second type is opportunity for **cooperation** between investors & companies

- Win-win strategy → investor and company both reap benefits of **future-proofing business model**

# Example 1 – oil sector

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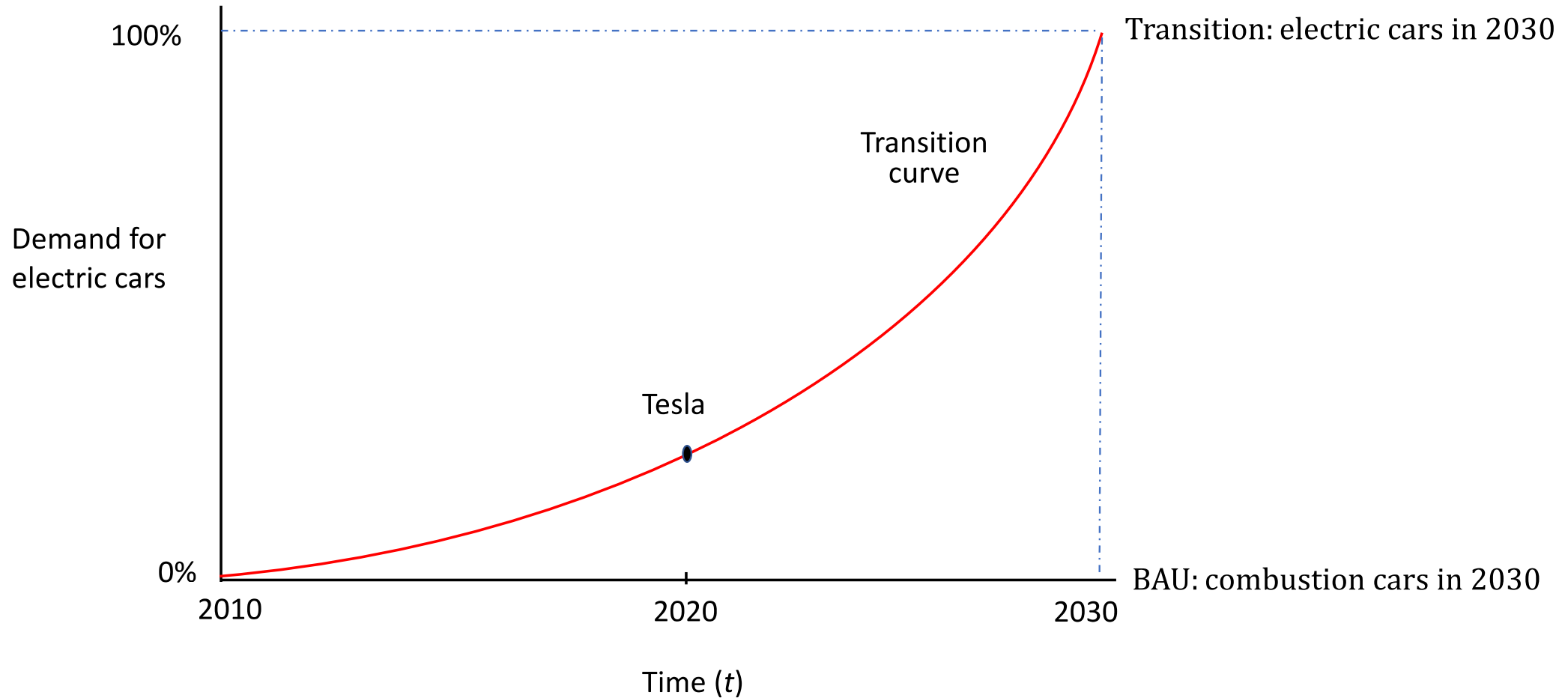
## Oil majors

- Most still **focused on fossil** -> 80%/90% of capex in fossil
- Some are **preparing for future** -> 50% capex in fossil – 50% in renewables (portfolio approach)
- Some are **fully switching** -> 80%/90% capex in renewables

## Role of institutional investors

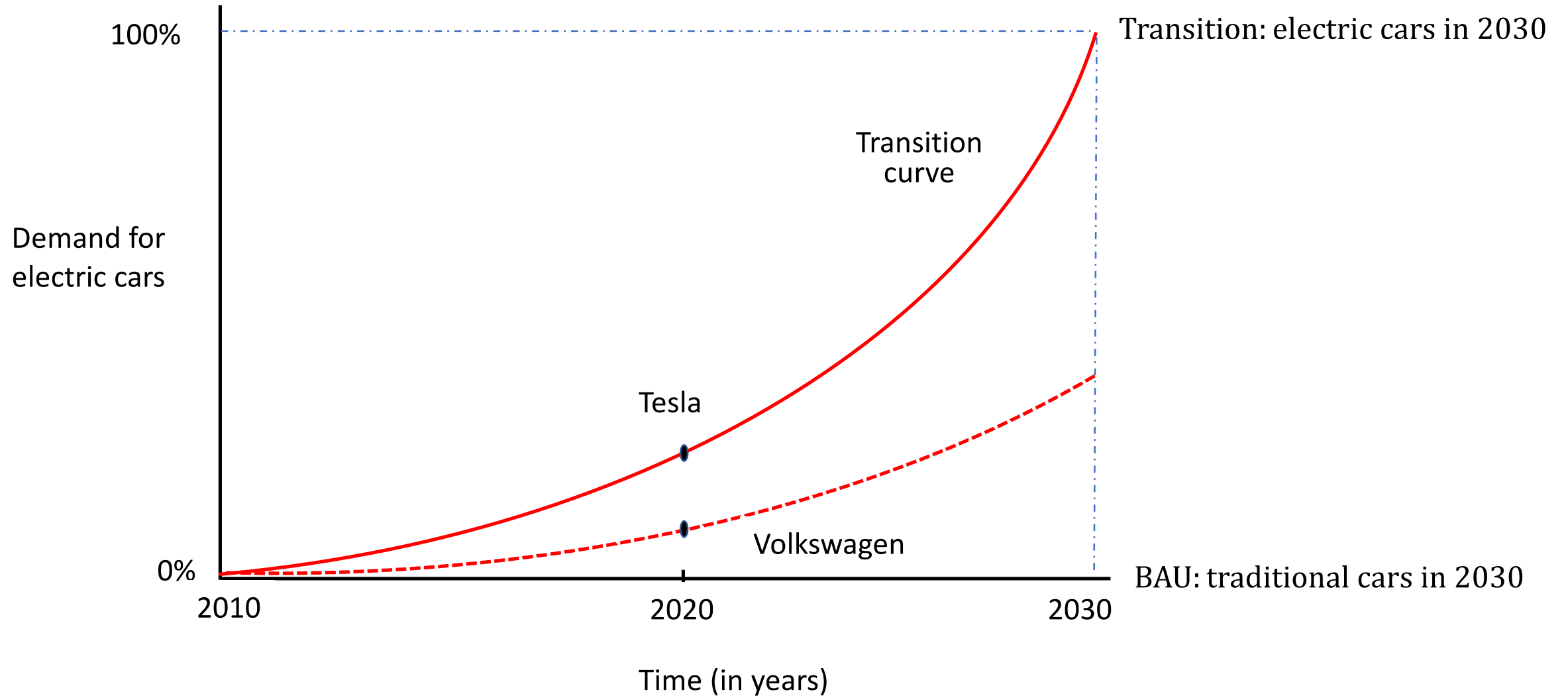
- **Voting** – e.g. Follow This resolutions
- **Engagement** – e.g. coordinated engagement and smart targets (mixed success)

# Example 2 – transition of car market

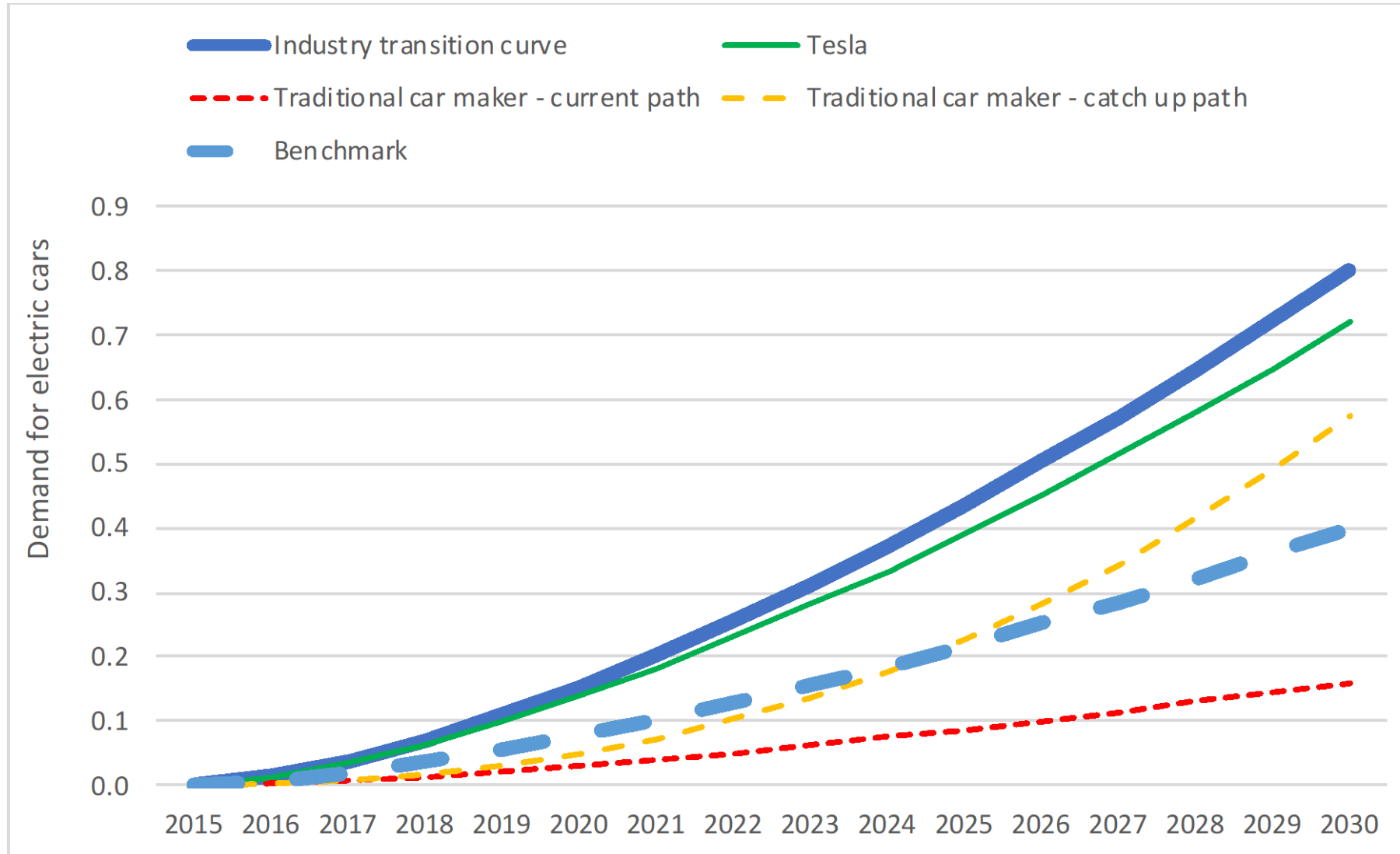




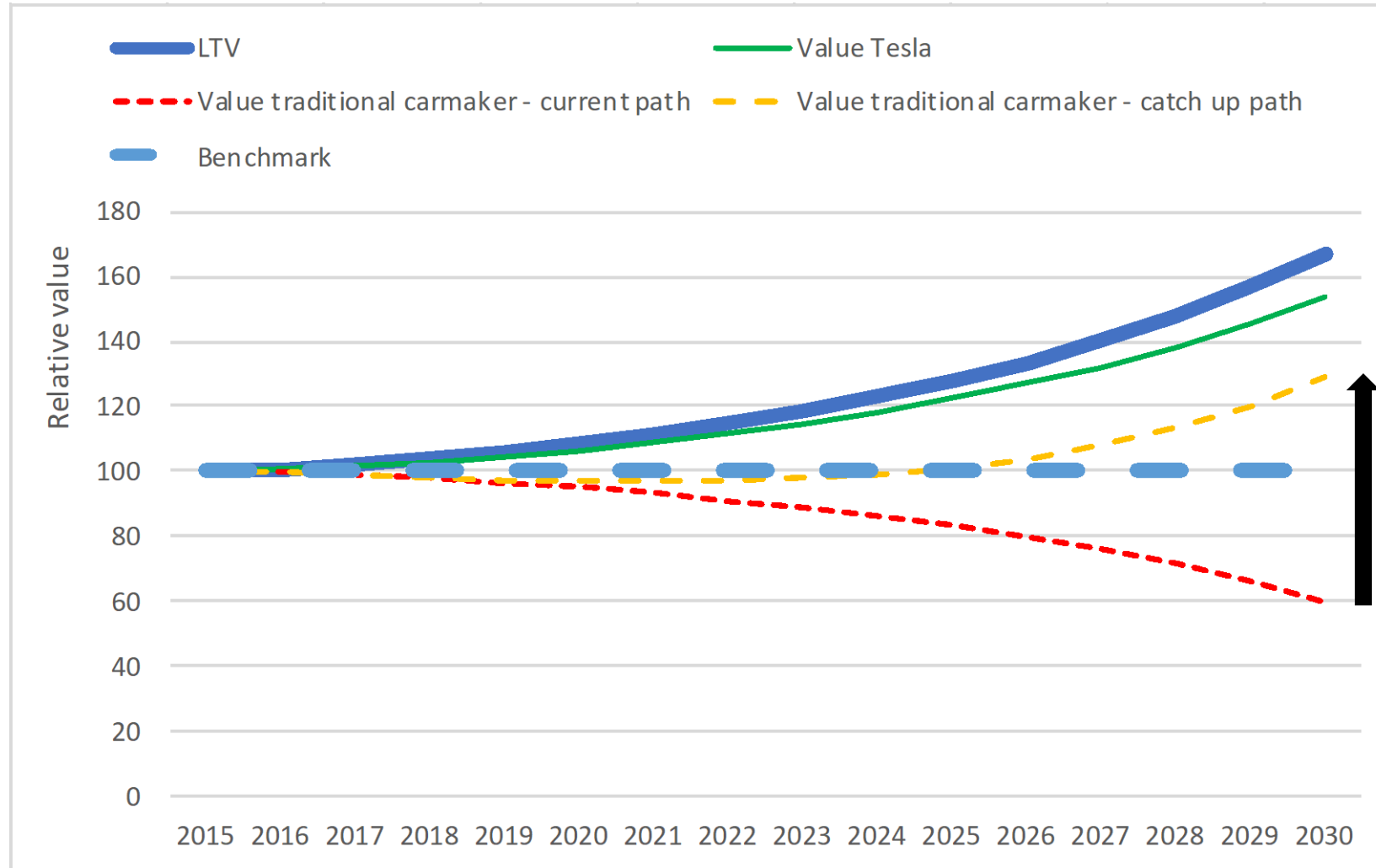
# Can Volkswagen catch up?



# The rise of electric cars



# Value implications



Source: A Model of Long-term Value Creation

## Companies

- Prime movers to **create long-term value**

Investors can **support** them

- Engaging on long-term value creation: **two-way dialogue**
- Supporting **large investments**
  - E.g. VW announced nearly \$200 bn investment to speed up transition to electric cars

- Transition requires **systems approach**
- Government has important role to **shape markets**
- Sweet spot of cooperation between governments, investors and companies to accelerate transition -> **endogenous**
- Events will increasingly **highlight** need for transition