Federal Ministry
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Global Dialogue on Responding to the COVID-19 Pandemic and Economic Crisis:

Building Back Better Aligned to the SDGs and the Paris Agreement

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Key Takeaways from 3rd Dialogue: Energy Transitions and Industry Bailouts

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1. **In COVID recovery, we need to build new and green, making sure renewables and green technologies are at the center when energy demand returns.** Renewables are already cheaper in many geographies and, in some places such as India, the fall in energy demand during the COVID crisis has mainly come at the expense of coal-based power due to the lower operating costs of renewables. It also demonstrates that when the grid contains large shares of renewables, a stable power supply is possible. This is a 'postcard from the future' for the direction of fossil fuels, and it is a story about system change, not projects. As we emerge from the crisis and as energy demand returns, efforts should be undertaken to cancel currently shelved fossil investments and help renewable and green investments be the first to take off.
2. **We should consider three categories for the recovery: the industries and technologies of the past, industries and technologies in transition, and the industries and technologies of the future.** Support should go to those in each sector that are fit for the future and in line with climate and sustainability goals. It will be vital to avoid investments in coal and other fossil-fuel investments that become stranded assets and pose major, expensive problems for the future. We should aim to phase out these unsustainable sectors but do so with attention to employment and other economic impacts; public support in the short term should be limited to transition processes aimed at a socially sound closure and retirement of facilities.
3. **It will be essential to shift from snapshot thinking to transition thinking aligned with net-zero pathways for sectors and industries.** A set of criteria, or a taxonomy, will be helpful. For industries

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in transition, the recovery should require net-zero goals from businesses, as well as mandatory climate disclosure. Recovery plans should invest in the technologies of the future in sectors such as steel and shipping, aiming to scale-up alternatives to reduce emissions at milestones over the next 5-10 years.

4. **Elimination of fossil fuel subsidies is an immediate opportunity.** The decline in oil prices during the COVID crisis provides an opportunity to reduce or eliminate fossil fuel subsidies without harming consumers. The subsidies, which often do not benefit consumers most in need, are also a burden on many national budgets. The savings from removing subsidies can be shifted to green and resilient activities or to other sectors such as health care, education, etc. We are seeing some movement on fossil fuel subsidy reform, for example in Nigeria, where the government has committed to phasing out their remaining consumption subsidies.
5. **Industry bailouts should come with effective green conditions, including accountability measures.** Company bailouts in sectors such as aviation, automotive manufacturing, and power and extraction (coal, oil and gas) should be tied to transition pathways. It will be important not only to determine how to make green commitments more stringent, but also how to hold businesses accountable for following through on those commitments, e.g., by setting medium-term milestones. For instance, there is already some backsliding on commitments in the aviation sector. There should be carbon risk assessments put in place, with simple mandatory metrics, to underpin the transition in sectors receiving support.
6. **Financing to spur demand will be critical to achieving the transition.** We are facing not just a liquidity crisis, but also a demand crisis. We need to avoid austerity policies and ensure financial support that can stimulate demand in green energy and climate action. This includes mechanisms that reduce the cost of capital for renewables and low-carbon energy in all countries, particularly in developing countries where capital costs are high and will likely increase as a consequence of the crisis. MDBs and the IMF must play an essential role in developing sophisticated financial instruments, as well as providing clear financial signals to countries about pursuing energy transitions in line with the Paris Agreement.
7. **Policy frameworks will also be critical for the recovery to point in the right direction.** After the 2008-09 financial crisis, stimulus financing often didn't have the intended impact because there was a lack of key policies to make green business models sustainable and market-proof (e.g., carbon pricing, etc.). Because the energy sector is heavily regulated in many countries, policy frameworks for utilities will be key, and licensing and permitting should be structured to facilitate the transition to renewables. In developing countries, support for building and bolstering institutions is key, and the availability of good data, which is necessary to accessing finance, measuring impact and ensuring transparency, must be addressed. At the moment, some countries — including the U.S., Mexico, Brazil, and India — are adopting policies for utilities and extraction to support fossil fuel incumbents.
8. **We need to build public and political support for this energy transition — and the data, analysis, capacity and policies that will make it possible.** Because the power of incumbency is extremely strong, we need to build the voice for change quickly given that the stimulus packages are emerging at lightning speed. This is a once in a generation opportunity, and the energy transition needs to be built around people's aspirations for something better while addressing their fears; we will need to demonstrate that what is good for the future can also be good for the present.

   This will need to include support for workers and others to transition, including to address job impacts from reduced energy demand during the COVID crisis. Specific and granular attention is needed for the sectors and geographies where jobs are being lost. Renewable jobs will not be the solution in all cases because of geographic and skill mismatches, so we will need to think more broadly in terms of jobs in energy efficiency, land and forest restoration, and other (non-climate related) sectors. Social dialogue and public buy-in are critical to success, and broader social protection policies will also need to be bolstered since the scope for transition is much thinner when safety nets are weak.