CORONAVIRUS RECOVERY:

A FREE RIDE FOR POLLUTERS

GREENPEACE

The EU and European governments are making approximately €4 trillion[1] available to European markets and corporations as a response to the Covid-19 crisis.

Beyond controversial corporate bailout packages, a Greenpeace investigation has found that a broad set of economic measures including macroeconomic policy, tax relief mechanisms, cuts on excise duties for fossil fuels, and changes in regulatory frameworks such as allowing gas and oil exploration in protected areas are benefitting fossil fuel and carbon intensive sectors.

1 EU: €3.4 trillion (28/04/2020) "collective EU mobilisation" + €750 billion (27/05/20) "Next Gen EU" . ECB: €1.35 trillion from "ECB PEPP programme after expansion" (05/06/2020) + €120 billion (12/03/2020) "expansion of ECB's APP programme".

INTRO DUCTION.

Across the European Union, economic responses to the Covid-19 crisis are at risk of benefiting fossil fuel and carbon intensive sectors, threatening Europe's response to the climate emergency. Whether this happens through government spending or through indirect measures like tax breaks, either opportunistically on the part of fossil fuel and carbon intensive corporations or accidentally in the context of blanket responses to Covid-19, it will move Europe further away from decarbonisation and, crucially, from building healthier, fairer and more environmentally resilient societies. Here we examine the tools used to prop up fossil fuel and carbon intensive sectors, recognising that "in responding to the current devastating crisis, we must ensure we don't exacerbate another." (Mission 2020 letter to the IEA).

At this point, early June, few governments seem worried about the potential negative climate implications of Covid-19-related fiscal and monetary measures. This is reckless and dangerous - trillions of Euros in Covid-19 responses can contribute to substantial additional emissions and further delay vital green investments. As these response packages (upwards of 25% of GDP in the EU) increase public debt burdens, governments will also find it harder to reverse their climate impacts and get back on track to decarbonisation. We have seen both of these impacts in responses to the 2007/2008 global financial crisis, where public spending was followed by a huge growth in emissions in the following decade. Crucially, fossil fuel corporations were facing substantial structural challenges long before and independently of the Covid-19 crisis. Nor are they the most directly affected sectors now: the International Labour Organisation shows that lockdowns and other restrictions have the strongest impact on tourism, food & accommodation, retail & wholesale, business services and some manufacturing sectors. Whilst Greenpeace advocates reskilling and the protection of livelihoods in these industries, and their supply chains, with more direct welfare or social security, the conclusion is clear - no fossil bailout or stimulus is justified on economic grounds.

And yet, fossil fuel and carbon intensive corporations (e.g. European car-makers, oil companies, German and Italian industries etc) are lobbying aggressively for an unfair share of Covid-19 funding. Some governments have already caved into this pressure. Below, we analyse EU government and central bank responses. The focus is on avoiding medium and long term effects of "fossil infected" Covid-19 responses and building a more resilient and greener economy – EU governments have to close current loopholes in their economic responses to Covid-19 that can be exploited by fossil fuel and carbon intensive corporations.

WHAT ARE GOVERNMENTS CONSIDERING?

We consider four main types of tools used by governments and their monetary authorities. Some of these are directly targeted at carbon-intensive sectors, such as direct bailouts (grants, loans, equity, etc.), and some are more general measures. Tax tools are also fiscal tools, but we separate them from other fiscal measures given their large variability and structural differences from direct government bailouts.

Here, we do not consider government spending on healthcare, welfare, paid furlough, "individual bailouts", etc., all designed to protect workers (including from fossil fuel and carbon intensive sectors) from the effects of short and long-term unemployment - such spending would and should create new and better safety nets for all workers regardless of the sector.

	Fiscal non-tax tools	Fiscal tax tools	Monetary tools	Regulatory and other support
Direct support	• Short-term liquidity, loans to relevant sectors (e.g. airlines, airports, oil/gas) • Equity stakes in relevant corporations (partial), nationalisations. • Investments into infrastructure projects (e.g. pipelines, airports or highways)	• Improved tax payment conditions for fossil fuel and carbon intensive sectors. • Lowered fossil fuel-relevant taxes (e.g. CO2 taxes, airline levy, vehicle taxes, fuel taxes). • Delaying introduction or application of fossil fuel-relevant taxes or tax exemptions.	• Quantitative easing: procurement of fossil fuel-connected bonds by central bank asset procurement programmes.	• Weakened specific fossil related regulations (e.g. oil, coal mining rules). • Weakened public participation and scrutiny of fossil fuel and carbon intensive sectors and projects. • Weak transparency requirements
General tools	• Credit lines for broader sectors including fossil fuel and carbon intensive sectors.	• Lowered tax rates for corporations. • Favourable project tax treatments.	• Quantitative easing (buying sovereign and corporate bonds). • Reduced interest rates. • Decrease in bank capital requirements. • Relaxing bank regulations	• Weakened environmental regulations, e.g. environmental impact assessments. • International investment agreements rules that enable companies to sue governments for policies that may affect their profit[2].

2 For example lawyers of large foreign corporations in Italy and elsewhere are preparing to sue governments in ISDS tribunals because of Covid-19 related emergency measures.

When analysing the tools below, it is worth bearing in mind the size of the sectors in question and the timeframe in which they will be exploited:

- The size of the sector[3] makes it impossible for general or blanket economic responses to avoid fossil investment unless explicit exclusions are made. That is, fossil investment in economic responses to Covid-19 could be opportunistic but could also happen "by accident" by virtue of the weight of the relevant sectors.

- Record debt issuance[4] by oil majors, in particular post Covid-19 (taking advantage of current market conditions), means that lobbying has focused on significant other tools, like tax breaks, rather than direct loans or investment. However, since these economic responses are ongoing, some measures may be quick to benefit fossil fuel and carbon intensive corporations (e.g. quantitative easing), whilst loans and regulatory loopholes may be exploited over a longer timeline.

WHICH TOOLS ARE BEING USED ACROSS THE EU?

There are two key tools of concern – the Temporary Framework for State aid of the European Commission, an umbrella policy for the other tools described above, set up as a response to the coronavirus crisis, and the monetary policy of the eurozone, as executed by the European Central Bank (ECB), a quantitative easing programme.

1 The Temporary Framework for State aid of the Commission.

The European Commission rules on applications for state aid. Whilst its latest update to the Temporary Framework for State aid states "large undertakings must report on how the aid received supports their activities in line with EU objectives and national obligations linked to the green and digital transformation, including the EU objective of climate neutrality by 2050", it encourages governments to help corporations with measures including recapitalisation, state guarantees for loans, subsidised public loans, suspension of payments of corporate taxes, VAT and social welfare contributions. Whilst these may or may not be targeted towards fossil fuel and carbon intensive corporations directly, all of these tools would be beneficial to these sectors. Again, this allows opportunistic lobbying as well as accidental investments in fossil fuels by virtue of the size of the sector.

3 The weight of fossil fuel and carbon intensive sectors on bond markets and in the ECB's corporate asset purchase programme is significant: European Commission analysis states that 20% of all European outstanding bonds were from energy utilities and 8% from energy (mostly oil/gas) corporations.

4 Several major European oil companies have ramped up their bond issue programmes substantially during the Covid-19 crisis, exploiting low interest rates and massively increasing their short-term liquidity. The FT reported that oil majors raised $32 billion in debt between mid-March and 5 April. For example: Shell issued bonds worth $3.75 billion and €3 billion (close to the amount Shell issued in the whole of 2019); BP: €6.5 billion; Equinor: €3 billion, Total SA: $5 billion; and OMV: €1.75 billion.

2 The monetary policy of the ECB

The ECB is operating a multi-billion Euro support programme for fossil fuel and carbon intensive corporations through its monetary policy. It is substantially expanding its corporate asset buying programmes (CSPP and ABSPP) and has initiated (and already expanded) a new scheme - the Pandemic Emergency Purchase Programme (PEPP) in response to Covid-19 now standing at €1.35tn:

- Between mid-March and mid-May 2020, as part of its initial response to the coronavirus pandemic, the European Central Bank purchased €46 billion in corporate bonds and commercial papers;
- At least €7 billion was spent on bonds of integrated, upstream and downstream oil and gas corporations, such as Shell, Total, Eni, Repsol and OMV, and fossil fuel utilities, such as Engie and EON. Through the purchase of bonds of just seven fossil fuels corporations, the ECB financed an estimated 11.2 million tons of carbon emissions, which were released into the atmosphere, further fuelling the climate crisis.

This is a blanket approach to fossil investment by virtue of the size of the sector. Indeed, an LSE analysis of the ECB and Bank of England quantitative easing programs has proven a strong bias towards fossil fuels during the last decade already.

WHICH TOOLS ARE BEING USED AT NATIONAL LEVEL?

High profile national examples of support for fossil fuel and carbon intensive sectors are given below and are shown against the type of tool being used. This list is not exhaustive but serves as a set of high profile case studies (e.g. airlines) and obvious examples (e.g. tax deferrals) of both the tools themselves and the corporations who are benefiting.

These range from bailouts of national entities considered “too big to fail”, despite toxic business plans, to the wholesale weakening of tax and regulation for some of Europe’s very worst polluters. It focuses on the EU and public money that should have oversight from the European Commission and national governments, but with additional examples from the UK, Norway and Switzerland.

Fiscal non-tax examples	Tax examples	Monetary examples	Regulatory examples
• Aviation industry to receive €33 billion so far - according to the early June edition of the Airline Bailout Tracker. At least Austria, Belgium, Denmark, Finland, France, Germany, Hungary, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom had agreed or promised airline bailouts. Very weak if any green conditions, e.g. Air France's non-binding promise to cut short-haul flights would only reduce aviation emissions by 0.5%. • Belgium supports its airports by deferring payments of concession fees. France announced a €15 billion package to save its aerospace/ defence industry (includes €7 billion for Air France). • Commission approved €5 billion in loan guarantee to the Renault group from the French state. • German car-makers Volkswagen, BMW and Daimler receive state aid through different government programmes. • Commission approved a €5.2 billion Czech guarantee scheme for large corporations with affected export activities. The largest Czech export sector is cars and the largest exporting company is Skoda (part of the Volkswagen group). • Romania paid €291 million state aid for energy-intensive corporations to offset costs of CO2 emissions. • Commission approved Croatian support to Djuro Djakovic, a company involved in defence, petrochemical and power plant equipment sectors.	• Norway introduced temporary oil & gas tax relief measures that are boosting liquidity for oil & gas firms around 39 billion crowns (€3.7 Bn) including for new development in the Arctic. Norway also delayed green taxes, including for the oil & gas industry. • Estonia introduced cuts on excise duties on natural gas and motor fuels, electricity, etc. • The Netherlands introduced a temporary deferral policy for environmental taxes, coal tax, waste tax, mineral oil excise duties, etc. • Gas retailers and distributors in Spain are exempted from VAT, Special Hydro-carbon Tax, etc.	• For how ECB quantitative easing helps fossil fuels and carbon intensive sectors, please see analysis above. • Bank of England is also buying debt from fossil fuel corporations, including oil corporations such as Shell or BP, in its coronavirus stimulus programmes (Covid Corporate Financing Facility). Largest beneficiary is BASF, others: Baker-Huges (oil), easyJet, Ryanair, British Airways, Wizzair, Nissan, Toyota, Mitsubishi, Rolls Royce, Schlumberger etc. • Several non-Euro central banks continued or started corporate debt purchase programmes with the risk of increasing support for fossil fuel and carbon intensive sectors e.g. SNB (Switzerland) or MNB (Hungary).	• New Greek law allows oil & gas exploration and drilling in protected areas, without the consent of local authorities and endangering Natura 2000 protected sites. • Bulgaria announced it is considering setting up a state-owned oil company to build 100 petrol stations and manage reserves. • The Parliament of Andalusia voted for a "simplification degree" that reduces public participation and environmental guarantees. The degree is challenged by both opposition and environmental organisations.

HOW CAN THESE LOOPHOLES BE CLOSED?

Economic responses to the economic crisis must align with the goals of the Paris climate agreement.

The following checklist can help the European Commission and national governments to identify and eliminate the "fossil infection" risks in economic response packages.
Exclude fossil fuel bailouts and introduce strong climate conditions to bailouts in carbon intensive sectors (e.g. airlines, car manufacturing).

1. Exclude fossil fuel and carbon intensive sectors from subsidised public loans, favourable interest rates, grants, state guarantees, and favourable tax measures (e.g. lowered tax rates, tax deferrals, suspension of taxes).

2. Exclude fossil fuel and carbon intensive sectors from quantitative easing programs.

3. Not weaken environmental regulation to speed up investments.

4. Ensure transparency in Covid-19 response packages and monitor potential fossil fuel and carbon intensive investments.

The economic response to Covid-19 has only just begun. The European Commission and governments must take appropriate measures to remove toxic investments and to navigate both the existing health and economic crisis, and the underlying climate crisis.
In this context, Greenpeace calls on the European Commission to set up a green and just recovery watchdog with oversight of European Union and national economic packages in line with the checklist above