

THE LETTER FROM THE BANK

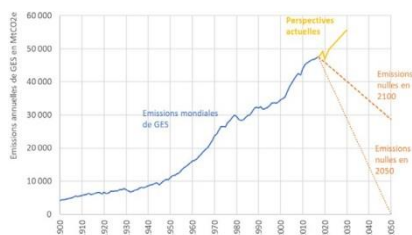
WILL GREEN GROWTH SAVE US?

After an 8.3% recession in 2020, the first quarter did not bring any relief as France's GDP fell further, by 0.1%. This is not much but symbolic of a difficulty in finding the path to growth. If the forecasts are more optimistic for the next quarters, this will be mainly due to a catch-up effect; the crucial question is: what will happen in the years to come?

The priority of the recovery plan launched by the government is ecology, ahead of competitiveness and cohesion. The aim is to "become the first major European carbon-free economy". Will "green growth" drive our economy in the years to come? In a previous letter, we had questioned the scientific validity of anthropogenic global warming, that is to say, caused by man, its extent and the urgency to fight it. This warming and its rapidity would be established by the IPCC* models, but they do not seem much more reliable than those of epidemiologists...

Either way, this is the framework chosen by the government and by the European Union. In fact, the Fondapol think tank has just published a study on the subject, entitled "The costs of energy transition and its conclusions are somewhat worrying". Fondapol begins by setting the scene: "According to the Paris Agreement, limiting global warming to + 2°C by 2030 means reducing global greenhouse gas (GHG) emissions by 40%, then achieving carbon neutrality by 2050."

Global greenhouse gas emissions and the trajectory of the Paris Agreement



Source: Rexecode according to PIK, UNFCCC

Two models compete to achieve these goals:

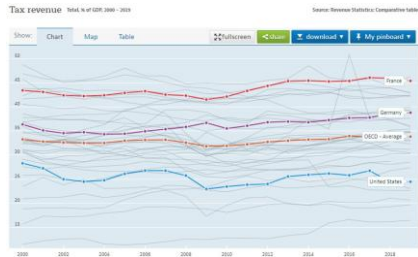
- "The first proposes a radical break with the current economic and social system by questioning productivism, capitalism and the consumer society. More than an ecological transition, this is a real change in society.

- The second proposes to use traditional economic mechanisms (taxes, subsidies, quotas, regulations, etc.) to encourage virtuous behaviour while favouring investment and the search for clean energy. It is about adapting the current system by forcing it to take into account ecological constraints and costs."

The first scenario would constitute a real purge: "The French middle class would see its gross income divided by four", a terrible regression. The second scenario puts a price on carbon to encourage economic players to decarbonise their investments and their consumption (the "polluter pays" principle). Fondapol does not provide an estimate of the resulting drop in living standards, but warns: "Environmental policy cannot be carried out without sacrifice and it is the duty of governments to make citizens aware of it." We are warned.

The cost of this transition will be high as the study indicates: "the European Court of Auditors expects a budget of 11,200 billion euros between 2021 and 2030 for the ecological transition in Europe. If we relate this number in proportion to France's economic weight, this corresponds each year to 6% of French GDP, 10.6% of public spending and five times the current budget allocated to ecological transition". As the think tank points out, "such a budget means resorting to debt, raising taxes or cutting certain expenses". Remember that France is the country with the highest tax rate among the OECD countries.

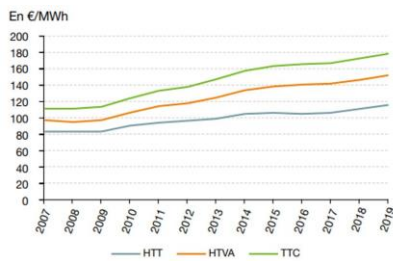
Tax rate for OECD countries (tax revenue as% of GDP)



Source: OECD, <https://data.oecd.org/tax/tax-revenue.htm>

“Green growth” is therefore largely a mirage; it is rather taxes and bureaucracy that threaten, very French pathologies! We have already seen the rise in electricity prices for several years, mainly as a result of taxes levied directly on the bill to finance renewable energies. *UFC-Que Choisir* claims that “the average household will have seen their bill increase from €1,019 to €1,522 between 2010 and 2020.”

Evolution of the price of electricity for households in France since 2007



Source: SDES, gas and electricity price transparency survey

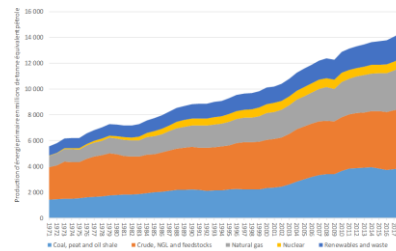
Protests are mounting from all over France against wind turbines, both on land and offshore. Everybody is beginning to understand that wind turbines are expensive and that they disfigure the landscapes which are nevertheless part of our assets. Ahead of us, however, Germany shows the dead end of this intermittent energy which requires the construction of gas-fired power stations to ensure the continuity of supply; overall, its CO₂ emissions are barely decreasing! The ban on pre-2006 diesel vehicles in the Greater Paris area will force many households to incur a significant expense. At the same time, the Euro 7 standard (aimed at reducing CO₂ emissions

from vehicles), which will take effect in Europe in 2025, almost signals the end of the combustion engine, with all the upheavals that this will cause in this industrial sector which employs millions of people.

During its recent general meeting, Total was attacked by several institutional investors criticising it for its reluctance to fight against CO₂ emissions. Some have even called for "an end to exploration for new oil and gas fields." Do we want Total to start growing organic quinoa? The G7 has just decided that its members will no longer finance coal-fired power projects around the world. We are talking about the world's second source of energy after oil, which is very present in emerging countries. But who is going to take over the funding and the construction of these plants? China, which is not part of the G7.

China is hedging its bets: it is the world's leading emitter of CO₂ and the leading exporter of solar panels. In 2020, the Middle Kingdom has tripled its production capacity for electricity from coal, more than all of the rest of the world. According to the Global Energy Monitor, this represents the opening of one coal-fired power plant per week. The Paris Climate Agreement has exceptionally enabled it to continue to increase its CO₂ emissions until 2030, and then to commit to reducing them thereafter. This is called a "distortion of competition". This is where our “green growth” is very likely to end: in China. It is time to do a little less ideology and a little more economics.

World primary energy production, by source, since 1971



Source: International Energy Agency, <https://www.iea.org/reports/world-energy-balances-overview>

Sources:

Fondapol study

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G7

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China

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