

# GMF: WEF 2023, Davos

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## Q&A-COP28 to be 'waste of money' if no change from prior COPs; Hope for second phase of reform in China in summer or fall: Joe Kaeser, Siemens Energy



UN Climate Change Conferences have been meaningless after the one in Paris where a goal to limit global warming was decided, as no new targets have since been set, **Joe Kaeser, Chairman of Siemens Energy**, told the Reuters Global Markets Forum in Davos, Switzerland on Wednesday, January 18.

"Are we going to go from 1.5 degrees to 3 degrees because we are all clueless? Are we going to go from 1.5 degrees to 0.5 degrees but in fifty years?" Kaeser said.

"COP28 should be about what's different this time. Otherwise, it's just a waste of money in a beautiful place," he added.

The upcoming Lunar New Year week-long holiday, when millions of people are expected to travel home to see family, would likely be a Covid-19 "super spreader" event in China, Kaeser said and hopes that a second phase of reform in summer or fall would help the world economy grow.

Following are edited excerpts from the conversation:

### **Q: IEA Chief Fatih Birol called the U.S. Inflation Reduction Act (IRA) as the most important climate agreement since the Paris Accord. Do you agree with that sentiment?**

A: I tend to agree with it although the jury's still out because we need to execute it. The announcements are great, legislation is super. It seems also there is legislation around the IRA which is hard to change by other people who may have different opinions around climate change. So that's good news.

### **Q: Could this lead to a race between U.S. and Europe and somewhat of a fight?**

A: There is a race already. The race is about wealth for the people, sustaining wealth in industrial countries and gaining wealth for developing economies. I think it is a big motivation for the ones who don't have an IRA.

### **Q: Green energy subsidies in Europe, is that comparable to IRA in that way?**

A: From what I know of the IRA, it's quite a comprehensive system. It's not just \$360 billion and change, it's actually open. It could be much more. It's about tax incentives. You will get incentives if you make money, otherwise you are not going to get anything. That means it's quite an attractive design. The European things are very fragmented. The European Union (EU) has something, (but) if you really push the envelope, you see that sometimes the money is being taken for something else. Think about the whole (CO2) certificate stuff. CO2 certificates which were designed to take money to invest into sustainable projects. You look at how the money got spent, it's not looking good. I believe there is a lot of funds available in Europe. I wouldn't say EU, but Europe, but it needs to be applied in a much more cohesive and focussed way

### **Q: What are your expectations for the next two years or so in terms of global growth and what do you think is in the cards for Europe in particular?**

A: I believe there's a lot of opportunity around the world from developing economies, from industrial economies going more sustainable, looking for technology which makes the world a better place. There's a lot of opportunities. I'm afraid that there will be a more divided world, a more fragmented world. First, between industrial economies and the developing economies.



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Secondly, also the industrial world will be further divided by digitisation. Digitisation is about binary relationships. So there will be a lot of challenges for societal inclusion. That's why I believe that governments, and especially companies, are very well advised to look much more into stakeholder approach. Stakeholder optimisation (rather than still believing that Milton Friedman was right and shareholder value only. Especially, if it's going to be short-term and short-sighted, There will be an interesting world, a lot of opportunities, but also a lot of responsibilities for responsible leadership.

**Q: How has China's reopening affected the company's outlook? Are there any revisions that are coming into the picture?**

A: No, there is no reopening yet, sort of. I think the good thing is that our Chinese colleagues have been working day and night, even slept at the factory just to overcome the lockdown. Remarkable, how that dedication is. We should all be grateful for our people who are that dedicated to the company. Now, I believe the jury is out because from what we're seeing now, China opens up, they declare COVID over and say whatever comes is the flu. Maybe pragmatic, maybe not, but that's what they do. We have a super-spreader event coming up in Chinese New Year. That will likely spread the whole Chinese flu to most everybody in China. The bad news is that there will be a lot of pain and likely fatalities. The good news is that once that is over, come summer or fall, China will be moving to the second phase of reform and opening up. Maybe, maybe not but we'll see. But that's what I would predict and that could certainly help the world also grow and ease the pain of a lot of industrial countries, including Europe. As long as I don't hear from management, current numbers are still valid.

**Q: What do you think the supply chain environment will look like in 2023 and what is Siemens Energy doing to diversify supply chain and the way that you acquire raw materials?**

A: The way you typically put more resilience into supply chain is that you diversify regionally. Smaller factories but more factories in different regions of the world. You qualify smaller suppliers. You may pay maybe 2% to 5% more, but you have a regional diversified resilience and that's really important. Especially automotive people, they are typically inclined to say I'll have a sole source, but then I can really put a lot of purchase power into that because you offer such a high volume. It's an opportunity, but the downside is if something goes wrong, then you're in trouble. And you've seen how quickly that could go. In general, I would believe that the supply chain will massively ease in 2023 if there is no more or no further, additional geopolitical trouble. That's something you just never know. I think the biggest risk is geopolitical turmoil, that supply chains can be disrupted again. But other than that capacity wise, I believe you're starting to see eases the supply chain.

**Q: Is fragmentation going to be the new world we live in?**

A: The answer is time will tell. I believe the more governments believe they need to do onshoring or homeshoring, more companies will be forced for localisation. Obviously, all global companies are all clear that (the) onshoring idea is a bad idea and a very bad idea for many reasons, by the way. Sometimes it's only another word for protectionism -- let's face it -- or geopolitical issues. But companies can't afford to wait and see. They need to take action, to be proactively prepared should that decoupling continue. That's why I believe every boardroom is advised to discuss those plan B or plan C.

**Q: Given the global economic climate and recession warnings, what can Siemens energy do to ensure targets related to specially fighting climate change do not slip in priority?**

A: We are the largest wind supplier by installed base. We have currently the best product on offshore in terms of capacity and reliability. We can do gas, we can offer renewable, we can do storage, we can do power 2X. It's all there.

One of the biggest mistakes or misunderstandings or misrepresentations of the world is that we're always looking into the supply side and not demand side. No oil producing company is taking the oil out of the ground just because they don't have anything else to do. They take it out because somebody wants it. Saudi Aramco, the biggest oil producer in the world, they have not increased their capacity from 9 (million barrels a day) to 11 million barrels a day because it didn't have anything else to do. No, they increased it because the whole world was screaming at them, 'help, help, help.' It's a bad idea to always blame the supply side, go and look at the demand side. Demand is about efficiency. Building efficiency. Do we have the right building efficiency? Can we maybe save 30% on buildings, on municipal buildings, on mobility and the like. And then go back to the supply and say, hey wait a minute, you know we need 30% less so leave that oil in the ground. Leave that coal where it actually should be, meaning in the ground.

That's what I believe for the most part at least are missing, that governments look at the whole value chain. Sometimes I understand it because governments, democratic governments like Germany, for example, they're there for four years and then they get re-elected. In practice, first year you get to know the job. Then you've got year two, year three where you can get

something done. Fourth year you're campaigning again for the next year. There's hardly any product in this world which has an innovation cycle of two years. If you talk energy, it's 10 years. You need to have a comprehensive plan on how to do fossil to renewable, to storage, to what does it take to have sustainable energy.

If you want to get something done, you need to have a comprehensive plan on the whole value chain which goes over an election cycle. Secondly, don't boil the ocean. Look at sectors like mobility, steel, chemical, buildings. Look at the sector and say what is it in the building sector, how much energy can we save if we optimise all the buildings? Once you're done with that, have a plan, go into execution mode. Then I guess we find a way for a sustainable energy agenda. It's always about security of supply, sustainability, affordability.

**Q: Is it fair for energy companies to get a seat at the table where climate change is concerned? It's a change from being excluded in the UN Climate Change Conference in Glasgow (COP26) to COP28 being hosted by the United Arab Emirates (UAE).**

A: COP28 is hosted by a government which governs a country which is an oil and gas country for most part at least. I will not say if this is good or bad. The question is what should be different in COP28 as to what (COP in) Paris said. Paris said 1.5 degrees. Then onwards, all the COPs were meaningless because there was no new target. If and when COP28 comes up, question is what's different? Are we going to go from 1.5 degrees to 3 degrees because we are all clueless? Are we going to go from 1.5 degrees to 0.5 degrees but in 50 years? Not saying a revision is necessary. COP28 should be about what's different this time. Otherwise, it's just a waste of money in a beautiful place.

I don't know, but one way could be invite to demand side, invite the supply side and ask what do you do exactly. What do you want to have changed in order to be in a better place? I'm not sure the environmental activists, NGOs (non-governmental organisations) would like that because there was already a lot of criticism in Sharm el-Sheikh (Climate Change Conference in November 2022). There has to be something different. If there is no different agenda from what we saw in Glasgow or in Sharm el-Sheikh, it's a waste of time.

**Q: What challenges and opportunities do you see Siemens Energy dealing with in 2023?**

A: Opportunity is everybody talks about energy. If there is something positive out of this terrible war in Ukraine, it's that most of society understands that energy was taken for granted. Energy has a cost. This is late but better late than never. A lot of people are looking into energy security, critical infrastructure, they look at grid resilience, innovation, plan from fossil fuels to renewables and are more cautious about factual evidence. It's more decisive. That's a massive positive. Siemens Energy has everything you need to get the job done.

**Q: Sultan Ahmed Al Jaber, the president of COP28 recently warned the world is 'way off track' to meet the climate goals set in Paris. What is your take on his comment and if you agree, where do you think the world fell behind?**

A: One thing is about diagnosing, other is about treatment. Think diagnosis now that we have a climate issue crisis, that diagnosis doesn't need to be repeated another million times, we know that already. Point is now the therapy. What changes, what is going to be different and what do we do different. I have no reason to disagree with Al Jaber. He is CEO of ADNOC (Abu Dhabi National Oil Company). He knows his way around. I won't be surprised if he told you don't always look at supply side, look at demand side. Try to find reasoning between causation and outcome. We'll see how it goes. I think it also has advantages that COP28 is led by a country which understands supply side and the ramifications on the demand side.

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