**Europe's Time to Shine?**

As Chelverton's European Select Fund is positioned to capture the growth opportunities available from digitalisation and energy transition megatrends, it's worth reflecting on the European Union (EU) initiatives that have laid the foundations for advantage in the coming years.

The EU has historically been criticised for burdensome bureaucracy, creating a cumbersome regulatory environment that is too costly for business. However, other regions are now increasingly recognising the EU's environmental, social and governance (ESG) regulations as a best-practice template (so-called 'regulatory gravity'), observing that leading ESG controls have promoted a corporate and investment mindset that is more focussed on and prepared for the change that is upon us.

2022 was characterised by a crescendo of compounding global problems leading to talk of polycrisis, a term used to describe an inextricable web of crises simultaneously impacting global systems.

Our post war economic model, premised on liberalisation, globalisation, and unfettered low-cost consumerism, has been forced to reboot by the confluence of pandemic challenges, geopolitical tension, climate change impacts, growing resource constraints, and associated biodiversity loss.

Action to control these risks has led to a rapid reconsideration of the global order, a deglobalisation trend, the ramping up of climate action, and greater recognition that consumption must be more sustainable if the resources upon which we all depend are to remain available.

European companies across the range of sectors have generally been early adopters of more sustainable business practices due to the EU's stringent regulatory regime – so called 'stick' measures. However the energy crisis, sparked by the Ukraine war and arrival of anthropogenic climate impacts, has accelerated actions to rapidly improve energy security and efficiency, resulting in a complementary raft of 'carrot' incentives.

Prominent amongst these is Europe's REPowerEU plan, which sets out measures to fast forward the green transition, while also increasing the resilience of the EU-wide energy system.

Short term actions include:

- New energy partnerships with reliable suppliers, including future cooperation on renewables and low carbon gases
- Rapid roll-out of solar and wind energy projects combined with renewable hydrogen deployment to save around 50 billion cubic meters (bcm) of gas imports
- Increased production of biomethane to save 17 bcm of gas imports
- Approval of the first EU-wide hydrogen projects
- Demand reduction plans
- National REPowerEU Plans under the modified Recovery and Resilience Fund, to support investment and reforms worth €300 billion
- Boosting industrial decarbonisation with €3 billion of frontloaded projects

Medium term measures involve:

- EU renewables target for 2030 increased from 40% to 45%
- New EU proposals to ensure industry access to critical raw materials
- New legislation for faster permitting of renewables

- EU energy efficiency target for 2030 increased from 9% to 13%
- Regulatory measures to increase energy efficiency in the transport sector
- A hydrogen accelerator to build 17.5 GW by 2025 of electrolysers to fuel EU industry with homegrown production of 10 million tonnes of renewable hydrogen
- A modern regulatory framework for hydrogen
- Investment in integrated and adapted gas and electricity infrastructure

The combination of these stick and carrot measures has the potential to strengthen both the region's growth prospects and its resilience. This creates opportunities for near-shoring and on-shoring and widens the 'trust premium' that more sustainable businesses garner over time, thereby reducing their cost of capital and the value of their production units through premium pricing.

There are, of course, always challenges. Europe fears that the US Inflation Reduction Act has thrown a protectionist cat amongst the pigeons. To avoid the potential for European clean energy developers being lured to the US by $369bn of green subsidies, it may be necessary to ease rules on state subsidies for clean energy and to speed up permitting for new green projects. However, a 'made in Europe' package to counter the US 'made in America' measures seems firmly on the cards.

In conclusion, there is strong optimism that Europe's ESG leadership may no longer be viewed as an incumbrance to business success, but rather as a source of competitive advantage that can be leveraged in response to the biggest challenges and opportunities of the next era for the benefit of the region.