

# AURORA FORUM

‘CONNECTING COUNTRIES IN DIALOGUE’

DENMARK, ESTONIA, FINLAND, ICELAND, LATVIA, LITHUANIA, NORWAY, SWEDEN AND THE  
UNITED KINGDOM

A HYBRID/VIRTUAL MEETING

15<sup>TH</sup> & 16<sup>TH</sup> OCTOBER 2020

## SESSION REPORTS

### Session I “The Future of Capitalism: How to Achieve the Green Recovery” – by John Peet

This was a lively and interesting session with many comments from our panel and participants. The panel contributors were Kwasi Kwarteng and Greg Hands, respectively UK energy and trade ministers, Marcus Wallenberg (Sweden), Gunn Waersted (Norway), Irene Rummelhof (Norway) and Katrin Juliusdottir (Iceland), with comments also from Ulrik Vestergaars Knudsen (Denmark) and Eliot Whittington (UK). Among the other contributors were Matthias Frumerie (Sweden), Bjorn Haugstad (Norway), Robin Niblett (UK) and Daniel Franklin (UK). The session was moderated by Nik Gowing (UK), and the rapporteur was John Peet (UK).

Among the points made in this rich discussion, a common one was that it was false to detect an inevitable tension between economic growth and emissions reduction. In recent years most of our countries have managed to combine greenery with growth. The covid-19 pandemic in 2020 had seen global emission fall by 8.8%, but with global output shrinking by 4.5%. To meet the Paris goals of zero net emissions by 2050 would require similar large falls in emissions but with growth resuming – yet most participants felt this was possible to achieve.

There was some emphasis on the role of the private as well as the public sector, and the importance of using market forces to deliver environmental and other goals. Capital markets could also help to finance a green recovery, as could the spread of 5G networks. Companies needed to be aware that young people in particular were enthusiasts for environmental, social and corporate governance goals. Failure to deliver would create reputational risk.

The case for better and clearer reporting standards and greater transparency were other common themes to the discussion. So was the need case for better regulation, and some economists also touted the notion of carbon taxes as the most efficient way to incorporate externalities into the marketplace. Trade could also be a force to promote greener growth, though supply chains would need careful monitoring. The market was already sending helpful signals: Orsted was now worth more than BP and Tesla more than Toyota, for example.

The prospect of the deferred COP26 climate-change summit in Glasgow next autumn came up frequently, as did the expectation that there might be a change of president in the United States on November 3<sup>rd</sup>. Some felt an extra year before the summit might prove to have been helpful, though it was also noted that a few “bad guys” on the climate were still out there (Russia under Putin? Brazil under Bolsonaro? Sometimes China and India?)

A final point that arose was the importance of responding to the concerns of the younger generation as a whole. This group was highly sensitive to environmental issues, but all too often saw capitalism and globalisation as enemies not friends. Growing inequality of incomes and assets contributed to a feeling the young often had that they were losers not winners from the system. This feeling needed to be dealt with to keep young people on board.

John Peet

## Session II - A Fireside Chat with Carl Bildt & Lord Sedwill, followed by The Rt Hon Michael Gove MP

By Gordon Corera

A wide-ranging discussion focused on the challenge of adapting to a world of turbulence and surprise with the potential for more 'black swan' shocks in the coming decades.

The challenges include COVID-19— bring with it risks of vaccine nationalism and economic dislocation as well as future pandemics; climate change; growing confrontation and systemic competition between the US and China (particularly in the field of technology); the risk of Russia becoming even more unstable during any political transition; demographic changes and a continuing shift of the global centre of gravity from the North Atlantic to the Pacific. The interaction between shocks and trends will have profound and hard to predict consequences.

All of this places new demands on states and will require new ways of developing resilience.

Whoever wins the US Presidency in November there is little room for complacency. Even if Biden wins and there is greater re-engagement with allies and international institutions (including on climate change), Europe will continue to be asked to do more to protect itself and deal with issues in its neighbourhood. And competition with China is likely to continue, forcing countries to think how to position themselves. This will need to sit alongside co-operation with Beijing on issues like climate change.

Our strategic thinking over security, trade and technology need to be integrated in a way we have not done before and which does not necessarily fall into the old 'Cold War' model.

Governments will need to think harder about when and how to intervene in dealing with a competitor in the form of China which has created its own national champions through state support and a large domestic market. A major challenge will be dealing with this at an international and global and not just domestic level, in part to avoid a lurch to protectionism whilst retaining access to markets, including China. The global pandemic has emphasised the need to think hard about where the global market provides not just goods but also resilience and where the state needs to play a role. What does a 'third way' between globalisation and economic nationalism look like?

More broadly, new global institutions were not necessarily the means to ensure greater co-operation and co-ordination but countries of like-minded values across the world will need to look at ways of working together.

In the second half of the conversation it was outlined how even before Covid-19 it was clear there were going to be changes to how democracies organised themselves. Globalisation and a growing divide between the elite and the public had created 'morbid symptoms'. The pandemic has reinforced those concerns and showed the values of investment in science, education and technology. The challenge of climate change remains inescapable and a digital transformation is accelerating with new demands on the labour market. Resilience and agility will be the key challenge for the coming decades. This needs to be delivered not only by the state. Companies will need to increase their resilience based on how they interact with staff and customers and everyone will need to understand their stake in ensuring a more resilience society against ongoing change and future shocks.

Gordon Corera

## Session III – ‘Friends, Adversaries, Frenemies: Navigating an Evermore Complex Security Environment’

By Emily Mansfield

The security threats that we face at present—from the immediate risks posed by Covid to Chinese provocations and persistent challenges from Russia—are particularly insidious as they blur the line between peace and war. These grey zone aggressions include cyber threats, airspace violations and terrorist acts. They make it harder to tell friends from frenemies; they make targets out of companies and civilians, not just nation states; and they exploit the divisions within our societies as we become more politically polarised. For small states like the Baltics they could pose a near-existential threat. How can we respond?

**By building international alliances and friendships.** Close neighbouring countries often have joint interests, and should pursue these through the EU or NATO or smaller groups, building alliances with those who share our values and aims. There is a trade-off between building capabilities in one country and abilities across a region: these goals need to be balanced, with individual interests not outweighing regional security priorities. ‘Westlessness’ needs to be addressed, restoring a sense of purpose and aware of our external adversaries among Western democracies, rather than turning inwards and squabbling among ourselves.

**By building our defence capabilities, both national and regional.** We have seen the emergence of more shared threat perception and situational awareness in recent years in northern Europe, and could further build ties across military capabilities, infrastructure, communication lines, energy networks and civilians. We should also build industrial readiness and offer defence solutions across countries, co-operating in research and innovation, cybersecurity, and security of supply lines—including with the UK post-Brexit. We need to meet NATO’s 2% of GDP defence budget target.

**By educating our societies.** Many hybrid threats affect civilians, including propaganda, disinformation and political manipulation, so building awareness of these risks is key. Latvia is introducing defence and military education into schools and summer camps, while war games and other exercises illustrate how national security can be seen as domestic security writ large, raising psychological preparedness. We need to build resilience against threats as a whole society effort (the ‘total defence’ concept), including businesses and civilians.

**By increasing transparency over our supply chains.** Our reliance on PPE from China at the start of the pandemic was a shock, and the reaction to shortages was not edifying—borders closing, supply chains jeopardised, shipments hijacked—and we weren’t even facing a military crisis. Our supply chains need to be resilient in all circumstances, so we need to build transparency around these. The ownership structures of our firms also need to be more visible so we’re aware if they might have different interests at a time of crisis.

**By being clear about our purpose and our strengths.** We need to reinforce our commitment to democracy and defend what we believe in, building trust between different stakeholders and sharing information with our allies. We need to balance our relations with the US and with China, and build our presence not just in our eastern and southern EU neighbourhoods but also in the Indo-Pacific. We need to show that we have the willingness to use our capabilities, and capitalise on our strengths—including our soft power and opportunities for young people. These expose the weaknesses of nations such as Russia and China: we could fight disinformation with information, eg exposing corrupt systems.

To conclude, a call to arms: Political will and unity of purpose are key. We know the threats posed by grey zone aggressions now, and must elaborate our responses.

Emily Mansfield

## Session IV – ‘What Constitutes a Responsible Business? Sustainability and Beyond’

A lively and very interesting session moderated by Sir Roger Gifford with a line up of speakers that included Lord Callanan, President of Estonia Mrs Kersti Kaljaid, Mr Leif Johansson, Mr Helge Lund, Mr Jim Hagemann Snabe, Mr Håkan Buskhe and Dame Minouche Shafik. The commentator speakers were Sir Mark Walport and State Secretary Ms Maja Fjæstad.

The clear message was reducing pollution, visible and invisible, taking into account the huge loss of bio-diversity, labour costs and considering future generations. We are not effectively pricing in the externalities and too often export these. There has to be a role for taxation and regulation in this process of reaching our goals, including net zero carbon. Sustainability needs to be balanced with resilience and affordability. That is the energy challenge. Global supply chains of PPE vaccines are an example of the current situation. The important test will be the delivery of the Covid-19 vaccine.

Sustainable businesses require sustainable markets. It raises the question of when can the market be subsidised and to what extent. Energy is a good example of transition; wind and solar are competitive but there is still the question of nuclear, which provides base load and is very clean. Electrification is a very robust way to distribute and deliver energy. China is beginning to dominate on the renewable energy market and this has geo-political aspects and implications. Environmental and sustainability issues are at the head of every large company boardroom. Companies respond well with set targets. The future of environmental engagement must be where companies are, working with political and policy people in a different way whilst proactively suggesting different regulatory regimes, or becoming more adaptive to them with a more global approach. One should also consider that there are many businesses lacking in the discussion who do not or cannot consider responsible business, businesses that are trying to keep afloat, for whom sustainability and responsible business are 4<sup>th</sup> or 5<sup>th</sup> on their list of priorities. There are some critical problems, the development for the future turning in the wrong direction, more and more limitations in what one can do. It is not just the Covid-19 virus, but digital viruses. There is a place for greater collaboration. We can use technology to move us towards de-carbonising, de-materialising and re-cycling. The markets are addressing huge issues, but struggle is still there. Social sustainability and how changes in labour markets and taxation happen will affect how businesses will create a sustainable future. Unless Government policy changes and creates a level playing field for everyone we won't get the systemic change we need.

How do we balance jobs for the future with outcomes for millions of employers who are incumbent with unfit existing businesses? There is the issue of skilling the workforce. The failure of public health was exposed by Covid-19, along with highlighting the under functioning parts of society. As a positive to the virus, it has by turn also shown up the well functioning parts. There are good models for paying for disease, but poor models for paying for the maintenance of health. Those that did well learnt from history. Too many around the world have not paid the insurance for the pandemic and it is very difficult to pick up when the emergency happens. Covid-19 has demonstrated all of the social inequalities that lead to poor health outcomes. The question is whether the taxpayer should be paying towards procuring innovation and health. A strong well-fair system is very important. Societies inter-connectivity up to this point has been taken for granted, particularly with the movement of trade. Lessons should be learnt from the Covid-19 impact.

Is ‘Tech’ the rider to the rescue, or is AI the ‘Grim Reaper’ in disguise? Important questions there and major choices to be made. Democracy is always under threat. We need to ensure that technology works to favour democracy not counter-react it. If we want to be trusted we have to behave in a trustworthy manner.

There is a marked discount value applied to future generations and this is one of the real challenges for humanity. The excellent values and ethics needed will be difficult to achieve without governments supporting this with regulations. There is a polarising political scene, which is not contributing to sustainability. The session showed how much negative feeling there is towards the political class, but the political class is not yet ready for much of the contributions that the business leaders gave up during the session. There is a need for the political support so that it becomes economically practical to accelerate the necessary changes, make it less attractive to stay in the old

world. Heads of State have to put pressure on Heads of State, with business and multi-lateral institutions and Heads of State working together.

As David Attenborough has pointed out in his latest film; “We have come this far because we are the smartest creatures to live, but to continue we require more than intentions, we require wisdom.”

The challenges for the Aurora Forum, amongst many others, will be to take these messages out and spread the word.

A final thought by the philosopher Jean-Jacques Rousseau, after the Lisbon earthquake of 1755 –

“Don’t blame the shacking earth, blame the people who built the houses”