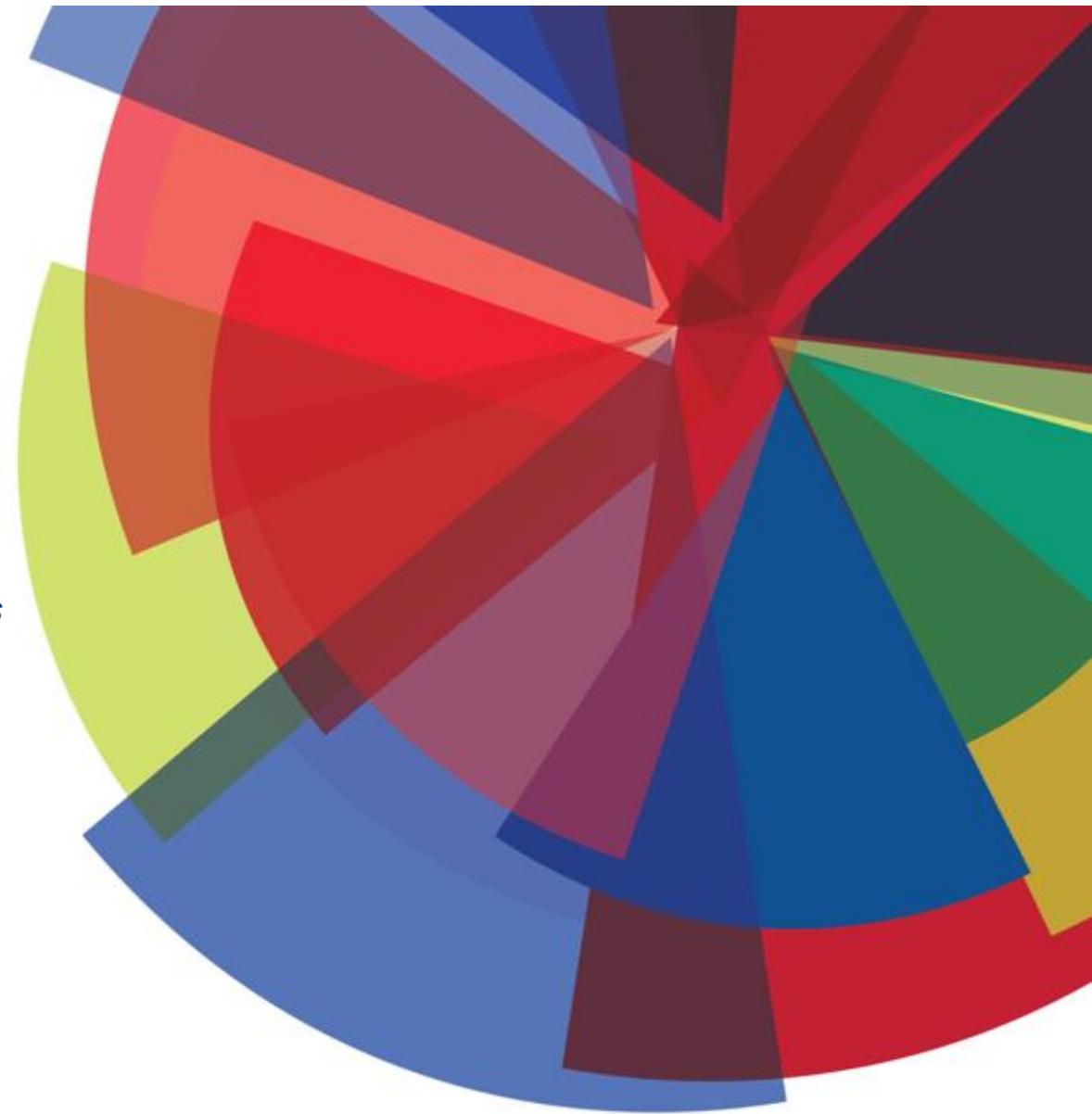




TOP RISKS 2021

Agenda

- **Top 10 Risks 2021**
*by Lord Malloch-Brown, Senior Advisor
and Rohitesh Dhawan, Managing Director, Energy, Climate & Resources
Eurasia Group*
- **The Bottom Line for Nordic Businesses**
by Agathe L'Homme, Head of Geopolitics at KPMG Norway
- **Q&A**





Lord Malloch-Brown

Rohitesh Dhawan



TOP RISKS 2021

1. 46*
2. Long Covid
3. Climate: net zero meets G-Zero
4. US-China tensions broaden
5. Global data reckoning
6. Cyber tipping point
7. (Out in the) Cold Turkey
8. Middle East: low oil takes a toll
9. Europe after Merkel
10. Latin America disappoints

Red herrings

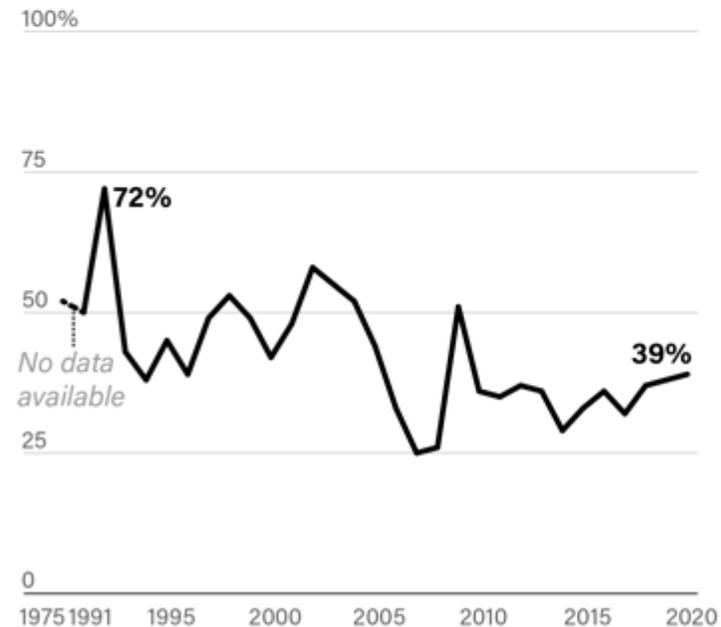




- Joe Biden's term opens an era when half the country considers the president illegitimate.
- Implications of this extreme polarization extend well beyond US borders. Republicans and Democrats will disagree sharply—with each other and among themselves—over the objectives of US foreign policy.
- The size (and broadening) of Trump's base will leave allies and potential partners wondering whether the next "America First" foreign policy is just four years away.

Biden presidency faces both structural and legitimacy challenges

US adults were asked "how much confidence you, yourself have in the presidency?" The results below are the combined percentage of those answering a "great deal" or "quite a lot."



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2021**

Is Joe Biden the legitimate winner of the 2020 presidential election?

registered voters

Trump voters



(8-11 December) margin of error +/-2.3 points

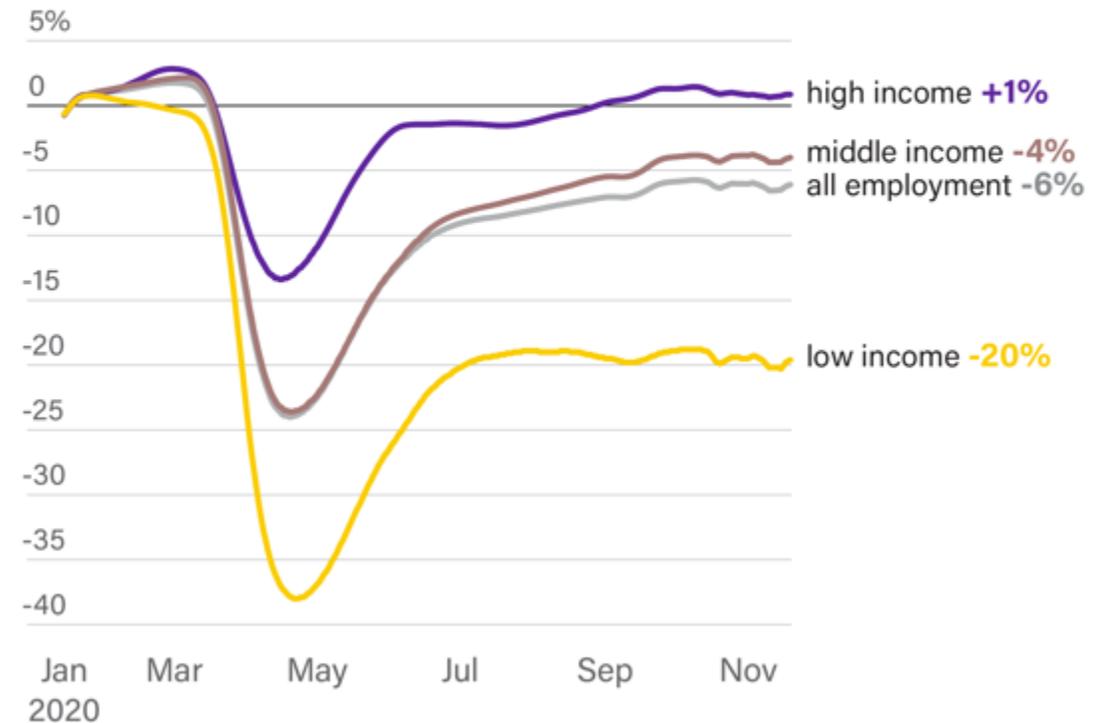




Long Covid

- The pandemic will leave a legacy of high debt, displaced workers, and forfeited political trust in countries in every region.
- The bumpy vaccine rollout and economic scar tissue of the pandemic will stoke anti-incumbent anger and public unrest in many countries.
- With inflation and borrowing costs rising, emerging markets will have far less room than the US and Europe to cushion Covid's economic blow.

Changes in US employment





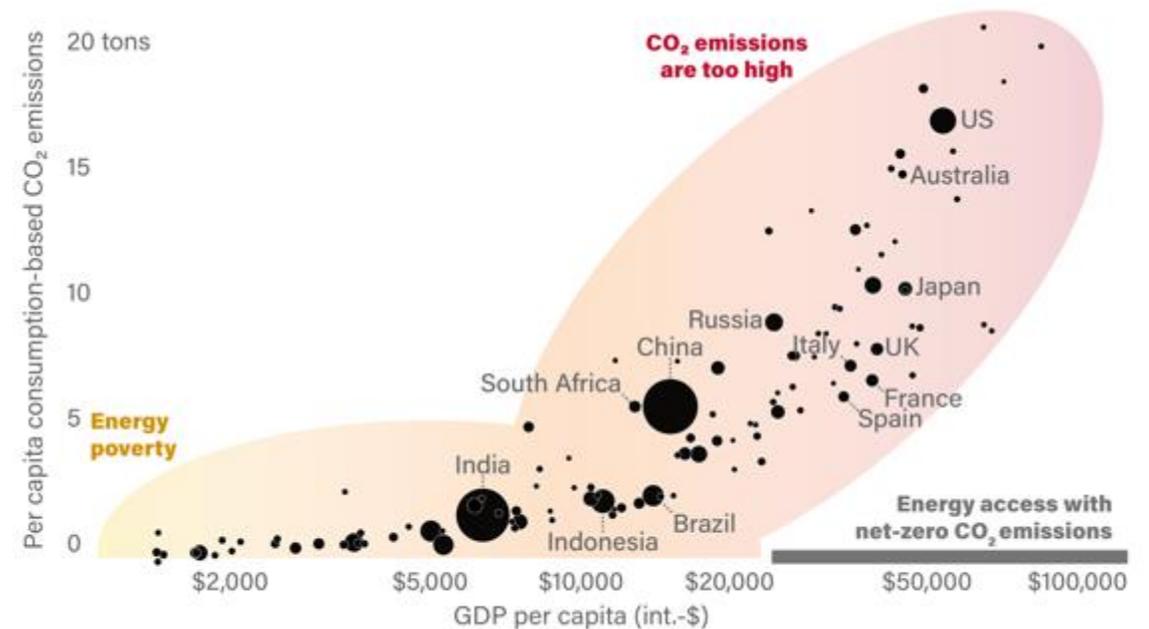
Climate: net zero meets G-Zero

- Climate policy will move from playground of global cooperation to arena of global competition.
- China's industrial policy will face a much more aggressive climate push from Washington. Some parts of the clean energy supply chain will face bifurcation pressures like those seen in 5G.
- The push for net-zero emissions targets will create enormous opportunities for private capital, but winners and losers will be determined as often by political factors as by market forces.



For people and politics, net zero presents challenging trade-offs

Consumption-based carbon dioxide (CO₂) emissions per capita vs GDP per capita, 2017





US-China tensions broaden

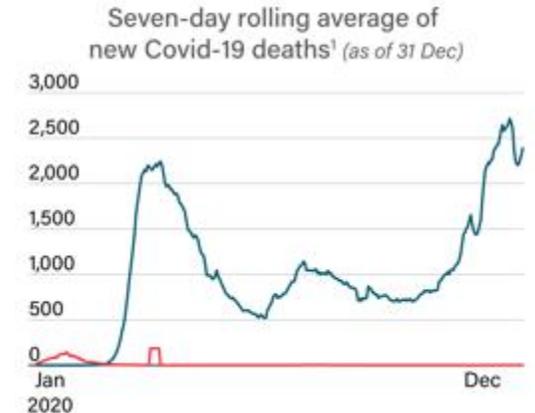
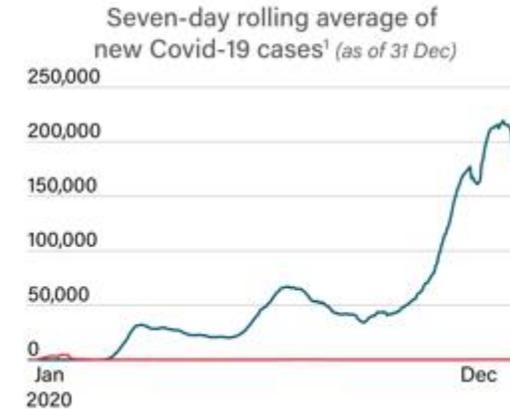
- A shared desire in Washington and Beijing for stability in US-China relations will briefly ease headline tensions
- But intensifying vaccine diplomacy, climate tech competition, and increasing US coordination with allies on China issues will further complicate US-China rivalry.
- Intensifying disagreements over trade, Hong Kong, Taiwan, and the South China Sea will boost the risk of miscalculation and escalation toward crisis.



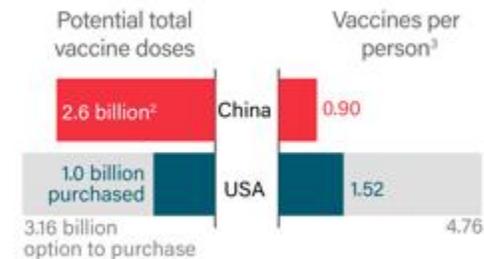
TOP RISKS 2021

US vs China

- US - China



2021 Covid-19 vaccine capacity (as of 29 Dec)





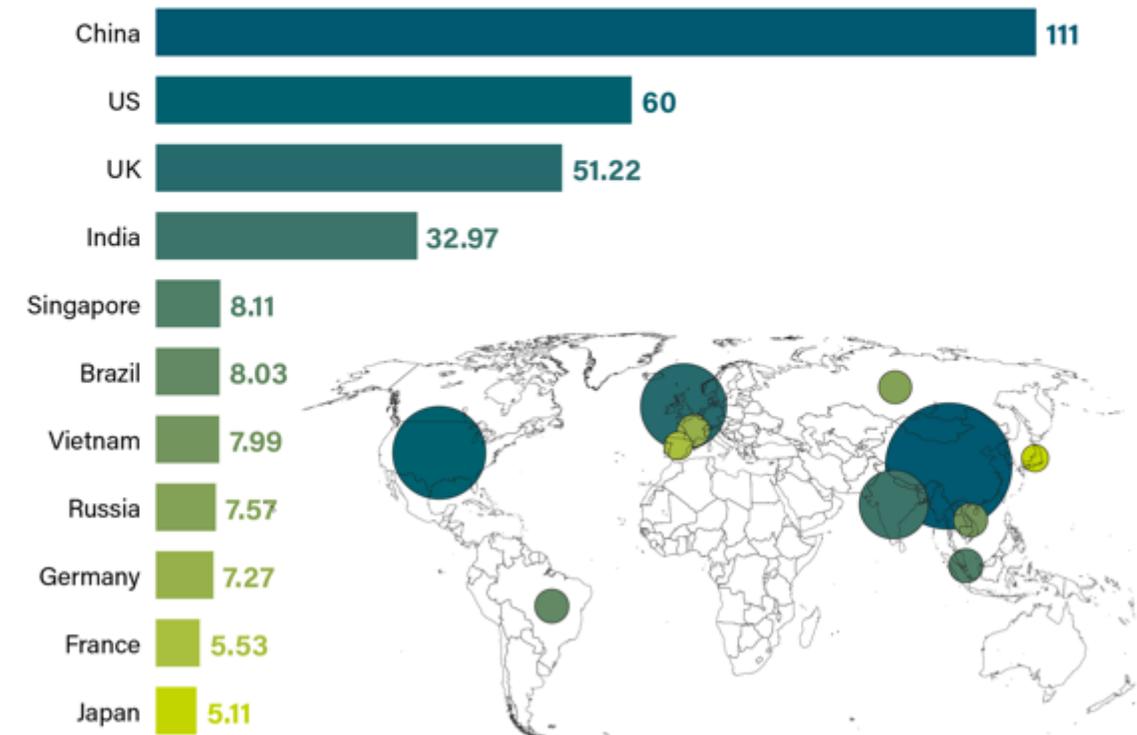
Global data reckoning

- A slowdown or halt to the flow of sensitive data across borders will raise costs for companies and disrupt popular apps and internet business models.
- This risk begins with the US and China, but doesn't end there. Other governments concerned about who is accessing their citizens' data – and how – will erode the foundation of the open global internet.
- Business models for AI and other innovative tech sectors will suffer. App bans and other issues will hamper global cooperation on public health and climate challenges.



Countries with the most cross-border data
million Mbps, 2019

**TOP
RISKS
2021**



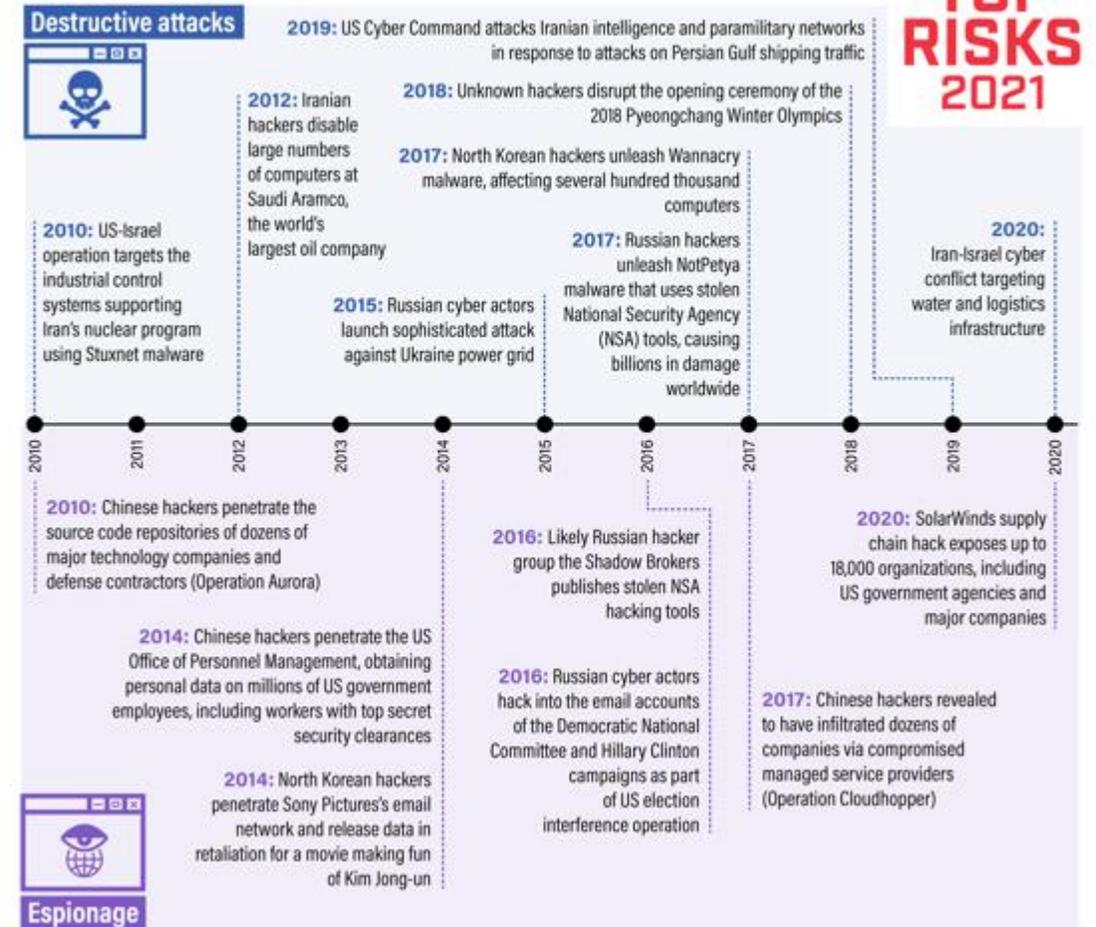


Cyber tipping point

- A world in which any computer or smartphone is vulnerable to hackers, and nation states and criminals act with relative impunity, is too unpredictable for any one cyber-risk to dominate all others.
- Though the pandemic has accelerated the pace at which new devices and activities join the internet, governments and the private sector have made little headway in developing global rules for state behavior in cyberspace.
- This matters, because states and non-state actors will be tempted to take advantage of this increased threat surface this year, just as the US is coming to grips with a massive cyber intrusion likely perpetrated by Russia.
- China's advances in quantum computing are yet another factor adding to cyber angst, adding to an assortment of low-probability but high-impact risks and technology trends will make 2021 a year of unprecedented risk of cyber conflict.



No end in sight for cyber disruption



(Out in the) Cold Turkey

- Economic setbacks in 2021 and Turkey's poor Covid response will leave President Erdogan struggling to win back voters disillusioned with his two-decade rule.
- These dynamics will stoke social tensions, prompt a political crackdown, and encourage Erdogan to launch more foreign-policy adventures to fuel nationalism and distract his supporters.
- But this year, Erdogan won't have international friends to shield him from the consequences.

Erdogan's geopolitical gambits & headwinds

**TOP
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Middle East: low oil takes a toll

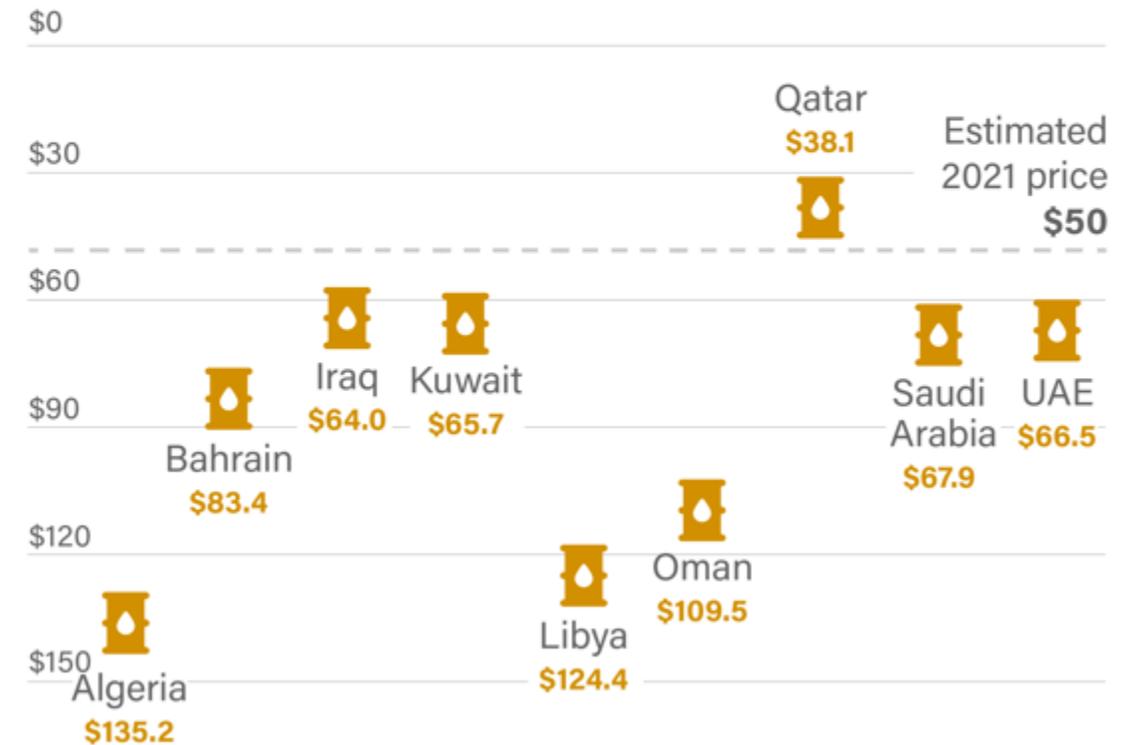
- Energy-producing countries in the Middle East and North Africa faced a collapse in global energy demand in 2020 that left governments with less cash to spend—even as the pandemic sickened citizens and weakened economies.
- 2021 will be worse, because energy prices will remain low.
- Many governments will cut spending, damaging vulnerable private sectors and fueling unemployment. Reforms will slow, and protests will grow.



Fiscal breakeven oil price in 2021 (projection)

\$ per barrel

**TOP
RISKS
2021**





Europe after Merkel

- Europe faces an economic hangover from intensified lockdown restrictions in several countries, and Angela Merkel's departure later this year will leave the EU without the leader best equipped to manage a multilateral response.
- Without Merkel to serve as a strong and neutral negotiator, diplomatic efforts to resolve energy and territorial disputes in the Eastern Mediterranean will struggle.
- The EU position will become more hawkish as France pushes more member states to get tough with Turkey, raising the odds of tensions.



Economic recovery in the EU and the impact of the recovery fund

**TOP
RISKS
2021**

— Projected GDP levels as a share of pre-crisis output
— Intended effect of the Recovery and Resilience Facility





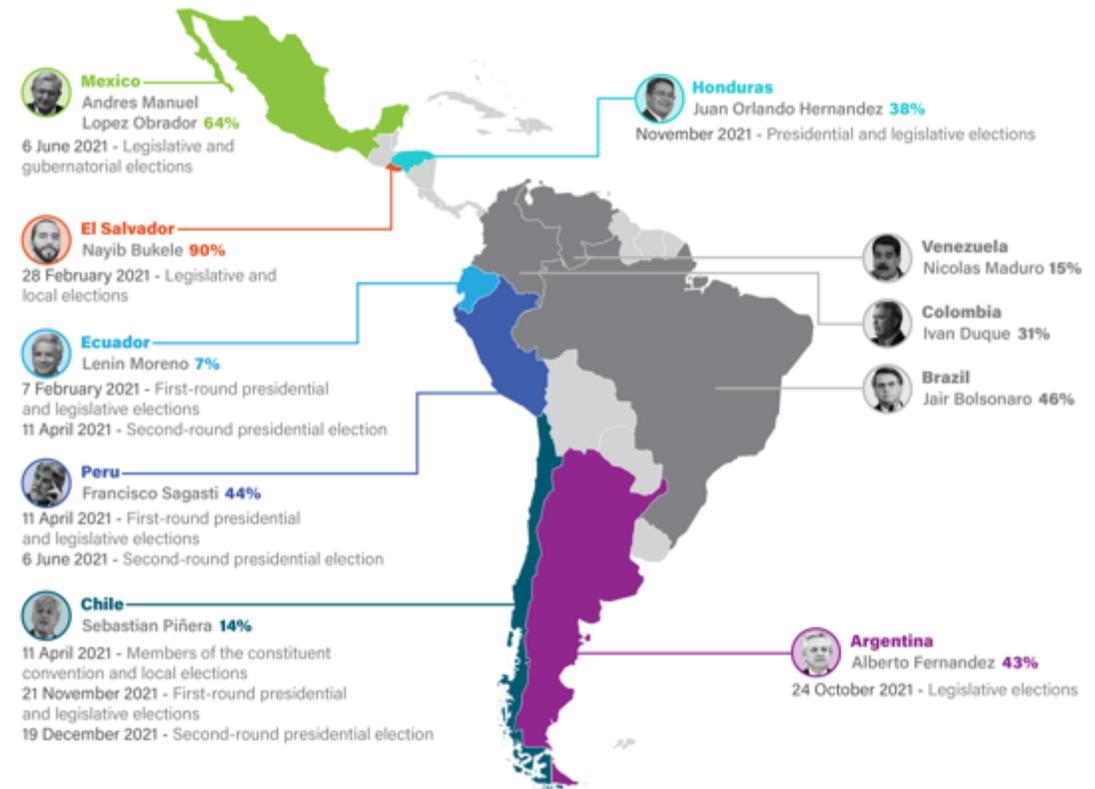
Latin America disappoints

- Governments in Latin America face intensified versions of the political, social, and economic problems they were confronting before the pandemic.
- There will be no large-scale vaccinations until late in 2021, and countries are poorly positioned to deal with another Covid wave before then.
- Political and economic pressures will intensify as voters head to the polls in Argentina, Mexico, Chile, Ecuador, and Peru.

10

Latin America elections

Key: Country
 Country leader, % approval rating



TOP RISKS 2021



Red herrings

- Trump-friendly leaders like Johnson, Bolsonaro, Erdogan, and Netanyahu.
- US lawmakers won't declare war on the tech companies helping to restore post-pandemic growth, due to an inability to agree on their grievances and regulatory approach.
- Ties between the US and Iran will be neither as productive nor destructive as many fear.





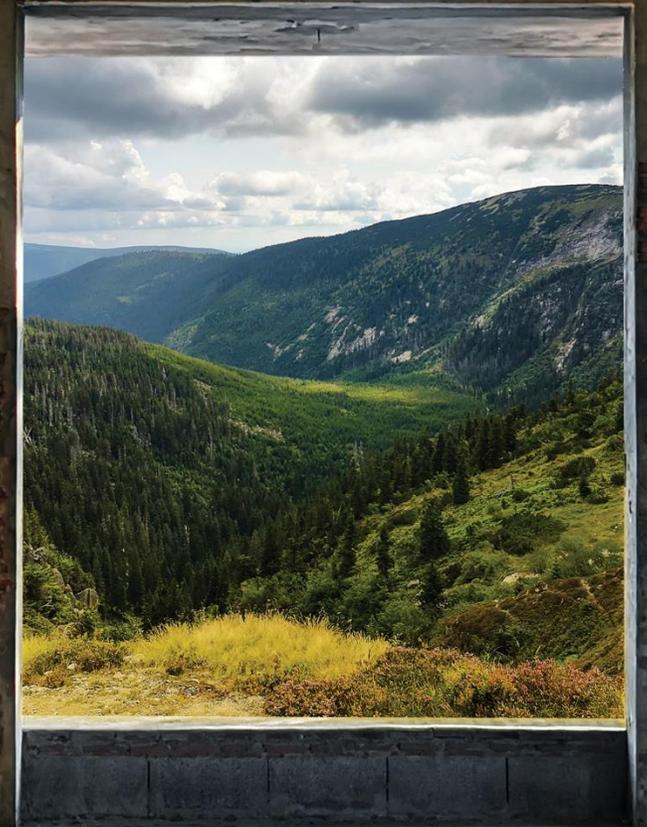
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Top Risks in 2021 – the Nordic view

KPMG | Agathe L'Homme – Head of Geopolitics



Risk #1 - 46* and the foreign policy angle

- «America is back»*
- A collective sight of relief in Europe
- US return to multilateralism, favored by Nordic countries
- NATO «survived» the Trump presidency, and Jens Stoltenberg looks forward to «rebuilding the transatlantic relationship with President Biden»
- It is not however a complete «return to normal» as some things have changed over the last 4 years.
 - Several EU members, including Finland, are more willing to develop the EU's strategic autonomy.
 - Additionally, Sweden voted for a “NATO option”.



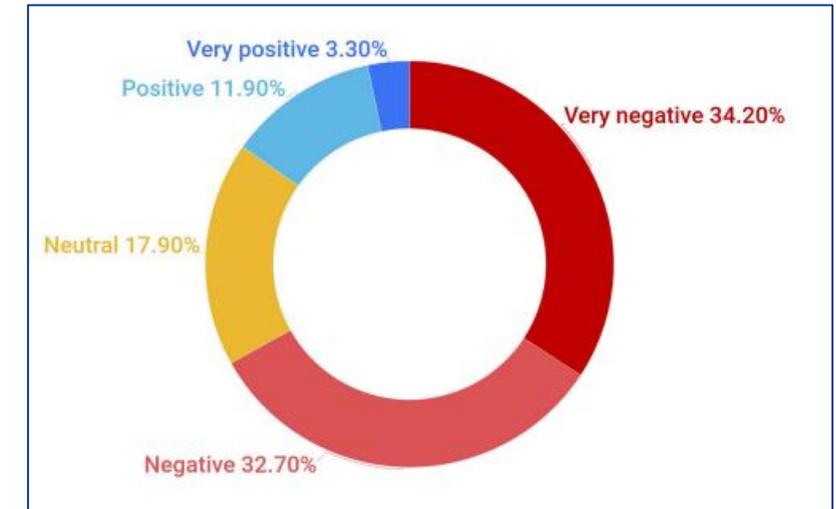
At the NATO summit in London in December 2019

**Terms and conditions may apply, especially after 4 years*

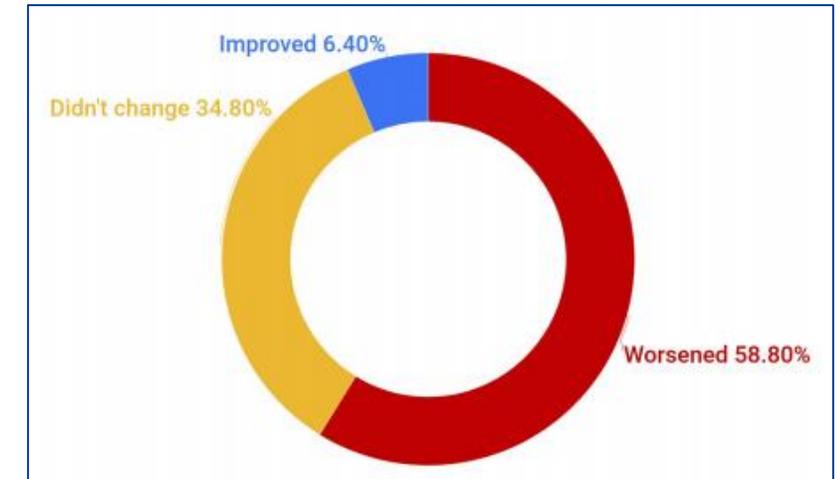
Risk #4 - US-China tensions broaden

- Biden will enlist and coordinate with allies in this area, seeking a multilateral front against specific Chinese economic and security policies. The new US administration will have some successes in enlisting its allies as **suspicion of China is broadly growing**.
 - This is the case **in Norway**, as shown in a recent project led by the Norwegian Institute of International Affairs (NUPI) which mapped local attitudes towards foreign investment from EU countries, China, and Russia.
 - This research was also confirmed more recently by a multi-country survey done by the Pew Research Center in October 2020 titled "Unfavorable Views of China Reach Historic Highs in Many Countries".
 - **In Sweden**, the paper "What Do Swedes Think about China? Insights from an Extensive Survey of Swedish Public Opinion of China" published by the Swedish Institute of International Affairs in November 2020 showed that 2/3 of Swedes hold negative views of China.
- Risk #4 includes the warning that "creating a broad united front on China will not happen easily" and that it will lead to a mix of "Beijing lashing out at countries closely coordinating with Washington" and "economic incentives to push back against US efforts of encirclement."
- This "**carrot and stick**" approach is very familiar to Norway and Sweden.
 - Norway and the Nobel Peace Prize «freeze»
 - Sweden and the case of Gui Minhai

How positive or negative do you feel about China?



Has your general view of China got better or worse during the last 3 years? (%)



Risk #9 - Europe after Merkel

Focus on the risk in an uptick in populism in Europe

Restriction fatigue and frustrations with vaccine rollout create fertile ground for populism to once again gain traction.

Sanna Marin, the prime minister of Finland, warned that the longer the Covid-19 outbreak lasts, the more ammunition it gives to populist movements across Europe.

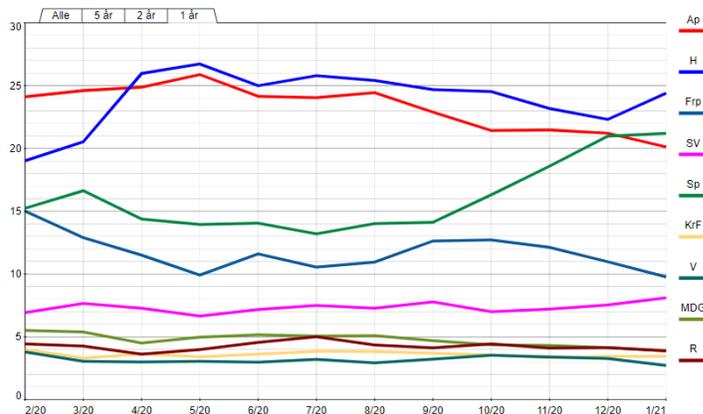
“Populists come with easy answers to difficult problems, but their solutions are rarely the right ones.”

Stortingsvalg: Hele landet

Velg nytt fylke eller hele landet:

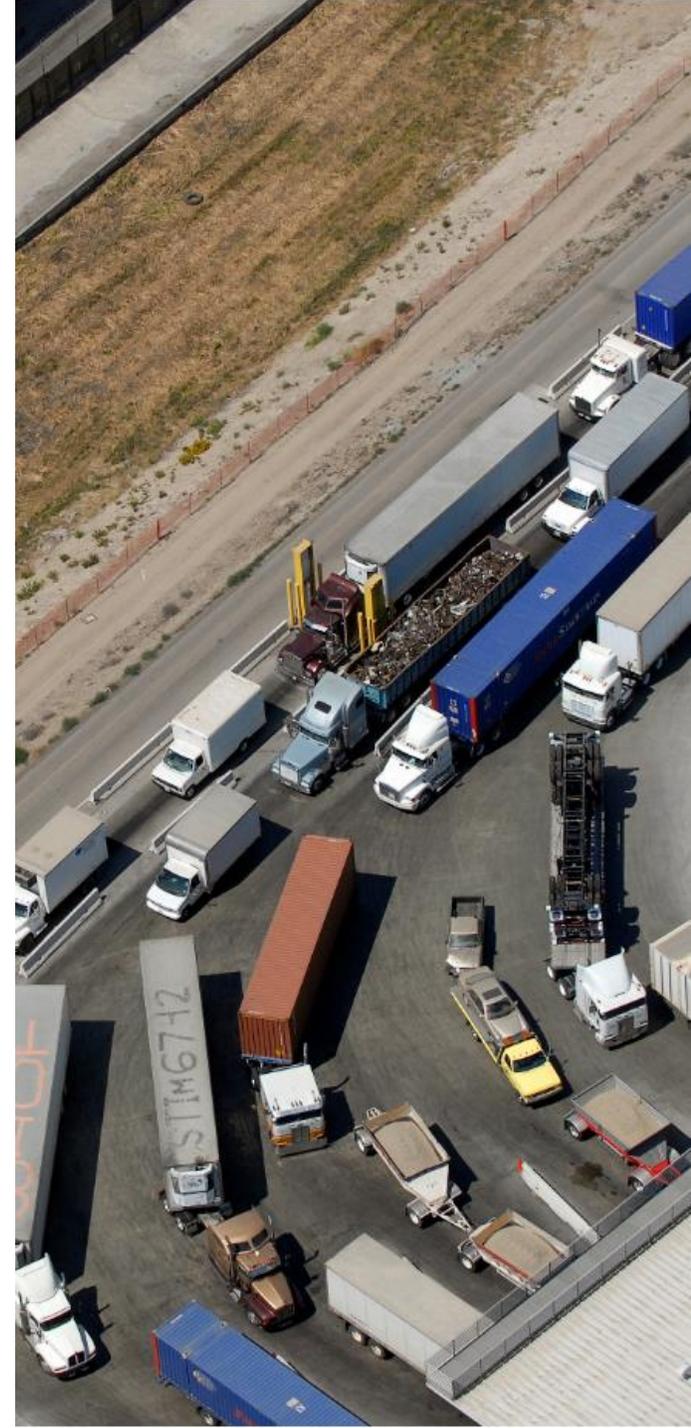
Hele landet

Gjennomsnitt av nasjonale meningsmålinger om stortingsvalg



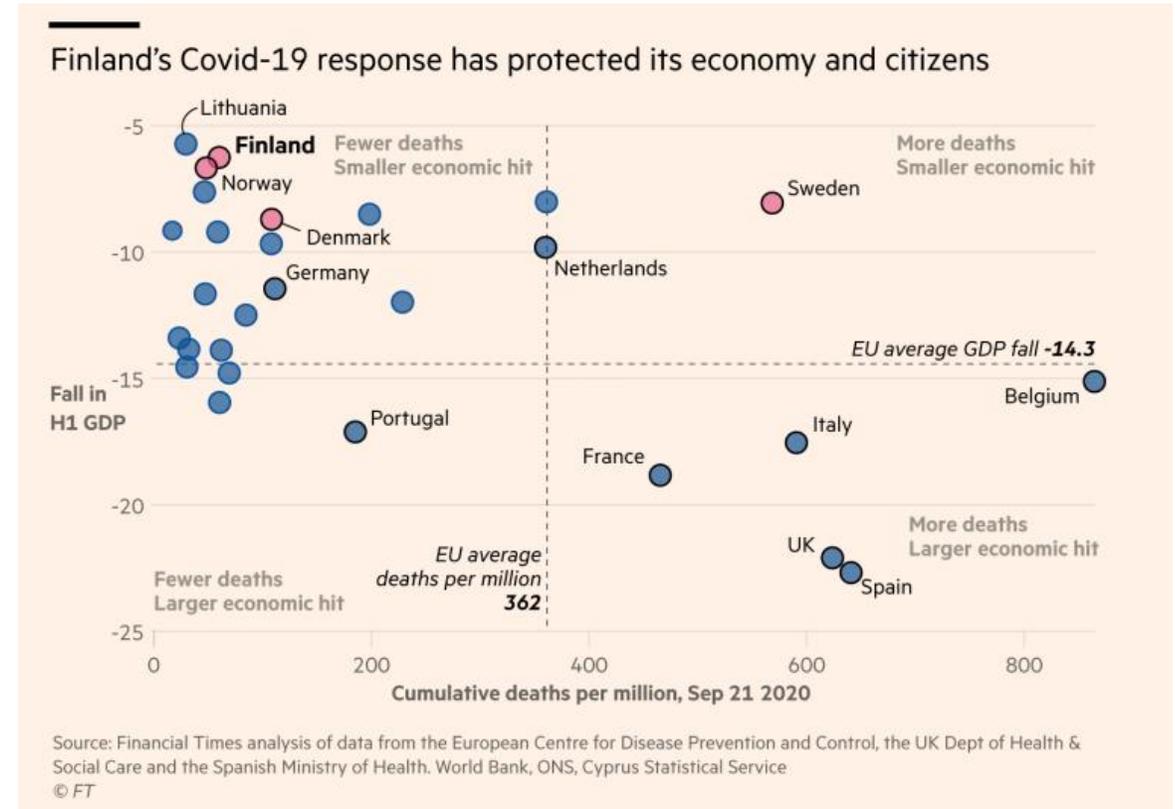
Norway is not immune to populism:

- Inspired by the Brexit deal, the Centre Party (Senterpartiet) considers that it could be a model of a «better deal» for Norway than its membership of the European Economic Area (EEA).
- Senterpartiet could emerge as the biggest party at the parliamentary election in September 2021.
- The long lines of trucks stuck at the UK border and in France post-Brexit could make them reconsider.



Risk #2 - Long Covid

- Neither the coronavirus nor its wide-ranging impacts will disappear once widespread vaccination begins.
- Norwegian and Finnish citizens, whose countries have handled the Covid-19 crisis better than most, have stronger reasons to be hopeful for 2021.
- But the recent tightening of health measures in Norway probably gave this optimism a pause.
- Meanwhile, Sweden is struggling with the consequences of a very different policy approach to Covid-19.
- In a global context, however, the three Nordic countries will likely continue to fare relatively better than the rest of the world.



Risk #3 - Climate: net zero meets G-zero

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Norway's comprehensive climate action plan

News story | Date: 08/01/2021

Norway is committed to achieving its target under the Paris Agreement. The government is presenting a white paper describing the transformation of Norwegian society. The plan shows how Norway will reduce emissions and at the same time create green jobs.

"Under this Government, Norway has reduced its emissions, and this progress will contribute to new momentum to Norwegian climate action. The government is putting forward a comprehensive plan for cutting emissions in every sector. We will reduce greenhouse gas emissions," said Minister Sveinung Rotevatn.

Policy action ahead but...

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Green recovery will lift Sweden out of dual crisis

Published 16 September 2020

Press release from Ministry of Enterprise and Innovation, Ministry of the Environment, Ministry of Finance, Ministry of Infrastructure

Global warming continues regardless of the COVID-19 pandemic. Climate change will remain the defining issue of our generation. The Government is therefore proposing investments of SEK 9.7 billion in green recovery initiatives in the Budget Bill for 2021. The Government's proposals are based on an agreement between the government parties, the Centre Party and the Liberal Party.

All of Sweden has come together to tackle the COVID-19 pandemic and reduce the spread of infection. It is now crucial that a green transition forms the basis of the recovery after the crisis. Investments in industry's climate transition, sustainable transport and biodiversity will help us emerge from the crisis. Investments in climate neutral and non-toxic circular solutions throughout the country will reduce carbon dioxide emissions, lay the foundation for new jobs and strengthen our competitiveness.

Industry's transition will lead to new jobs

The Government proposes several major industrial initiatives in the Budget Bill for 2021 that can reduce emissions, create new jobs and strengthen competitiveness. Public sector investments in green transition will help us create jobs throughout Sweden and lay the foundation for industry's transition.

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EN / AREAS OF EXPERTISE / CARBON NEUTRAL FINLAND 2035

Government's climate policy: carbon-neutral Finland by 2035

According to **Sanna Marin's** Government Programme in 2019 Finland will be carbon-neutral by 2035, and the world's first fossil-free welfare society. This requires faster emissions reductions in all sectors and strengthening our carbon sinks.

Climate change, loss of biodiversity and overconsumption are different aspects of the same sustainability crisis, which is why the Government has adopted a comprehensive approach to their root causes. The means to achieve the target include new decisions on climate policy and nearly emissions-free electricity and heat production by the end of 2030s, as well as reducing the carbon footprint of building, promoting a circular economy, and a climate-friendly food policy. In taxation, the focus will shift even more to taxes on environmentally harmful activities. The decline in biodiversity will be halted by reforming the nature conservation legislation, increasing the funding for the

News

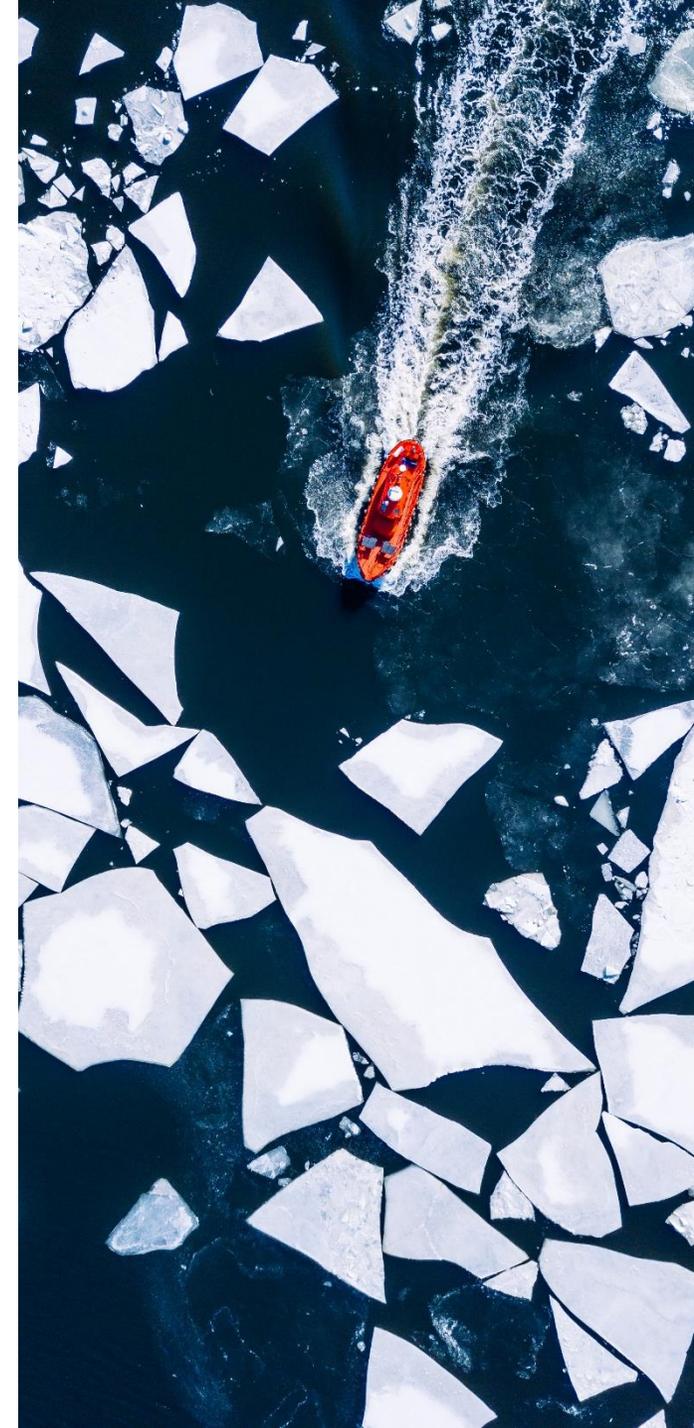
Comments from citizens to spur reform of the climate change policy plan – How can we reduce emissions effectively and fairly?

PRESS RELEASE: 19.1.2021 9 01

Ministerial Working Group on Climate and Energy Policy prepares for next week's climate seminar

PRESS RELEASE: 30.1.2020 11 56

Ministerial Working Group on Climate and Energy Policy discussed the reform of the



Risk #3 - Climate: net zero meets G-zero



...Geopolitical context & energy transition intersect and create new risks

EU report from 2020

*“Diversifying the materials supply: It is essential for the EU to diversify the REEs supply via partnerships and participation in various ongoing and future exploration projects at a global scale. Several mines and processing facilities for REEs are now slowly ramping up their production after long delays. Good potential for REE mining also exists in Europe, as for example in **Sweden, Finland, Germany, Spain, Norway and Greenland.**”*

Two examples in the Nordics around metals, mining, sovereignty, and strategic supply chains.

- Norway: Deep-sea mining and the Svalbard Treaty
- Sweden: Rare earth metals and Norra Kärr



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