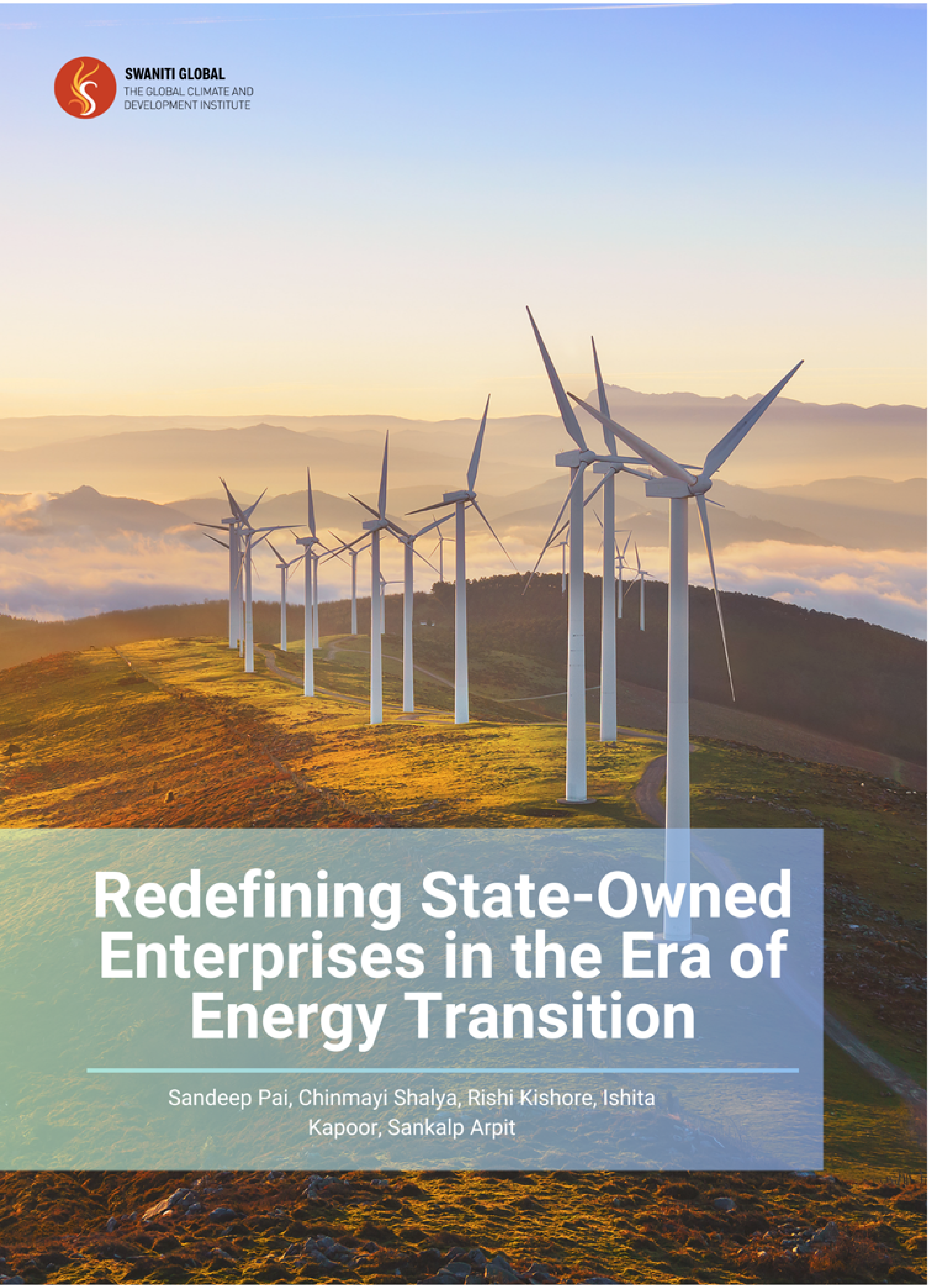

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THE GLOBAL CLIMATE AND DEVELOPMENT INSTITUTE

Redefining State-Owned Enterprises in the Era of Energy Transition

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INTRODUCTION

To meet the objective of the Paris Agreement of keeping temperatures well below 1.5 degrees Celsius, countries will need to rapidly decarbonize their energy system. This would require meeting net-zero goals by progressively moving towards clean energy sources like solar and wind. This massive change would require State-Owned Enterprises (SoEs)—as some of the most powerful agents of change—to be bold and ambitious.

SoEs (that is, companies owned by national and state governments) are responsible for a substantial share of fossil fuel and fossil fuel-based power production worldwide. For example, SoEs account for nearly 50% of global coal-based power capacity and production. In the Global South, SoEs are even more influential. These countries rely heavily on SoEs for fossil fuel extraction and power generation. Notably, some of the largest coal and coal-based power SoEs are located in nations like India, China, Indonesia, and South Africa—countries that are also among the top producers and consumers of coal. For this reason, SoEs must be central players in the journey to net zero. Moreover, given their welfare mandate, SOEs are key institutional actors that can enable a just transition for local communities in districts where they operate.

Given the pivotal role that SoEs will need to play in the energy transition, Swaniti Global and Coal India Limited (CIL) hosted a first-of-its kind one day-long conference, “Driving Sustainability in State-Owned Enterprises.” The occasion brought together over 50 delegates from 20 global and Indian SoEs in the coal-mining and coal-based power sectors for a closed-door discussion focusing on their diversification vision, areas of improvement, and experience-sharing. The conference attracted a diverse set of industry leaders, ranging from prominent state-owned coal power companies such as NTPC, Eskom Holdings SOC Ltd., PT PLN, Damodar Valley Corporation and MAHAGENCO to key state-owned coal mining companies including the co- organizer CIL, NLC India Limited, and PT Bukit Asam.

These industry giants are central players in the energy transition process and are increasingly confronted with the challenges and opportunities of sustainability, diversification, and the repurposing of their assets for a more resilient future.

The closed-door conference provided a platform for discussions on two crucial themes:

A. Business Diversification Strategies of SOEs: As the world shifts toward renewable energy, state-owned coal-based power and coal mining companies must strategically pivot their business models. The conference shed light on emerging approaches to business diversification, showcasing how these SoEs can transition to create new industries that align with future energy demands

B. Asset Repurposing and Just Transition: The conversation also delved into the complexities of repurposing and repowering assets, and the vital need for a just transition. With growing calls for decarbonization, SoEs need to rethink their infrastructure, workforce, and technologies so as to mitigate environmental impacts and also support the communities dependent on coal for livelihoods.

KEY ENERGY TRANSITION TRENDS IN COAL SOES

Although the meeting was closed door, held under the Chatham House Rule, below we provide some key takeaways based on discussions with coal mining and coal-based power SoEs. Please note that they are not consensus observations.

2.1 KEY BUSINESS DIVERSIFICATION TRENDS

National mandates are key for achieving business diversification, but the pace of implementation is influenced by the leadership of the SoE. SoEs in the Global South typically align with national mandates, but tend to implement them at their own pace. The scale and speed of this implementation are largely influenced by the ambition and dedication of the leadership, board members, and key top officials. Strong leadership is crucial to driving the diversification process and ensuring that SoEs not only meet national goals but also adapt effectively to new sectors and opportunities.

SoEs in the Global South are pursuing aggressive expansion by forming joint ventures with both domestic and international partners, entering into memorandums of understanding to establish collaborative frameworks, and setting up private companies to venture into new sectors. These mechanisms are being seen by the SoEs as a tool to set up more focused and effective systems, seamless decision-making, filling technology or resource gaps, and entering a new and competitive market.

State Power Companies are more aggressive on solar compared to State Mining Companies. SoEs in the power sector are more proactive in deploying solar PV technologies compared to coal mining SoEs. Overall, the biggest focus so far for SoEs is solar PV deployment. Other clean technologies are slower to emerge due to techno-conomic challenges.

SoEs are not investing heavily in R&D related to new business ventures. SoEs are not currently investing in research and development (R&D) on contemporary technology and markets for the sectors they want to diversify into. For diversification, they are relying on financing from the private sector or the West to commercialize technologies.

Most coal-based power or coal mining SoEs have only considered business diversification into energy sectors. Most

SoEs, because of the way they are structured, are only looking at energy sectors. However, given their land and infrastructural assets, there is an expanse of non-energy sectors like hospitality and healthcare which can be considered by the SoEs for their business diversification.

2.2 KEY TRENDS ON REPURPOSING AND JUST TRANSITION

- **For some SoEs, repurposing is about installing something 'new', while for others they are an important lever for just transition.** Some SoEs are focusing on repurposing but not on any aspects of employment or social welfare of workers and communities. Others have a more explicit focus on the repurposing of their existing infrastructure along with creating local jobs and undertaking community welfare.

- **Only some SoEs have clear just transition plans.** Some SoEs have integrated just transition plans into their corporate strategies and thereby into repurposing plans. Mostly, while there is a recognition of the community impacts and the need for a just transition, SoEs are still trying to understand how best to align their welfare measures with transition goals. There is also a need for a deeper understanding of their role in just transition, and how that would have to be executed in coordination with other concerned authorities for a comprehensive impact.

WORK AHEAD

The overarching conclusion of the event was clear: while progress has been made, there is still significant work to be done. SoEs have a pivotal role to play in driving the global energy transition, but planning, collaboration, and investment in diversification are essential. The discussions at this conference highlighted the need for greater efforts to align SoEs' operations with global sustainability goals and ensuring that the transition to a greener economy remains inclusive for all. As the global community moves toward achieving its net-zero goals, the role of SoEs will only continue to grow in importance, and the time to act is now. Below are some paths for taking this work forward:

- **Create a community of practitioners** to bring together SoEs from different countries on key topics like business diversification, just transition, and repurposing strategies;
- **Deliver actionable insights with both macro-level (strategic) and micro-level (asset) analyses,** providing SoE officials exposure to fresh business ventures and investment opportunities;
- **Engage and inspire the leadership and boards** of SoEs to elevate their vision and ambition for long-term diversification and sustainable growth;
- **Establish a Centre of Excellence (CoE)** to offer hands-on technical support, training, and active engagement for SoEs in diversification, repurposing, and just transition.


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