

# Nord Stream 2 and Vaccines for Everyone

## Featuring:

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What's up everyone, and welcome to the weekly edition of ESG Now, where we cover how the environment, our society, the corporate governance affects and are affected by our economy. I'm your host, Mike Disabato. And this week we have two stories for you. The first, we continue our coverage of the ongoing conflagration in Ukraine as Russia continue it's offensive. Then we look at vaccine distribution a year on to see which companies have been most equitable in their distribution of the COVID vaccine. Thanks as always for joining us, stay tuned.

Mike Disabato:

The Russian escalation in Ukraine has put the future of the Nord Stream 2 Baltic Sea Gas Pipeline into question. The Nord Stream 2 is this Russia made natural gas pipeline that would double Russia's natural gas export capacity to Germany. The pipeline was a symbol of something we discussed last week on the podcast, the close energy ties between Western Europe, especially Germany and Russia. Construction of the pipeline was complete, it just needed certification by the Germans to get it going. But after Russia invaded Ukraine this week, the German Chancellor Olaf Scholz decided to freeze the pipeline certification.

Mike Disabato:

This is a big reversal for Germany who was a key proponent of the pipeline, and claimed it would be a way for the country to end its nuclear energy production and reduce its coal use. But now, who knows. We talked about Western Europe's reliance on Russian natural gas broadly last week, so you could see this as sort of part two of this ongoing series. We had that discussion with my colleague Elchin Mammadov. And so I decided to call him up again and see if this freeze changed the long-term outlook for European reliance on Russian natural gas. He said in so many words, not really. In fact, gas imports from Russia and Europe have increased.

Elchin Mammadov:

In terms of the Russian flows, they actually picked up of the past day or two because of the surge in prices in response to the conflict. So actually there's more gas now flowing into Europe than before. There are market reasons for it. Basically, the contracted gas that European buyers purchase on a long-term contracts is now more profitable to import compared to the spot prices, which shot through the roof. So we are importing more of Russian gas today than we were a few days ago in response to the surge prices. A lot of market observance argue that Nord Stream 2, wouldn't bring any new gas to Europe, it will only diversify the root for that gas to Europe, which is one of the reasons why Europe was so open to stopping the pipeline from starting the operations.

Mike Disabato:

Okay. So in terms of the commodity availability, the gas is still flowing. Yet, there are six companies involved in the funding of Nord Stream 2 that are anxious to see their investments returned. The majority shareholder of Nord Stream 2 is Russian state-owned energy giant Gazprom. But there's Europe's largest private energy production company Wintershall Dea, alongside public energy company Shell, Germany's Uniper, France's ENGIE, and Austria state-owned holding company OMV.

Mike Disabato:

Gazprom is the only official shareholder while the rest are termed financial investors. But they did lend about half of the cost of the pipeline, these non-Russian companies. The likely reason for the distance by the five non-Russian companies is due to the contentious nature of the pipeline. There have been a number of sanctions enacted by the US Congress, one instance of which initially suspended production of the pipeline in December, 2019, but it was resumed a year later. Still these companies have lent out a lot of their capital to fund Nord Stream 2, and so are nervously watching the situation play out. Two of them are more exposed than others.

Elchin Mammadov:

For Uniper and Fortum, it matters much more because they've invested almost a billion euros in the project, whereas for ENGIE and Shell, it matters less because they're so much bigger companies basically. So for them, it's a drop in the ocean basically. Well, but the Uniper shares have sold off heavily yesterday and today as well. So the market is taking notice.

Mike Disabato:

The market is taking notice, yes, but there are reasons why the pipeline was frozen and not temporarily canceled. Because companies cannot litigate Germany's decision if it's just a suspension. In its annual report, Wintershall Dea said it still respects the contractual obligations of the pipeline to be fulfilled and that it would be compensated, it assumes, if politics gets in the way of the pipeline's completion. Germany's Uniper, who is majority owned by Fortum, that's why Elchin mentioned Fortum in his last segment, is staying out of the whole mess. It's saying it would not take any legal action at the moment. While Shell, OMV, and ENGIE have not really commented on it, except to say that they are monitoring the situation and will react appropriately to any further development.

Mike Disabato:

So we can't really speculate on the governance decisions of these companies, but what we can speculate on is that this evolving Russia problem might be a signal of a change in the long-term energy mix of Europe. If this conflagration doesn't end soon and Russian gas continues to be more expensive, or the flow of gas is disrupted by fighting, or there are further sanctions by the EU and the US, or Russia decides to try and use the pipeline as a tool of coercion and political leverage. If all that happens, or if some of those things happen, that energy mix that we talked about last week might be upended entirely.

Elchin Mammadov:

We're going to see slower phase out of nuclear, slow phase out of coal. And in the short-term, we're actually going to see increasing in demand for coal as a way to substitute Russian gas. Partly in

response to prices rising for gas more than coal, partly in response to preparation for any future disruption in gas flows. We're going to also see increased LNG imports into Europe. We used our LNG import terminals in Europe only at 50% last year around that mark. So there's still more capacity to import it.

Elchin Mammadov:

And I do expect to see on the green energy front at least some improvement in shortening the process for permitting for onshore wind and solar. Because compared to most other green or zero carbon technologies, onshore wind and solar have the shortest time between the time that you decided, "Okay, I'm going to build it and I've got the permits in place." Until the time that they start operating. Solar is six months or so, sometimes even less. Onshore wind is a bit longer, could be nine months, could be a year, but it's very fast compared to let's say nuclear, which can take a decade or more to do. So in a way it's good news for wind and solar capacity deployments, but also for battery storage. Because when you build solar, you often need to build storage capacity for that. So battery storage is potentially good news for that too.

Mike Disabato:

Shifting away from Nord Stream 2, might also be good for reducing the world's methane emissions, which are actually way, way higher than the world previously thought. The International Energy Agency just released a report on February 23rd, that said methane emissions from the energy sector are 70% higher than official figures. This is in part due to the venting of gas that happens throughout our natural gas supply chain that has been able to be seen better due to more advanced satellite technology.

Mike Disabato:

And it actually happens that this sort of venting occurs more frequently and intensely for Russian operated pipelines than other pipelines, according to data analyzed by IEA and others. Meaning if we're talking methane, the less Russian pipelines, the better.

Mike Disabato:

Last year as companies raced to develop a miracle COVID vaccine in record time, some pledge to forgo profits and make their shots available to lower income and lower middle income countries that don't have the resources available to them to mass produce effective vaccines, but need them nonetheless. We recently conducted research into which companies have been leaders in this type of vaccine distribution and which have lagged the pack. And by me, I mean my colleague Namita Nair. So I called up Namita, and I asked her to first tell me which companies achieved equitable COVID-19 vaccine prices and distribution.

Namita Nair:

So if we take a metric like the percentage of total doses that were distributed by every company through global purchasing agencies like COVAX, and to low income and lower middle income countries, the top companies are Sinopharm, AstraZeneca, and Novavax. So these companies give more than 50% of their doses to the entities mentioned earlier. And in terms of absolute number of doses committed, AstraZeneca leads the set by a lot, so about 2,018 million doses by AstraZeneca. Novavax and Moderna are second and third by those metrics.

Mike Disabato:

So AstraZeneca, the British-Swedish multinational, was in the equality lead. By the way, Namita mentioned COVAX. COVAX is this global purchasing agency that vaccine companies can contract with to spread their vaccines more widely. If you aren't familiar with COVAX, it's a pillar of what's called the Access to COVID-19 Tools or ACT Accelerator, which is co-led by Gavi, which is a global health partnership, a Coalition for Epidemic Preparedness Innovations and the World Health Organization, of course.

Mike Disabato:

So why has AstraZeneca, Sinopharm, which is a Chinese state-owned enterprise, and Novavax, a US biotechnology company, been so successful in making their miraculous vaccines widely available to LICs or low income countries and LMICs or low to middle-income countries? Well, a number of factors. But let's take AstraZeneca, for example, who distributed more than 50% of their total doses to LICs and to LMICs.

Namita Nair:

It had a lot of decentralized manufacturing across the globe. A very well known collaboration was with the Serum Institute of India to give vaccines, particularly to LICs and LMICs. And most companies like AstraZeneca, Sinopharm, and even G&G, they had direct sales to LICs and LMICs as well. And this was facilitated to some extent by the fact that the average prices were low to middling in the set. So AstraZeneca had one of the lowest average prices in the set and even the lowest absolute price.

Mike Disabato:

So good price and good partnership with distributors. Sinopharm committed 52% of its doses to LMICs and Novavax was around 50%, but it had the highest number of doses committed to COVAX global supply in the set that Namita looked at. An honorable mention goes to Johnson & Johnson, whose vaccine was priced at the lower end of the set. And 49% of its doses were committed to LMIC countries, low income countries, and global entities like COVAX. Okay, so those are the leaders. Now, what about the laggards, who has distributed the least amount of vaccines to low income countries, low to middle income countries and to global entities like COVAX?

Namita Nair:

Pfizer committed just 5% of its total vaccine doses to these entities. And that is telling because Pfizer had the largest number of manufactured doses in the set. And other companies that also weren't as good were CanSino and Sinovac, which gave 14 and 17%, respectively, of their doses to these entities.

Mike Disabato:

Let's stick with Pfizer, let's single out Pfizer. Because Pfizer was one of the earlier COVID vaccine producers, it concluded deals for the largest number of COVID-19 doses in the peer set and its average vaccine price per dose was in the midrange, wasn't that expensive according to Namita's research. But it only committed 5% of its nearly 207 million doses to equitable parties. What is even more interesting is while Pfizer made around 3.2 billion US in revenue in the first three months of 2021 from the vaccine, which was by and far its largest profit maker of the year, it is still not crucial to the company's bottom line. Pfizer made about a 100 billion in US in 2020. So why the hesitance to spread their vaccine more widely?

Namita Nair:

Not a very big strategy for Pfizer to be recovering the cost of their R&D and the fact that they had a very successful vaccine from entities like COVAX. They got into the COVAX mechanism very late. They negotiated with the direct sales to LMICs also quite much later in the process than other companies. The sales were mainly geared towards high income countries and upper middle income countries. And another thing that is quite prohibitive was the price ranges. Pfizer was actually in the middle range. So they could have probably exploited more opportunities for distributing their doses a little more equitably, especially because they had good manufacturing capacity for this.

Mike Disabato:

Which adds to kind of the oddity of Pfizer. But it should be said, it's not like Pfizer came out in the beginning and said, "We're going to be sending a bunch of our vaccines abroad." They came out and said that they were going to try and make profits from these vaccines. So it's not like they broke a promise, it's just kind of fascinating that even though they were in the midrange of prices, they had good distribution as Namita just said, they still did not send their vaccines widely.

Mike Disabato:

But it has to be said, these companies are for-profit entities. They aren't altruistic, they are beholden to shareholders, and they don't have to spread their products widely if they don't have to. So why should companies care whether or not they have done enough to distribute a vaccine all over the world? Basically, why should they care about Namita's research? I asked her.

Namita Nair:

Well, if we want to expedite any sort of recovery from the most negative health impacts of the pandemic, it is necessary to have vaccine equity. This will help prevent the emergence of variants, it will reduce the economic burden because of mobility and mortality that COVID-19 carries. And this is also a very sustainable long-term approach for biopharmaceutical companies because they can harness these growth opportunities in traditionally underserved markets. It's a question of expansion into these markets and harnessing opportunities to improve access.

Namita Nair:

And now it's not just the traditional stakeholders, like the WHO, country governments that are asking for this, it's more so that even institutional investors have now shifted focus to equity. In January, 2022, a group of 65 institutional investors actually wrote to the boards of Pfizer, Moderna AstraZeneca, and G&G, and urged them to prioritize the equitable distribution of COVID-19 vaccines. And one of these investors also stated that it would vote against any executive pay just that did not factor equity considerations. So we are seeing a shift of focus to equity much more than it was during the beginning of the pandemic.

Mike Disabato:

And that's it for the week. I want to thank Elchin and Namita for talking to me about the news with the ESG twist. And I wanted to thank you for listening. I really appreciated all the nice things that have been said this week about ESG Now is really appreciative. If you like what you heard, don't forget to write and review us. I would love for more people to listen, for more nice things to be said. That just is good to hear. And if you want to get the ESG Now podcast in your podcast medium every week, don't

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