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Climate Should Not Be the Virus's Next Victim

STAFF ARTICLE
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Leading in the climate crisis is critical to recovery from the pandemic, say three experts.

Jump to Section

The COVID-19 pandemic swept the world in just a few months, upending lives and economies and overwhelming health systems with thousands of deaths and a global economic standstill. The climate problem has unfolded over decades but, if left unchecked, will likely become more profound and permanent consequences for lives and economies on the planet.

In remarks publish our findings for certain on their economies, climate is at risk of becoming the pandemic's next victim. This must not happen. As they mobilize massive resources to tackle COVID-19 governments, businesses, and investors have a once-in-a-lifetime opportunity to rebuild in ways that support a carbon-neutral economy and a resilient society. By focusing on the climate agenda, even in the midst of the pandemic, leaders can direct investments toward sustainable infrastructure, green jobs, and environmental resilience. This isn't just a moral imperative—Planting the Script on Climate Action.

THE COVID-19 CRISIS IS A THREAT TO THE CLIMATE

In the wake of the pandemic, global carbon emissions are expected to decline by 5% to 10% in 2020. This is the largest drop since World War II. (See Exhibit 1.) But instead of offering relief for the climate, it actually tells a significant threat.

Exhibit 1 | COVID-19 Has Triggered the Largest Emissions Drop Since World War II

In short, this year's projected drop in greenhouse gas emissions pale the world on a trajectory to heat global temperature rise to 1.5°C by 2050. (According to the UN's Intergovernmental Panel on Climate Change, the world must reduce its carbon dioxide emissions every year to reach the 1.5°C goal by 2050.) But the crippling economic shutdown cannot be a free step toward this path. Instead, prioritizing the climate crisis will require fundamental economic transformation.

On the one hand, COVID-19 will almost certainly trigger a deep and prolonged global economic recession. Lower-less frequent and shorter-distance business travel, and disrupted supply chains—as companies seek to shrink their operations. On the other hand, the risk of a significant rebound is continuous—and worse, a delay in the residual consumption of global economies—currently seem much more likely, for several reasons:

- **The asset base is carbon-dependent.** In many sectors, dependence on fossil fuels is hardwired into production and business models. Without active moves by governments and businesses, customers will gradually revert to combustion high levels of coal, oil, and gas as the economy rebounds.
- **Fossil fuels are cheap.** Much of the energy transition so far has been driven by the growth of wind and solar, with electric mobility gaining momentum. Now a perfect storm of COVID-triggered demand shock and oil-producer price competition has sent the price of fossil fuels crashing. US gasoline futures for the June delivery, for the spot and crud prices fall, the economic case for lower-carbon energy sources diminishes.
- **Funding capacity has eroded.** The pandemic has eroded trillions of dollars of global GDP, and while The Economic Case for Combating Climate Change, deliverring on the Paris agreement will require a total of $25 trillion in investments. Funding these investments will become more challenging, especially in emerging economies that are already struggling to pay off their existing foreign currency debt as a result of capital flight.
- **Focus may shift.** With jobs, health, and economic well-being at risk, governments around the world will be forced to addressing the urgent and very visible crisis than on longer-term challenges such as climate. As a result, the needed economic transformation could well be put on hold.

Despite the decline in this year's emissions, we still will be adding more than of gigatonnes of CO2 equivalent into the atmosphere (down from approximately 32 gigatonnes last year). The next few years are decisive for bringing this figure down further, and our actions will shape the planet for generations to come. Unless we take action, the pandemic will become a lost opportunity and lay the foundation for a green economy now, the potential indusrd drop in global emissions will not be the beginning of a turnaround, but a set-off of this decade.

THE REGULATORY OPPORTUNITY

The world stands at a crossroads: we can go back to how things were, or we can build a more resilient economy and society. A resilient world. Governments, companies, and investors have an important role to play in orchestrating a recovery that addresses the current crisis, while building a strong foundation to tackle climate change.

Governments Should Invest in a Green Recovery. As the COVID-19 crisis unfolds, the governments of the largest global economies have thus far committed an of GDP on average in some cases more than 30% in direct stimulus and additional financial support to overcome disruption and economic dislocation. (See Exhibit 2.)

Exhibit 2 | G20 Stimulus Packages Near $8 Trillion

This massive mobilization of stimulus funds offers a once-in-a-lifetime opportunity to drive a recovery that optimizes for social and environmental outcomes, in addition to economic ones. To achieve this goal, governments should:

- **Drive green recovery programs.** The fiscal response to the 2008–2009 financial crisis rendered rather than reversed the high-growth trajectory of CO2 emissions. In response to the COVID-19 crisis, governments should put sustainability at the heart of economic recovery programs, prioritizing investments in low-carbon energy systems, such as large-scale renewables, building innovation, and industrial efficiency. (See Exhibit 3.) As we have MOSU survey in 15 countries, 63% of respondents agreed that it is important to prioritize climate change in economic recovery programs after the pandemic subsides. Justin Trudeau, the prime minister of Canada, has made the country's recovery plan tied to the green recovery, establishing a $50 million emissions reduction fund, for example, with a focus on methane, to help companies reduce pollution and waste while maintaining and creating jobs.
- **Prioritize bailouts of sustainable companies and sectors.** Governments should prioritize bailout packages for sectors that are poised to create green jobs and thrive in a low-carbon economy. Across sectors, governments need to deploy resources to companies in the condition that they commit to align their post-COVID-19 strategies with a 1.5°C path. Airlines, for example, should be required to make related disclosures—using standards from the Task Force on Climate-related Financial Disclosures (TCFD), for example. More generally, in order to increase the resilience of carbon-intense economies and sectors, governments should make climate-related disclosures mandatory.
- **Prepare for complex job transitions.** The world is going through a massive unemployment crisis (by mid-May 2020, new jobless claims needed more than 33 million in the US alone). Once economies restart, millions of people will go back to work, but many jobs will have been irreversibly changed. As governments respond to this shift in labor markets, they should prepare to manage a "just transition" of the workforce toward a net zero economy. By boosting renewable industries that may be threatened by lower energy prices and limited investment capacity, for example.
- **Leverage blended finance.** Blended finance provides a catalytic use of public funds to mobilize additional private capital and mainline impact. It can be used to accelerate the transition to clean energy and greener technologies—or to help countries bounce back resilience within their economic recovery plans.
- **Address inequality together with resilience.** The economic fallout from the pandemic is a global disaster, but it will hit the most vulnerable parts of society especially hard. As governments combat rising inequalities, they should prioritize reforms that also accelerate economic transformation, such as revenue-neutral carbon-tax schemes paying per capita dividends.

Behave multilateralism. When fighting global catastrophes, such as the coronavirus or climate change, much can be accomplished with national response strategies and local action. But multilateral institutions, governments, many nations responded independently, with little to no global coordination, often choosing isolation over cooperation. As we recover from the COVID-19 crisis, governments should reboot the principles and institutions of international cooperation to regain momentum for a more coordinated climate response, starting with COP26. This should include donor support for developing countries that are already struggling to build resilience to tomorrow's climate shocks, and it should include a commitment to a challenge that COVID-19 has only exacerbated.

Exhibit 3 | Multiple Climate Opportunities Exist to Stimulate the Economy

Companies Can Reduce Carbon and Costs. After a decade of uninterrupted global growth, COVID-19 has upended business as usual and ordinarily expected weaknesses in existing business models, highlighting the need for companies to strengthen resilience to a variety of risks. To build resilience, we recommend that companies take the following steps:

- **Reduce costs by reducing carbon.** By systematically prioritizing energy efficiency and switching to renewable power, companies can not only increase resilience to future emission regulation but also realize significant savings. In our work in oil and gas, automotive, and other energy-intensive industries, we have identified opportunities for emissions reductions of 10% to 40% at negative abatement cost—meaning that they are reducing carbon and costs while creating resilience against a future that is carbon-priced as well as other external and internal pressures. (See Exhibit 4.) Where funding is restricted, well-designed climate programs can provide incentives.
- **Scrutinize supply chains.** In response to supply chain disruptions, many companies are reassessing their supply chain architectures for increased resilience: nearshoring suppliers, increasing transparency to improve logistics and inventory, and diversifying supply bases. Adding additional suppliers Companies should use this process as an opportunity to understand and address their upstream and downstream carbon risks. By creating transparency into supplier emissions, introducing CO2 standards into procurement decisions, and committing suppliers to rigorous efficiency and emission-reduction targets, companies can reduce their carbon footprint and improve their sustainability profile, and cost risks.
- **Increase portfolio resilience.** Climate is a megatrend—and companies are cute evidence. While all sectors and markets are turned, it is not surprising that renewables have been more stable. Companies that are restructuring their business and their product portfolios in response to short-term economic pressures will find that decarbonizing portfolios and building resilience to the physical, regulatory, and demand risks associated with climate global warming is a no-regret move—and that investors are rewarding environmental, social, and governance (ESG) performers in the crisis.

Exhibit 4 | Reducing Carbon Can Lead to Reduced Costs

Investors Should Focus on Climate Resilience. For many investors and lenders, 2020 was going to be the year of bold climate action. In January 2020, at the annual gathering of the World Economic Forum, the Net-Zero Asset Owner Alliance (an alliance of investors committed to transitioning their portfolios to net zero greenhouse gas emissions by 2050) announced that it had secured signatures representing $10 trillion of assets under management, and Blackrock announced that it would make the sweeping investment decisions based on the long-term performance in modern history. Nonetheless, despite the market volatility and uncertainty, several investors, including Legal & General Investment Management and BlackRock, released statements reiterating their commitment to climate priorities.

Like COVID-19, climate change presents a unique risk—and investors will need to think and act creatively:

- **Stress-test portfolios.** As the world continues to combat the virus in the coming months, financial institutions will need to stress-test their portfolios against climate-related volatility and impacts on their balance sheets. They should also continue to emphasize the importance of climate in investment allocation and stewardship activities as a means of reducing their own future risk exposure. This requires integrating climate risks into credit models, pushing the adoption of climate-related disclosure, and scaling investments in climate-related opportunities strategically for this upside, the ESG exchange traded funds have fairly significantly better during the crisis so far.
- **Fund the green recovery.** Finally, as we shift from the immediate crisis response to economic recovery, investors should apply a lens of climate-related risks and opportunities when financing efforts to restart the economy. Today, financial institutions are radiating solutions to companies involved in the direct health response (for example, Sustainalyst Corporate Sustainability Indexes for financing COVID-19 solutions). Similarly, investors can bring their capital to bear on the economic recovery and rebuild—through green bonds and other instruments.

EARLY LESSONS FROM COVID-19 CAN SHAPE CLIMATE ACTION

Winston Churchill is famously (and controversially) credited with the phrase "never let a good crisis go to waste". Any recovery constitutes an opportunity for renewed COVID-19 is a dramatic illustration of what happens when we ignore early warning signs, but it also shows what governments, organizations, and citizens can achieve, individually and through cooperation, when truly pressured to act for the greater good. In this regard, the COVID-19 crisis has yielded a series of crucial lessons:

We need to prepare better. Clearly, the world was not fully prepared for the COVID-19 crisis. In retrospect, greater preparation would have been enormously valuable for both health and economic reasons. The climate crisis is more predictable, and its worst effects can still be avoided. Prudent preparation and investment in resilience will minimize future shocks and improve the prospects and future impacts of climate change.

Countries are capable of drastic action. In the wake of an immediate threat and mounting death toll, governments and institutions have demonstrated the ability to act with speed in the spread of the pandemic. People have temporarily accepted sweeping restrictions to their ways of living and working to fight a real threat. Much more remained which would be sufficient to fight the climate crisis, but equally decisive political intervention is needed to drive them.

Citizens could be catalysts in a post-COVID-19 world. In the midst of the pandemic, acute economic anxiety, preference, and financial losses are on the minds of consumers, a situation that leaves little room for discussions of climate and environmental concerns. As the midterm, however, this may change. The shared experience of enduring a natural disaster, questions about whether governments anticipated and managed the crisis appropriately, and concerns about the health effects of economic activity (in terms of air pollution, for example, which declined considerably during the pandemic) may create a renewed sense of urgency regarding climate action.

Before COVID-19, climate action was on a positive trajectory: CO2 emissions leveled off in 2015, companies and investors were increasingly placing climate at the top of their agenda, and most governments were notching (and hopefully strengthening) their climate plans ahead of COP26. If our crisis response decides down on this progress, the COVID-19 recovery efforts can contribute to solving two crises at once.

COVID-19 may have caught the world by surprise, but the climate crisis is entirely predictable. The question is: Will we look back in ten years and see that we used this chance to become more resilient and launch a green economic recovery, or will we see that we missed the chance to reverse the trajectory of an even more devastating global crisis?

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