

Lost in Transition?

IN MAY 2020, A WALL STREET JOURNAL ARTICLE predicted that corporate sustainability initiatives—a catch-all term that includes climate-related efforts—would be put “on the back burner” thanks to the economic fallout of COVID-19.

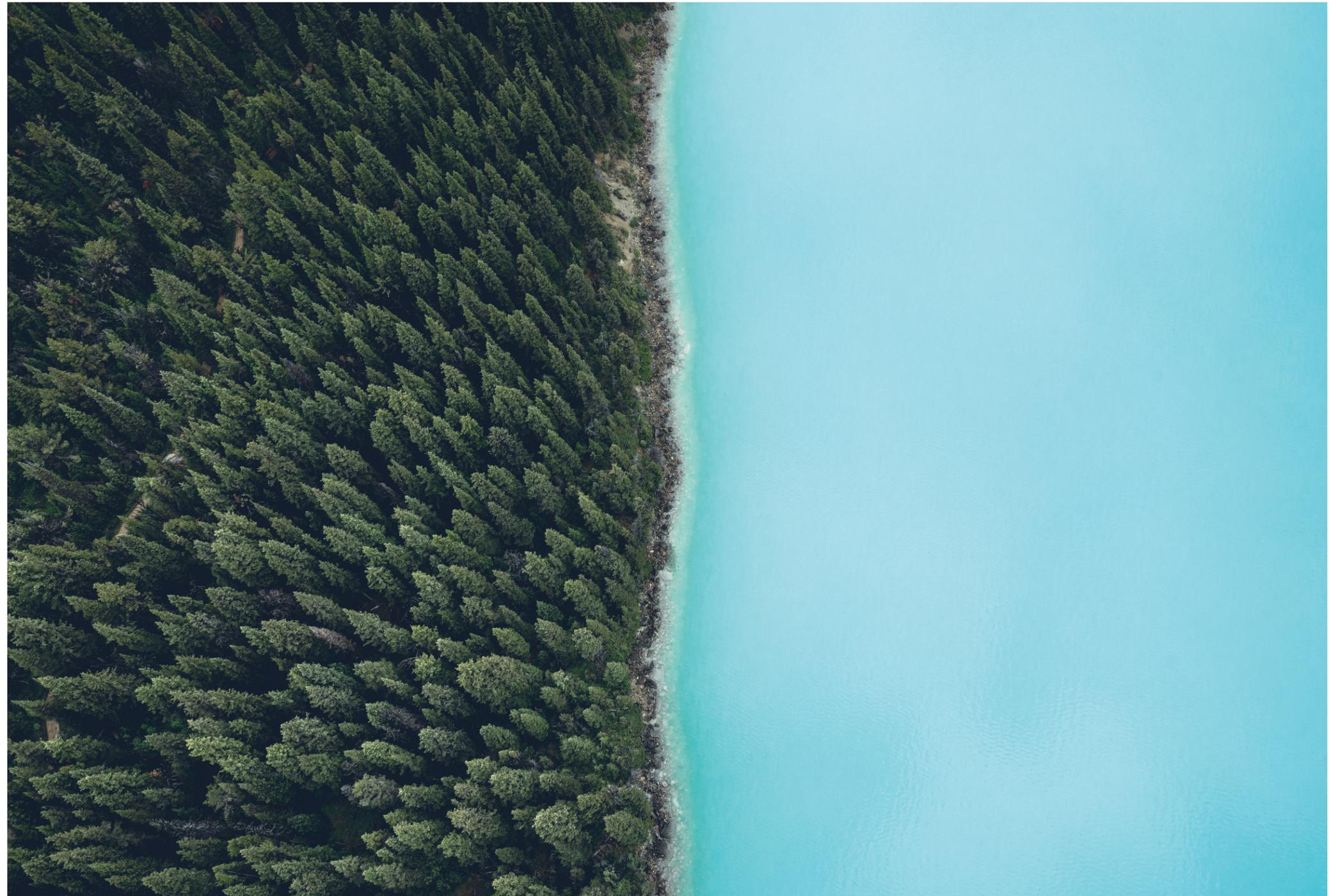
Almost exactly six months later Mark Carney, the United Nations’ special envoy for climate and finance and former governor of the Bank of England, headlined a major investor event and issued a stark warning to his corporate audience—one which reflected that the corporate hiatus on climate had not only failed to materialize, but that the expectations of business had in fact intensified.

According to Carney, it’s no longer enough for a business to acknowledge that change is needed; they now have to demonstrate how they intend to deliver it. In practice, that means clarifying how they will transition their business model to be consistent with a net-zero emissions economy by 2050. “The absence of such a transition plan will likely be seen as either an intention to wind down a business over the coming decades, or an assertion that the company views itself as separate from society,” Carney said. “The former may be logical; the latter is unforgivable.” The window for business to develop and disclose these plans, according to Carney, is November 2021, when the United Nations’ Climate Change Conference (known as COP26) will take place.

In our work with clients, we’re finding that leading companies are asking of themselves—and being asked by investors, policymakers, and civil society—two crucial questions:

- “What does the net-zero transition mean for the future of this business?” and;
- “What does this business mean for the future of this transition?”

Brunswick’s climate expert **PHIL DREW** says preparing for a net-zero world is now not only a societal obligation but rather a baseline commercial expectation.



THE ZERO-CARBON TRANSITION Already Under Way

Helping to power the transition are ultra-low interest rates well-suited for upfront clean technology investments, better financial data on physical and so-called transition risks, and the increasing competitiveness of low-carbon solutions. The latter are set to outperform higher carbon alternatives in sectors accounting for three-quarters of emissions. As

a result, capital flows to sustainable assets reached record highs in 2020.

Momentum has also been fueled by a new wave of national net-zero ambition led by China, Japan, South Korea, the EU and UK. By the start of 2021, countries representing 65 percent of global emissions and 70 percent of the world economy will have committed to a net-zero target, up from 53 percent of the economy in June last year.

Even as they grapple with the personal costs of the pandemic, public support for climate action has remained resilient.

Brunswick polling across eight major economies shows clear majorities in each are in favor of prioritizing climate in national recovery plans, with levels of concern about climate narrowly behind dealing with jobs and the economic damage caused by the virus.

Investors Are Driving the Momentum

The week after Mr. Carney spoke, BlackRock published its 2021 Stewardship priorities, stating they expect to see companies’ plans to align their business with the global goal of net-zero GHG emissions by 2050. Even further, given the need for “urgent action” on climate, BlackRock intends to support more shareholder proposals, where they believe that voting in favor “might accelerate companies’ progress.” According to BlackRock’s annual client survey, climate change is their clients’ top concern worldwide, and many are planning to double their allocations to sustainable products over the next five years. The same week BlackRock published its priorities, an alliance of 30 asset managers, collectively overseeing \$9 trillion, announced a goal of achieving net-zero carbon emissions across their portfolios by 2050.

The Rise of “Inter-Activism”

As Nobel Prize-winning economist Joseph Stiglitz wrote, COVID-19 hasn’t been “an equal opportunity virus.” From income inequality to racial injustice, the pandemic shone a light on a host of societal issues, as it exacerbated them. This awareness carried over into the impacts of climate change. The result: In a year of charged conversations, a growing number were interwoven with the climate crisis.

Biodiversity and habitat loss, for example, contribute to the rise of new human diseases, 75 percent of which come from wildlife. Highlighted by the pandemic, efforts to address this climate-driven biodiversity crisis have gained momentum.

Coordinated by the coalition Business for Nature, more than 560 companies with combined revenues of \$4 trillion, including Walmart, bp, Unilever, and Microsoft backed calls for governments to reverse the accelerating destruction of the natural world and support broader efforts to fight climate change. This year will see the Biodiversity and Climate agendas formally come together at the UN biodiversity COP in May and the climate COP in November.

Elsewhere, public health and climate change were linked by Harvard research that found that air pollution increased COVID-19 fatalities by 15 percent. Also, amid a long-overdue reckoning on racial injustice, the connection between systemic racism and climate change drew attention. Black Americans are exposed to 1.5 times more hazardous pollution than white Americans, for example, and to 50 percent higher rates of particulate pollution than the general population. Emerging from tragedy, “I can’t breathe” became a powerful rallying cry for racial justice, and carried over to environmental justice.

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This has added a health and equity case to the drive for clean energy. Apple is establishing an Impact Accelerator to invest in minority-owned businesses that help its supply chain reach net zero and also benefit communities disproportionately affected by environmental hazards. As Lisa Jackson, Apple’s vice president of Environment, Policy and Social Initiatives, said: “Systemic racism and climate change are not separate issues, and they will not abide separate solutions. We have a generational opportunity to help build a greener and more just economy.”

A Clearer Picture of Corporate Leadership

Together, these forces are injecting not only greater urgency into the climate change conversation but also greater sophistication. Setting environmental targets once drew applause; now even the most ambitious targets aligned with net zero are becoming commonplace. Almost 1,400 businesses—including many in the most carbon intensive industries, such as cement—have joined the UN Race to Zero, aligning their entire value chains with a 1.5 degree world.

In the inaugural edition of the *Brunswick Social Value Review*, published at the start of 2020, we described a three-pronged approach to corporate leadership on climate. By the end of 2020, we’ve seen more companies embody it.

1. BUSINESS TRANSFORMATION

This entails a business becoming net zero through its products, portfolios, operations and procurement. A net-zero ambition is often the place this all starts. Today’s best practice is setting a science-based target—which more than 1,000 businesses have now done—with the ambition to reach it in the 2040s, supported by near-term targets this decade.

Leadership consists not merely of setting that ambition but a clear transition plan for how the entire business is aligning to deliver it—including across the value chain, which is on average five-and-a-half times larger than the business itself.

Standalone actions like powering operations with 100 percent renewable energy are important but not sufficient. Influential stakeholder coalitions such as the Climate Action100+ want to see a strategy that outlines climate-related risk, and articulates how the company is changing to play a successful part in a net-zero world. Increasingly, that means how it is realigning capital, assigning explicit board-level oversight, linking executive pay to climate targets, accounting for the impact on workers and communities, and ensuring its policy advocacy is consistent with its public commitments.

2. SYSTEMS CHANGE

The next stage of leadership is going beyond the business, considering the unique levers the company has to drive progress on systemwide challenges. Global logistics firm Brambles was praised by the UN and COP26 Presidency for its plan to pioneer the world’s first regenerative supply chains that enable customers to deliver on their net-zero targets; a commercial and societal win-win that also responds to a pandemic-induced reappraisal of resilience as a global strategic priority.

We are seeing more companies deploy strategic philanthropy alongside partnerships. Transform to Net Zero, for example, is an alliance between Microsoft, Nike, Mercedes-Benz and Maersk, where members share best practices for achieving net-zero emissions across their value chains.

Coalitions are also tackling both the supply and demand side of the equation. For electric vehicles, the EV100 coalition, whose members range from Heathrow Airport to IKEA, are pledging to transition their huge fleets to electric vehicles by 2030. On the supply side, we saw the launch of the “green hydrogen catapult,” a coalition of the world’s largest hydrogen producers working to drive down costs so green hydrogen can become an economically viable alternative energy source for industries like cement and steel.

We expect collaboration to drive sector-level transition to deepen and accelerate in the first half of 2021. At the Davos Dialogues in January, the UN Climate Champions in partnership with the UK COP26 President Alok Sharma launched the “Race to Zero Breakthroughs,” a masterplan based around specific sectoral tipping points the world must achieve, and business can contribute to, across more than 20 sectors to achieve a resilient, zero-carbon future.

3. ADVOCACY

As well as aligning their businesses to net-zero emissions and working to create systems change, businesses also have a role in creating an enabling policy environment for action on climate.

Climate-focused investors and nonprofits are calling out businesses when they spot a gap between a business’ public statements and its private lobbying. In 2019, more than 200 institutional investors, with a combined \$6.5 trillion in assets under management, called on publicly traded companies to align their climate lobbying with the goals of the Paris Agreement. In October 2020, those investors wrote to CEOs reminding them of that expectation.

Here too we’ve seen companies take bold action. bp, for instance, has made advocacy an explicit

component of its net ambition (“Aim 6”) and redirected money from advertising toward climate advocacy. Meanwhile more than 1,000 companies have joined The Business Ambition for 1.5°C, which is working to create a mandate for greater policy leadership, completing the so-called “ambition loop” required to make net zero a reality.

A Decisive Year in the Decisive Decade

Even as a chorus of national net-zero commitments put the Paris Agreement “within reach”, the world is not yet on track to avoid dangerous, irreversible climate change—for the world to remain on course to achieve net zero by mid century, emissions must halve this decade, and then halve again each decade.

The momentum in the space is clear, yet so too the work still to be done. During a year when governments disbursed tens of trillions of dollars, a majority went to reviving the high-emitting, unsustainable economies of today, rather than investing in building a resilient, clean economy of tomorrow—G20 countries directed 50 percent more money toward projects that rely on burning fossil fuels than green projects.

In the business world, the gap between climate rhetoric and reality remains wide, particularly in areas like climate-transition strategies. The Task Force on Climate-related Financial Disclosures (TCFD) found in their 2020 progress report that only one in 15 companies “disclosed information on the resilience of its [climate] strategy.”

That’s why 2021 is being talked of as the decisive year in what many have called the decisive decade. The inauguration of Joe Biden—who has pledged to rejoin the Paris Agreement on his first day in office and also stage a climate summit—will bring renewed focus on the role of America and its companies in meeting the agreement’s goals. COP26, set to take place in November, is being billed as “the most important gathering on climate change since the Paris agreement.” It will also spotlight what the business world is—or isn’t—doing to help the world transition to a net-zero world.

The month after Mr. Carney offered his words of warning to the corporate sector, he set out a more optimistic vision in a BBC Reith Lecture, “From Climate Crisis to Real Prosperity.”

“Since society has created a clear goal, it will become increasingly profitable to be part of the solution and increasingly costly to remain part of the problem,” he said. Far from a burden to business, the shift to a net-zero future can come to represent “the greatest commercial opportunity of our age.” ♦

COP26 will spotlight what the business world is—or isn’t—doing to help the world transition to a net-zero world.

PHIL DREW is a Partner in Brunswick’s Business & Society offer. He was formerly communications director for *Climate Week* and is a special advisor on campaign strategy to the UN High Level Climate Champion for COP26 and the UN Race to Zero.