Deadline Net Zero

Two weeks ago, Germany’s constitutional court said the country’s 2019 climate law is inadequate because the largest share of decarbonisation needed for its 2050 climate goals won’t be met until after 2030.

While Germany had targeted to lower greenhouse gas emissions 55 percent by 2030, compared to 1990 levels, the court ordered the government to revise the law by the end of the year.

The case brought by nine young climate activists, supported by a coalition of environmental groups, successfully argued that the planned transition offloaded burdens into the future and so violates the rights of younger generations.

Last week, the German government proposed a new goal to slash emissions 65 per cent against 1990 levels by 2030.

In global markets that are acutely aware of climate liability risks and quick to promote their net zero targets, this case gives us pause to hold up a mirror and ask “are we acting fast enough?”

Earlier this year, the National Trust published a map plotting some of its most loved sites alongside possible “worst case” climate related events, like extreme heat and humidity, flooding, landslides, coastal erosion, soil heave and high winds.

That the National Trust can say what will happen to Giant’s Causeway or Ham House as a result of storms and heatwaves is pretty scary.

We live in a world where insurance companies fail in the face of Californian wildfires and yet many pension funds are invested in infrastructure that is not built with new climate extremes in mind.

A decade on from the financial crisis, and many investors still do not fully understand the esoteric financial products that their money is tied up in, let alone how their investments connect to the real world environmental problems we can see all around us.

This hinders a thorough public discussion of the systemic economic risks that climate change represents.

Which brings us back to deadlines.

How many construction projects will be invested in before 2050 that are not currently subject to the rigour demanded by our net zero goals?

The UK Government should be applauded for its leadership in setting a 2050 date, but to achieve success, everyone in the public and private sectors needs a clearer understanding of how capital is deployed – right now – to manage the transition to net zero, prepare for climate shocks, and restore nature.

If construction does not take into account mounting floods and extreme heat, the low-carbon infrastructure we need could itself become the stranded asset of the future.

The power outages in Texas as a result of freezing wind-turbines and electricity supplies were more than a vision of what is to come, they are where we are now.

Tens of millions of people sensibly saving for a pension are investing their money in the world as it was before the Texas power cuts, not as it is today, or will be in ten years' time.

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Four years ago, the Church of England National Investing Bodies and the Environment Agency Pension Fund set up the Transition Pathway Initiative.

Every year, the TPI reviews the progress made by the world's highest-emitting public companies.

This year, the report finds that no sector is reducing emissions fast enough to meet the UK's 2050 target.

Although an increasing number of companies now have net zero commitments, these pledges, in the oil and gas sector for example, only sometimes include operational emissions, not the emissions from the point of use.

Most companies now have a policy commitment to act on climate change and disclose their operational emissions.

But, measuring current and future emissions, it finds:

- only 15 percent of companies are on track to be below 2°C by 2050;
- 16 percent provide insufficient disclosure;
- And, 47 percent do not align with any of the benchmarks.

Demanding more action does not always mean divestment.

Shareholders can use their power to see companies, including fossil fuel companies, align with the Paris Agreement.

Your "Say on Climate" needs to be louder, supported by rigorous analysis undertaken by initiatives like the TPI.

Do you remember the Academy Awards when Frances McDormand won her second best actress Oscar for Three Billboards Outside Ebbing, Missouri?

She proposed actors and actresses should demand an "inclusion rider".

I propose everybody should demand a "climate emergency rider".

If you are investing in any industry you should ask how they are actively reducing carbon emissions and preparing for coming shocks.

Environment Agency Pension Fund members recently did this when 92 percent of responders said they thought it was important the Fund had a net zero target.

Last month, the fund committed to net zero and can show it is five years ahead of meeting its 2045 target… but we also focus on building a climate-resilient future because we cannot insulate our investments from a world where the wider economy is contributing to climate change.

The famous investor in coronavirus vaccines, Dolly Parton, once said: “If your actions create a legacy that inspires others to dream more, learn more, do more and become more, then, you are an excellent leader.”

The popularity of the Transition Pathway Initiative suggests many people want to learn more and do more.

It is now supported by over 100 investors, representing over $25 trillion combined assets under management and advice, and is a reference point for sustainable bonds as well.

I would like to see it working alongside the Coalition for Climate Resilient Investment – whose members now have over 11 trillion dollars in assets – which aims to include climate-risks in upfront financial decision-making.

Embedding resilience and net zero in both long and short-term plans presents huge opportunities for the economy, but they need to be underpinned with strong regulation.

Environmental regulation needs levelling up so that it has the same clout as economic and financial regulation.

Without significant penalties for polluters and unscrupulous developers, the boards of such organisations will continue to deprioritise environmental leadership, and best practice will be undermined.

This year, the Bank of England’s Prudential Regulation Authority plans to run a stress test to explore climate risks to the financial system.

Banks and insurers will be asked to quantify their financial exposure to risks in three climate scenarios, as well as the actions they would take to mitigate these, and how they would respond to corresponding business opportunities.

The three scenarios will have implications on flood defence funding and impact, which the Environment Agency is supporting the Bank in modelling.

It’s a step in the right direction.

As we approach the G7 in Cornwall and the COP26 climate meetings in Glasgow, people need to recognise that economy-wide climate shocks are not just something that happen in the Global South.

International trade will increasingly rely on everyone recognising that global warming causes harm and presents opportunities beyond regulatory, provincial or even national boundaries.

The UN’s global race to net zero and race to resilience, for which I am a Global Ambassador, need public and private support.

We know climate impacts pose a systemic risk to the global economy.

Trillions of pounds of assets are at risk from climate shocks.

We can’t leave our response up until the deadline.

We need to deploy capital in a way that is alive to the reality of our situation now.

Thank you.