The PACE of Change
Insights into the Issues Driving Change

August 2020

Climate Considerations in the New Normal

Climate

2020 has seen unprecedented forced disruption from a global pandemic, the exit of the UK from the European Union, global political movements and an even stronger spotlight on climate change.

This has brought wider societal and global pressures into sharper focus for many businesses. The PACE of Change takes a research-led look at these issues in detail and explores key implications for businesses.

Climate Change and Emissions

There are widespread calls, from businesses as well as citizens and NGOs, to build back better as we emerge from the COVID-19pandemic and associated lockdowns. These calls are that the post-COVID-19 economic recovery should be a green one and promote the changes needed in order to achieve sustainability and decarbonisation goals. Two critical aspects of this green recovery relate to climate change and improving air quality.

2021 will be a significant year in climate policy, with the delayed COP26 talks taking place in the UK towards the end of the year. The run-up to COP26 is framed by the UN's Race to Zero campaign, which will encourage all stakeholders, including businesses, to increase their ambitions and climate goals in order to meet the aims of the Paris Agreement.

There has been much discussion about the significant effects that the global economic and travel restrictions, arising from the COVID-19 pandemic, have had on air pollution levels, notably nitrogen dioxide (NO2). Areas that have been affected by the virus have shown strong decreases in NO2, primarily because of reductions in transport.

As we start to unlock the economy, many workers are returning to their workplaces, and the wider population are making more journeys, whether to visit friends and family, take children to school or visit shops. However, with concerns about social distancing on public transport, without wider adjustments in transport policy, this is bound to result in some people choosing to make journeys by car that they would have previously made on public transport.

So while the pandemic may lead, in the longer term, to increases in home working and less commuting overall, there are still grave concerns about the impact that increased private car use could have on air quality.

The government has committed a £2 billion investment into cycling and walking routes, and businesses should be building on this policy direction to incentivise staff to cycle to work, vary their commuting times or use technology to work from home more regularly, thereby doing their bit to contribute to a green recovery.

Sustainability

The pandemic has also cast a spotlight on our interconnectedness with the planet. Global markets and supply chains have proved vulnerable to environmental and health risks, and our health and wellbeing depends on access to natural assets such as clean air, water and nutritious food. Sustainability, in all its guises, will need to be an essential feature of the recovery. Returning to our previous "business as usual" will not be enough to address the challenges of the future. The forced pause and changes caused by COVID-19 have, however, presented an opportunity to reshape a better future.

For example, the pandemic has led to some changes in consumer habits, particularly in relation to food shopping and consumption during the lockdown. Across the UK, local shops adapted and innovated to provide people with much-needed food deliveries and other new services. Food shopping habits have also shifted, with many planning more carefully, shopping less often and cooking at home more. These changes, and the impact they have had on things like food waste, can help us to reflect on the most sustainable and resource-efficient ways to use resources, and reduce waste.

Of course, the principles of resource efficiency and sustainability are much broader than food and apply across all aspects of our economy. Many policies and regulatory tools are developing to help us shift to a more circular economy in all sectors. For example, from April 2022, the UK government is proposing to introduce a new tax on plastic packaging manufactured in or imported into the UK containing less than 30% recycled plastic. Businesses that produce packaging or rely on plastic packaging for their goods need to consider the recycled content of their current plastic packaging. If this is not already 30% recycled, businesses will need to investigate the relative costs and benefits of changing to greater than 30% recycled content, or absorbing the tax.

Policymakers across government have been clear that they intend to leverage the recovery from this crisis to accelerate a transformation in clean energy infrastructure and technologies, and will not allow government funding support packages to fuel a greater climate crisis. The demand for sustainable solutions is only likely to increase and companies that are able to meet this demand will not only attract investment, but also benefit from growth in the long term.

Some businesses may think that sustainability is not necessarily relevant to them. However, consumer capitalism is on the rise, where social media becomes the lens to galvanise demonstrations and public opinion from Extinction Rebellion and Greta Thunberg, to exposing inequalities within a supply chain. Consumers are empowered for the green transition and will increasingly become a business risk. Greenwashing and supply chain interrogation are reputational risks that require robust governance and transparency

Green and Ethical Investing

The appetite to build back better has brought issues of environmental and social responsibility firmly onto the corporate agenda, with a focus on ESG (environmental, social and governance) in relation to a company's financial performance. Corporate "purpose" will become key, as calls grow for corporates to play their part in addressing sustainability challenges, and corporations increasingly adopt a long-term stakeholder approach to their business models.

Incorporating non-financial considerations into business decision-making has also become the mainstay of investors as they adopt ESG factors into their investment frameworks. ESG stocks have consistently outperformed traditional stocks during this crisis. In the UK, investors put £2.9 billion into ESG investment funds in the first three months of 2020, making it the second-best quarter for such funds.

ESG-conscious companies with sound governance and solid relationships with their suppliers, employees and other stakeholders have shown greater resilience during this period of intense volatility. In a post-COVID-19 world, we are likely to see increased investment in, and increased access to funding for, businesses that can demonstrate their commitment to supporting the long-term interests of employees, suppliers, wider society and the environment.

In light of the public funding paid to private enterprises to support their employees during the pandemic, it may be argued there is a greater expectation on these businesses to be responsible and make good on that public investment. The ways in which large companies have made use, or not, of the government furlough scheme and other financial support, as well as the handling of inevitable job losses in some areas, have been the focus of many a newspaper story. Public response to, and reputational damage from, perceived corporate "misbehaviour" is likely to be strong, with regulatory intervention a possibility.

The call for greater corporate transparency on ESG issues will only amplify as ESG factors prove themselves not just to be non-financial considerations, but also material drivers of financial performance and business resilience.

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