TCB Digest for Executives

August 29th, 2023

Welcome to the 8th edition of The Climate Board's Digest for Executives – a summary of key climate-related events, publication activities, and other insights for cross-functional corporate leaders.

Climate policy watchers are taking stock after the Inflation Reduction Act celebrated its first birthday this month. One of the Biden Administration's signature environmental and reshoring policies, the IRA aims to reduce US emissions 50% below 2005 levels and has already set off a manufacturing boom. The IRA was the talk of Davos earlier this year amid concerns that European corporates will shift production Stateside in the absence of an EU-wide, green incentive program in response.

Some observers have raised concern that the cost of the IRA is hard to quantify, due to uncapped incentives. GOP politicians are campaigning to repeal parts of the law, but billions of dollars have already been deployed: the Wharton School has estimated that the program's climate and energy provisions will have $1 trillion impact over the next 10 years.

The IRA was announced a year ago, just before the annual Jackson Hole Symposium gathering of global policy makers, bankers, economists and academics. At this year's symposium "Structural Shifts in the Global Economy," climate remained a "hot" theme. The ECB's Christine Lagarde reiterated that climate-related issues remain one of the key contributors to the EU's inflation challenge, and that the EU has experienced "the largest shock" due to structural shifts in the global energy supply. And while renewables are targeted to account for 40% of energy in the EU by 2030, "intermittency and storage challenges" remain a near-term challenge.

We invite you to revisit our reaction to the IRA here. And if interested in a more in-depth view of how the IRA may benefit your organization, please contact us at research@theclimateboard.com.

Regulatory/Disclosure Updates:

- Biden-Harris Administration Announces Up To $1.2 Billion for Direct Air Capture Projects in Texas and Louisiana (Department of Energy, August 11) – These projects, which involve CO2 sequestration deep underground, are projected to remove over 2 million metric tons of emissions from the atmosphere each year. The administration says this will be the world's largest-ever investment into engineered carbon removal.
- EU Economy Greenhouse Gas Emissions Fall 3% In Q1 (Eurostat, August 16) – This year-on-year decline was driven by the electricity and gas supply industries. The largest increase was in transportation and storage. Emissions decreased in 21 EU countries, while the bloc's 1Q GDP rose 1.2% year-on-year.
- White House Press Release on the One-Year Anniversary of the IRA (August 16) – The Biden Administration said companies have announced more than $110 billion in new clean energy manufacturing investments since the Inflation Reduction Act came into force, including more than $70 billion in the electric vehicle supply chain and more than $10 billion in solar manufacturing. Climate Power, an advocacy group, estimated that the IRA has created 170,000 clean energy jobs, and companies have announced over $110 billion in clean energy manufacturing investments.
- Biden-Harris Administration Announces $30 Million to Build Up Domestic Supply Chain for Critical Minerals (Department of Energy, August 21) - To counteract US reliance on foreign suppliers for over 80% of its demand for rare earth minerals, the Bipartisan Infrastructure Law provisioned $30 million in funding to keep clean energy extraction and manufacturing jobs on US soil. Specifically, the investment will spur innovative coal waste refinement technologies, and stipulates employment for underserved communities that have traditionally occupied the fossil-fuel workforce.
- EU Adopts Long-Awaited Mandatory ESG Reporting Standards (Harvard Law School Forum on Corporate Governance, August 23) – Cooley LLP lawyers analyze the European Sustainability Reporting Standards (ESRS), the first set of which came into law on July 31, and compare them to US equivalents. "Companies in scope of the CSRD should start getting ready for ESRS reporting now, as it may take some time to perform materiality assessments and set up systems to gather the audit-ready data needed for their reports," they write.

Industry-Relevant Events

- ESG: Dispatch from the Front Lines of Accountable Capitalism (Wharton Executive Education, August 22) - Panelists discussed the current state of ESG investing, the shared characteristics of companies that outperform their markets, how decision-makers can embrace the pace of change, the most important data for reporting purposes, and the implications of the EU's carbon tax for the US economy. *TCB's Key Takeaways from this event can be found below the fold.*
- "Structural Shifts in the Global Economy" (Jackson Hole Economic Policy Symposium, August 24-26) - Aside from climate- and energy-related commentary from global policy makers, bankers and other close market observers invited to the symposium, there were noteworthy publications and demonstrations from non-for-profits and climate organizers such as Public Citizen and 350.org. They called for increased action and focus on climate by the Federal Reserve's Jerome Powell.

– The aftermath of natural disasters. Fires in Hawaii, believed to have been started by the state utility, and drought in Panama are both noteworthy events to monitor. Not only do they reflect the human cost of the changing climate, but both may also have near-term policy implications. The Panama Canal situation is already affecting supply chain availability as projections suggest drought-related delays may affect transport for up to a year.

Publications

– The Clean Energy Future is Arriving Faster Than You Think (NYT, August 14) - The New York Times writes that increasingly cost-effective renewables are expected to overtake coal as the world's largest source of electricity by 2025. Over $1.7 trillion will be invested globally into green tech this year, compared to $1 trillion in fossil fuels. The NYT also points out challenges associated with adding large amounts of renewable energy to antiquated systems, and that fossil fuel production is effectively subsidized by the US.
– China's Two Climate Directions (NYT, August 14) – This article examines China's dichotomy: it's the world's largest fossil fuel emitter – and is especially dependent on coal-fired power plants -- but is also leading in global renewable energy production by a wide margin, according to data from the Energy Institute.
– Judge Rules in Favor of Montana Youths in a Landmark Climate Case (NYT, August 14) - The state must now consider climate change implications during the approval process for coal, oil, and natural gas projects. The ruling, the result of a campaign by youth climate activists, could trigger a wave of litigation in more states.
– How a Republican President Could Hobble the Climate Law (August 18, Politico) The IRA has survived Republican attacks so far, but that could change should the GOP take the White House in 2024. This article compares such a scenario to Donald Trump's actions against Obamacare. Still, the spending benefits many Republican districts and massive investments have already been deployed, including $130 billion for battery capacity.
– A Progressive's Case for Getting Rid of 'ESG' (Wall Street Journal, August 19) - A professor at London Business School criticizes the environmental, social and governance movement he once has championed, saying "ESG" has become too heavily politicized and often unproductively narrows companies' focus, resulting in a compliance and branding exercise.
– Ecuador Will Keep Some Oil in the Ground (NYT, August 22) – Some 59% of Ecuadorean voters chose to halt oil drilling on the edge of Yasuní National Park, one of the most biodiverse places on earth and home to two isolated Indigenous tribes. This article also highlights that, like the Montana court ruling, this campaign was powered by young people and emphasizes the influence of Gen-Z on climate issues in general.
– The Richest Americans Account for 40% of U.S. Climate Emissions (Washington Post, August 17) – This article cited a study by PLOS Climate that examined the disparity in emissions across income levels from 1990 to 2019. Wealthier Americans accounted for a disproportionate share not just due to their lifestyles, but their investment portfolios' exposure to polluting industries. The study's authors point to carbon taxes and provisions of the Inflation Reduction Act as potential drivers to prompt the wealthiest Americans to decarbonize.
– Traders in CO2 Credits Saddled with Vast Stranded-Asset Pile (Bloomberg, Aug. 22) Major carbon traders are finding that offsets they bought may now be valueless. Independent scientific analysis of CO2 reduction claims sometimes lags behind issuance.

In particular, Trafigura, the world's largest trader of carbon-removal credits, is awaiting the results of a probe into a particular forestry project and suspended a consignment. Large volumes of other carbon credits are lying dormant on other traders' books.

More must-reads

- The Atlantic (August 15) - The Sriracha Shortage is a Very Bad Sign
- The Washington Post (August 17) - The latest front in the war against gas: Snack food
- Bloomberg (August 18) - How Companies Will Have to Report on ESG Globally: Explained
- Bloomberg (August 17) - China's Abandoned Obsolete Electric Cars are Piling Up in Cities
- The Atlantic (August 21) - Islands Have a Disaster-Response Problem
- Energy Monitor (August 15) - AI Cuts Climate-Warming Contrails of Planes by 54%
- New York Times podcast (August 22) - What Happens When Great Power Conflict and Climate Action Collide?
- MIT Sloan Management Review – Sustainability Progress is Stalled at Most Companies
- Harvard Business Review – The Evolving Role of Chief Sustainability Officers

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Key Takeaways - ESG: Dispatch from the Front Lines of Accountable Capitalism

Jennifer Grancio, CEO, Engine No. 1

- It is crucial to be able to differentiate between economic data across governance, climate, and human capital sectors.
- Values-based data is not a negative, but we cannot lose sight of what is causal-based in long-term economic returns.
- For asset managers, divestment from energy companies will only open the door for other financiers. A better alternative requires maintaining a stake in these companies to implement better capital allocation plans and realize greener futures.

Monica Dimitracopoulos, EY Americas Corporate Sustainability Leader, Partner

- The ability to understand the expectations of stakeholders and the challenges they face will dictate who "wins" in embracing accountable capitalism.
- Consultancy groups hold a strategic advantage in their cross-sectoral approach and can share best practices and advance common standards.
- The ESG transformation should not be separate from managing other core aspects of your business, and doing so will improve resilience and adaptability.

Viviana Alvarez, Former Head of Sustainability and Corporate Strategy, Unilever North America

- There is an immense opportunity to redefine how we assess climate and social inequality externalities through scenario planning and analytics.

- We cannot focus solely on how to innovate moving forward, but instead, how do we retrofit assets?
- Education will be key to fostering the right set of skills for human capital and properly aiding global leaders in decarbonizing their economies.

Arthur van Benthem, Faculty Co-Director, Wharton Climate Center; Associate Professor of Business Economics and Public Policy

- While the Inflation Reduction Act helps, American taxpayers end up paying significantly more per ton of CO2 saved than in the EU due to the absence of carbon pricing mechanisms.
- Prices across global carbon markets have surged in recent years, heightening risks for continued investment in fossil fuel projects in the U.S.
- Lobbyists need more support from CEOs and corporations to drive accountable capitalism transformations.

Thank you,
The TCB Team

THE CLIMATE BOARD

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