

# The climate in 2020

## A five-legged race to refocus

- ◆ After disappointment, disarray, and delay, the climate agenda for 2020 faces challenges of disharmony and distraction
- ◆ The climate mismatch is complicated as politics moves in a different direction from science, impacts, and public awareness
- ◆ We think investors will look for signs that corporate pledges translate into business strategy and emissions reductions

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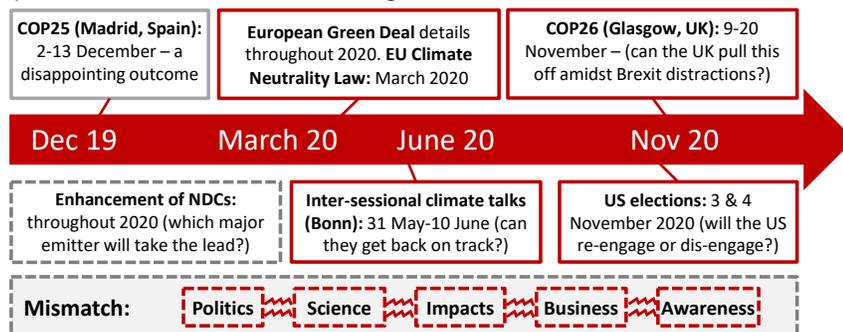
**An urgent refocus:** 2020 was supposed to be the year where countries and companies focused solely on raising ambition levels. The idea being that the global policy framework was in place and that each country would feel ‘peer pressure’ to increase their climate pledges and set the wheels in motion to make policy changes. However, given the political headwinds in 2019, the leftover work for 2020 includes (re)gathering consensus and (re)sorting out the policy framework – before thinking about ambition. We believe the refocus will depend on five mismatched parts in 2020.

**Mix and mismatch:** The climate mix is moving in different directions. **Politics** is less *cooperative* and more *nationalist* from a climate perspective. **Science** is advancing but not proving to be the

underlying current that informs policymaking. The **impacts** do not choose sides – climate change is being felt by everyone and as we write, there are bushfires in Australia and severe flooding in Indonesia. **Businesses** are definitely more vocal but only a closer look will reveal whether the noise is actually influencing corporate strategy. **Awareness** is on the rise and this is translating into visible pressure on world leaders and companies. These issues are inter-related.

**The 2020 challenge** was not supposed to be this big. In our view, investors are still waiting for clarity as businesses say and disclose more. Visibility will only improve when the mismatch realigns; however, this is far from certain to happen in 2020.

Fig. 1: The ability to refocus the 2020 climate agenda is mismatched



# 2020 – a bigger mismatch

- ◆ As climate science and public awareness move forwards, some aspects of global climate politics are moving backwards
- ◆ Businesses are more vocal but need to take the next step
- ◆ Four other issues that will influence the agenda include European Green Deal, the US election, carbon pricing and healthcare

## **More uncertainty in the climate mix**

We think 2020 will see developments that make the climate mismatch much more complicated. Politics, science, impacts, business, and awareness influence each other but are moving at different paces.

**Politics:** There is now more discord and disagreement as certain countries pursue more climate *nationalist* rather than *global collectivist* policies. **Science** is revealing an increased urgency to act as significantly deeper changes are required in the global economy. Yet climate science is not the policy response undercurrent it should be. **Impacts:** The stream of climate-related events continues with all regions being affected. The effects of these record breaking events are going well beyond physical damage and highlight the inadequacy of social infrastructure and welfare mechanisms in many areas. **Business** leaders are becoming more vocal in discussing climate matters; however, pledges must be implemented and the changes to corporate strategy may not reduce emissions fast enough. **Awareness:** This comes from three areas: (1) a better understanding of the science, (2) a direct experience of climate impacts, and (3) a frustration with the slow pace of change at a political and corporate level.

“As 2019 draws to a close, it remains on track to be the second or third warmest year on record... Temperatures are only part of the story...”

World Meteorological Organization, 20 Dec 2019

## **Impacts - from physical to social and financial**

Climate-related events are impacting all regions with fires, floods, unseasonable temperatures or extreme weather, while records are now seemingly broken in quick succession. We look at the physical, social and financial impacts.

**Physical:** The physical impacts of climate change – acutely felt through extreme events – did not let up in 2019. Almost all regions were affected by extreme weather events. Some areas were hit by events not normal for the location such as wildfires in the UK or extremely warm temperatures in boreal areas during the winter. These events highlight the need for a potential rethink of adaptation measures as well as preparation for more chronic or slow-onset events such as sea level rises.

**Social:** The human side of these impacts is also apparent – the direct effects of extreme events such as death, displacement, and livelihoods lost, but also the indirect health effects such as air quality, food insecurity, and malnutrition. In Australia, the current wildfires have refocused discussion over the adequacy of the government’s response to climate change.

**Financial:** The financial implications of these impacts not only cause near-term losses or rebuild costs, but we think 2020 will see some industries rethink just how well prepared they are for climate change. For example, the insurance industry is having to consider how it charges and pays out for events that are recurring more frequently. The *New York Times* reported (12 May 2019) that insurance companies were cancelling policies in “fire-prone parts” of California. However, the state “took the highly unusual step of banning the practice, a decision that exacerbates the insurance industry’s miscalculation of the cost of climate change.”

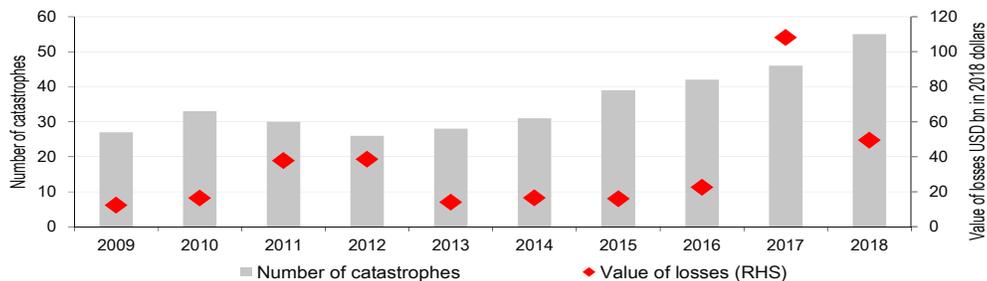
In the US alone, the number of catastrophes has been creeping up (Fig 3) and this is commensurate with property insurance claims.

Fig. 2: Some notable extreme events (Jan-Oct 2019)

Extreme event	Month	Country/Region	Comments
Extreme temp	January	Hong Kong	Third warmest January on record - 1.8°C above average
Heat Wave	January	Chile	Temperatures reaching 40°C in some locations. Max temperature ever recorded in Santiago - 38.3°C
Extreme temp	January	Brazil	Rio de Janeiro registered second highest temp since 1961 - 37.4°C
Extreme temp	January	Australia	Warmest January since 1910 - 2.91°C above 1961-1990 average
Extreme temp	February	UK	Recorded max temperature of over 20°C first time ever in a winter month
Extreme temp	February	Netherlands	Highest maximum temperature in February since 1901: 18.9°C
Extreme temp	February	Austria	Austria set a national maximum temperature
Extreme temp	February	France	Hottest winter day since 1950: 21.3°C
Extreme temp	March	Alaska, US	Warmest March since state-wide records 1925
Extreme temp	March	Hong Kong	Jan-March mean, max & min temperatures were highest on record
Heavy rainfall	March	Denmark	Wettest march since 1874
Cyclone	March	Mozambique	Over 3m people in eastern Africa were affected and 1,070 people died
Extreme temp	April	Finland	Warmest April on record for 13 stations
Wildfire	April	UK	96 wildfires over 25ha or larger land area; total area burned 17,199ha
Wildfire	April	Norway	148 homes evacuated and huge area impacted
Extreme temp	April	Australia	Fourth warmest April on record
Heavy rainfall	April	Spain	Wettest rainfall since 2008 and fourth wettest since 1965
Extreme Temp	May	Japan	36 stations set a new all-time maximum temperature record
Extreme Temp	May	New Zealand	Fourth highest autumn temperature since 1909: 14.4°C
Heavy rainfall	May	Austria	Top ten wettest Mays in the last 162 years
Drought	May	Australia	Drier than average conditions: 45% below average
Extreme Temp	June	Europe	Warmest June on record (EU, Germany, Austria); 2nd warmest in other countries
Extreme Temp	June	Argentina	Fifth highest June temperature since 1961
Extreme Temp	June	Hong Kong	Warmest January-June period on record
Wildfire	June	Indonesia	Over 4,000 hotspots in Central / Western Indonesia impacting 285,000 ha
Wildfire	June	Arctic Circle	Released 50 megatons of carbon dioxide in June
Drought	June	Spain	Seventh driest since national records began in 1910
Heavy rainfall	June	UK	Above average precipitation, England had its eighth wettest June since 1910
Extreme Temp	July	Europe	Belgium, Germany, Luxembourg, Netherlands set new temperature records
Extreme Temp	July	Israel	Several stations had record breaking July
Extreme Temp	July	Bahrain	Third highest July temperature since 1902
Extreme Temp	July	Hong Kong	Highest July minimum temperature
Extreme Temp	July	New Zealand	Second warmest July since 1909
Drought	July	Australia	Drier than average conditions: 53% below average
Extreme Temp	August	Spain	Tenth warmest August since 1965
Extreme Temp	August	Austria	Tenth warmest August in 253-year record
Extreme Temp	August	Bahrain	Fifth warmest August since 1902
Wildfire	August	Arctic Circle	The region emitted approximately 120MtCO <sub>2</sub> over July-August. Wildfires burned for over 11 weeks
Wildfire	August	Amazon	Released c.25bn tonnes CO <sub>2</sub> from 1-26 August* highest estimated emissions for August for all Brazilian states
Wildfire	August	Spain	9,000 people were evacuated in the Canary Island fires
Drought	August	Australia	Drier than average conditions: 53% below average
Wildfire	September	Australia	130 bushfires impacting approx. 55,0000 ha
Drought	September	Australia	Drier than average conditions: 59% below average
Drought	September	Argentina	Second driest September since 1961
Extreme Temp	October	Australia	Third warmest October since 110 year record
Heavy Rainfall	October	France	One of the 10 wettest October since 1959
Drought	October	Australia	Driest October since 2002, 5th driest in the 120-year record: 65% below average
Extreme Temp	October	Bahrain	Warmest October since 1902

Source: NOAA Climate reports, Reliefweb-United Nations Office for the Coordination of Humanitarian Affairs (OCHA), Copernicus Atmosphere Monitoring Service, \*CAMS, EMDAT

Fig. 3: Could there come a stage where property will become uninsurable?


 Note: Dollar value of claim is adjusted for inflation through 2018 by the Insurance Information Institute using GDP implicit price deflator.  
 Source: Property Claim Services, Bureau of Economic Analysis, Insurance Information Institute

### Politics – delaying the supposed 2020 watershed

Global politics has undergone a shift in the past few years and this is now beginning to affect the collective efforts to tackle climate change. Nationalist or protectionist economic policies are inconsistent with working together globally to mitigate emissions or adapt. The effects of this came to the surface through the stalemate and delay at COP25 last month. Without directly attributing the failure to any single cause, UN Secretary-General António Guterres still could not be any more positive than “I am disappointed with the results of #COP25”.

Without being able to separate political developments from global climate ambition, we think 2020 faces a big uphill challenge – to agree on the administrative aspects (essentially the loose ends of the Paris rulebook) whilst at the same time agreeing to raise ambition levels. These tasks will come together at COP26, which takes place in Glasgow, Scotland in November 2020. There are a number of stepping stones throughout the year such as the inter-sessional climate negotiations in Bonn in June as well as “ambition consensus building”, which is also supposed to take place throughout the year.

### Science: Advancing without leaving others behind

The *Emissions Gap Report 2019* from UNEP (UN Environment Programme), released in late November just ahead of COP25, demonstrates a continuous rise in greenhouse gas (GHG) emissions. This shows that the gap – of where we are vs. where we should be – is getting wider (Fig 4) and will continue to grow unless emissions growth is reduced and starts to decline. The growth rate in GHGs was 1.5% per year over the last decade, with little sign of a peak in the coming few years. This shows a global failure to slow emissions growth through policy.

With the gap between emission decline for 1.5°C still widening, it means that even deeper reductions are now required to get “back on track” which would require tougher policies at both a country and a business level. By 2030, global emissions would need to be 25% and 55%

lower than in 2018 to limit global warming to the 2°C and 1.5°C pathways, respectively.

### Businesses – rhetoric vs. strategy

The movement towards aligning with 1.5°C has gained momentum and we expect this to continue in 2020, amongst businesses at least. Whilst the rhetoric is positive – business leaders can say anything – there is concern that these pledges do not always translate into actual company strategy or targets.

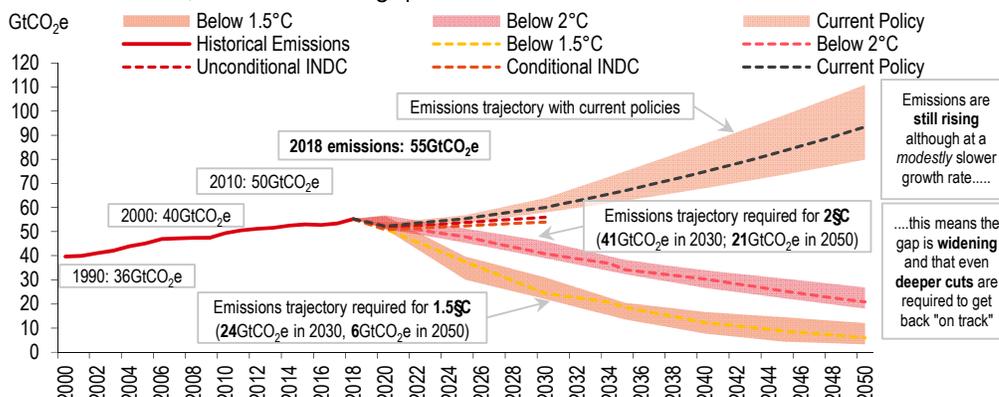
One way to demonstrate a commitment to reducing emissions is by signing up to a target approved by the ‘Science Based Target initiative’ (SBT) where businesses align themselves with the reductions required by science. Previously, the SBT would certify companies that aligned themselves with 2°C, but as of October 2019, the initiative announced it would no longer approve 2°C aligned targets, instead only approving **well-below 2°C** or **1.5°C** targets.

### Awareness – Time person of the year

Swedish teenager, Greta Thunberg, was named *Time* magazine’s person of the year for 2019 for her role in raising public awareness of climate change. Millions marched, protested, and took part in strikes for climate change in a somewhat coordinated fashion this past year. The result has been an upswing in public awareness of the causes of climate change and the mismatched action from governments and businesses.

As larger swathes of the general public become more aware of the need for climate action, we believe that 2020 will see even more pressure applied to all different kinds of institutions, public, private, and non-profit. This pressure may take time to effect change but the seeds of change are being sown, in our opinion. For instance, although some world leaders or businesses are not swayed, others may see embracing climate action as an opportunity and make pledges. Over time, the pressure will shift to converting pledges to action and actual reduction. Climate change has featured more prominently in recent elections.

Fig. 4: As emissions rise, the emissions gap widens



Source: UNEP Emission Gap Report 2019, HSBC

## **Other issues to watch in 2020**

Although climate change affects all regions and all sectors, besides the five broad moving parts we discuss above, we highlight four important influencing issues for 2020.

### **European Green Deal – the beginning**

The EU unveiled the European Green Deal in December 2019 as a new growth strategy designed to touch every part of the economy with the aim of making Europe the “first climate-neutral continent”. 2020 should see more details released for various parts of the Deal.

The new Commission would like to see the 2030 target raised to at least 50-55% by 2030 in the summer. This could be crucial in “encouraging” other countries to raise their own ambition levels in 2020.

### **Carbon pricing – a fork in the road**

Around 46 countries and the whole EU have a carbon pricing scheme in place (according to the World Resources Institute). The latest include **Singapore**; **South Africa**, and **Argentina**.

In 2020, **Mexico** will launch a test program for emissions trading and **China** may also try to “re-launch” its national emissions trading. We expect the **Canadian** government to continue to push through its carbon tax across all provinces.

Expect to hear more about carbon offsetting in 2020

- ◆ **Zero sum:** Carbon offsets (credits) are generated through emission reduction or avoidance activities. These credits may be purchased by third parties and the “credit” applied to their own carbon account.
- ◆ **Resurgence:** Given the momentum surrounding pledges towards net zero and carbon neutrality in the future, many countries and companies will likely try to use carbon offsets to meet these targets – causing offsets to be in vogue again.

### **The US presidential election – in or out**

The US will formally withdraw from the Paris Agreement on 4 November 2020. Most of the year will likely be dominated by the presidential election, which takes place the day before, on 3 November 2020.

As the only party to formally withdraw from the Paris Agreement, the presidential election will determine

whether the US re-engages or disengages with the global climate process. But we must also consider the **House of Representatives** and **Senate elections**, which can also have a major influence on US Federal climate policy.

### **Climate change and health**

As the social implications of climate change become more prominent and include gender, indigenous, and vulnerable communities, we think that health will continue to be a theme. Warmer weather can exacerbate air pollution through drier lands (dust) and wildfires, and those affected by heat, air pollution or disease will increasingly seek out healthcare.

The World Health Organisation (WHO) released its Health and Climate Change survey report in December 2019. It found that, out of 101 countries surveyed, only half had a national health and climate change strategy or plan and that most countries had low implementation of these strategies with finance being a barrier.

As the probability of more severe extreme events increases, we think local authorities may find that healthcare infrastructure is not equipped to cope with the numbers affected. Although it will take time, countries may be forced to think more about healthcare as part of their national adaptation strategies.

### **Conclusion**

The path for 2020 is uncertain because it depends on how the politics, science, impacts, business, and public awareness will influence each other. We believe the impacts will continue throughout the year, and, devastating as these are, will raise public awareness. The science will continue to trickle along and climate ambition for business and politics will depend on the response to public pressure.

With the economic impact from climate-change related events intensifying, it is becoming increasingly important for investors to be alert to the risks and opportunities that may arise from climate change.

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