



Position on the Coronavirus Recovery

U.N.-CONVENED NET-ZERO ASSET OWNER ALLIANCE

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In the recovery from the global coronavirus pandemic, government spending and recovery packages will play a pivotal role in underpinning economies, jobs and people's livelihoods. These measures, already in the trillions of dollars, need not only to be effective in restarting the economy, but also in creating a sustainable economy of the future. This includes the imperative to reduce emissions and uphold the Paris Agreement. The alternative, spending programs without 1.5°C-aligned policies, is to risk committing economies to an unsustainable path as well as a level of public indebtedness that will constrain future efforts to change course. As the former Bank of England Governor Mark Carney has noted, countries "will not be able to self-isolate from climate change".¹ The recovery planning from the coronavirus pandemic is a historic opportunity to get back on track with climate goals and accelerate the transition to a zero-carbon economy by 2050.

As long-term investors who have joined the UN-convened Net-Zero Asset Owner Alliance, representing 27 pension funds and insurers with nearly \$5 trillion in assets, we are concerned that unconditional bailouts and pandemic recovery measures risk locking in high-carbon sectors, technologies, infrastructure and systems for years or decades to come, and prevent the necessary transformation to a resilient and sustainable economy. Conversely the current crisis offers the historical opportunity to accelerate the transformation to a climate-neutral and just society – if recovery measures are well designed. Given that the planned or already designed recovery programs are based on public funds to a large extend, these programs should facilitate the achievement of the Paris Agreement. We therefore strongly support the growing chorus of voices from political leaders, businesses, other investor groups, NGOs and academics for climate and sustainability policy to be at the heart of the recovery.

This position paper builds on the design principles—staying the course with the Paris Agreements 1.5°C target, market measures to crowd in private capital and international coordination—that were set out in an earlier op-ed² on how to recover better from the crisis.

Key factors in a sustainable recovery

Factors in determining whether the coronavirus is a positive turning point for the global efforts to avoid dangerous climate change, include:

1. **Building better resilience.** The costs of coronavirus will be greatly compounded were there to be a 2nd and 3rd pandemic wave as was the case in 1918~19. The ability to learn from the current crisis and put better systems in place will be paramount. The probability for future disruption from diseases is also inter-related with climate change. An increase in vector-borne diseases, biodiversity loss and agricultural crop pathogens are expected to comprise a growing body of risks in a warming world (IPCC 2014). Thus, even if the coronavirus quickly fades away, policy-makers and investors will still need to reconsider how economies and business models can be made more resilient against any kind of shock, including from climate-related risks.
2. **The portion of recovery spending that is “green”.** Evidence from recovery spending following 2008/2009 suggests that green stimulus has a higher jobs multiplier than conventional government spending. Green infrastructure or construction projects are in the short run labour intensive and less susceptible to offshoring. One model found every \$1m in spending generates 7.49 full-time jobs in renewables infrastructure, 7.72 in energy efficiency, but only 2.65 in fossil fuels, thus a shift from brown to green or transitional spending will create a net increase of 5 jobs on average per million dollars of spending (Garrett-Peltier 2017). Yet, of the \$10+ trillion stimulus announced so far, only a small percentage is expected to support the energy transition (Subran et al 2020; Hepburn et al 2020). Prior to the announcement of the European Commission recovery package, an estimated 4% of stimulus is “green”, a further 4% is “brown”, with the remainder 92% being neither explicitly green nor brown, and thereby likely to preserve the status quo (Hepburn et al 2020).

1 Mark Carney: 'We can't self-isolate from climate change" the BBC, 7th May 2020 <https://www.bbc.co.uk/news/science-environment-52582243>

2 "Post-Covid recovery packages must quicken the pace to net-zero carbon emissions" by Günther Thalinger, Allianz CIO and Chair of the UN-convened Net-Zero Asset Owner Alliance and Nick Robbins, Professor of Practice – Sustainable Finance, Grantham Research Institute, London School of Economics, 22nd April 2020 [https://www.responsible-investor.com/articles/post-covid-recovery-packages-must-quicken-the-pace-to-netzero-carbon-emissions](https://www.responsible-investor.com/articles/post-covid-recovery-packages-must-quicken-the-pace-to-net-zero-carbon-emissions)

Hepburn et al. (2020), through a survey of 230 policy makers and economists, identified five policy areas where the synergies between the economic multiplier and the potential to reduce emissions are the strongest.

- clean physical infrastructure investment in the form of renewable energy technologies, storage (including hydrogen), grid modernisation and CCS technology,
- building efficiency spending for renovations and retrofits, including improved insulation, heating, and domestic energy storage systems,
- investment in education and training to address immediate unemployment from COVID-19 and structural shifts to decarbonisation,
- natural capital investment for ecosystem resilience and regeneration including restoration of carbon-rich habitats and climate-friendly agriculture, and
- clean R&D or deployment-based innovation to accelerate the commercialisation of new technology.

Thus, increasing the portion of recovery spending that is green will be important for job creation and emission reduction.

3. **Conditions on fiscal spending.** We recognize that the need for government funding will extend beyond clean infrastructure. Support measures will continue to be needed for other parts of the economy. Recovery packages should help steer companies towards decarbonization, incentivize climate target-setting, be coupled with the development of net-zero emissions transition plans for emission-intense recipients and help to prepare and reskill the workforce. Particular consideration should be given to the power, heavy-industry and transportation sectors, where cost-effective near-term emission reductions can help build longer-term resilience, and unconditioned bailouts for greenhouse gas-intensive business-models (e.g., airlines) need to be avoided.

In addition, consistent with the commitment of the G20 dating back to 2009, governments should implement a phase out of fossil fuel production and consumption subsidies.

4. **Fast tracking of legislative or regulatory measures that will attract private sector capital.** Not all climate goals can be achieved through public spending. Legislative targets on absolute emission reductions, the effective pricing of carbon and energy efficiency schemes are also essential for creating private sector confidence in the direction of policy and attracting long term investors. Recovery programs should be complemented by enhanced national emission reduction plans in line with mid-century net-zero ambition that create the enabling conditions to promote regulatory certainty and climate resilience, thereby attracting private capital and reducing the fiscal burden on the state.
5. **International coordination.** In light of extensive economic and other linkages, a strong recovery in one country hinges on the success of countries elsewhere in bouncing back from the virus. To the greatest extent possible, countries should look to promote a coordinated international response through traditional channels (G20, G7, etc), as well as through preparations for COP 26, bilateral summits, the Coalition of Finance Ministers for Climate Action and the NGFS.

What would net zero aligned recovery plans look like?

A program for recovery is likely to cover different interrelated phases, including measures that look to provide immediate relief, measures that seek to rebuild, and those that seek to prevent disaster from reoccurring. All of these phases entail risks and opportunities with regard to supporting or thwarting progress toward achieving net-zero emissions in line with the Paris Agreement. Beyond those measures that are critical to address truly acute needs tied to health and welfare, we recommend that the following considerations be applied:

1. **Apply climate screening criteria to guide government spending plans. At minimum, recovery measures should be consistent with Article 2.1c of the Paris Agreement, which calls for financial flows to be aligned with the Agreement's objectives.** Wherever feasible, decision-makers also should apply the "do no significant harm" criteria as set forth in the EU sustainable finance taxonomy. As noted above, unconditioned bailouts of carbon-intensive corporations would be inconsistent with these requirements and must be avoided.

2. **Extend existing clean energy and climate policy measures.** With unemployment in double figures, implementing recovery programs at speed will be essential. Governments should focus on existing authorities as far as possible to provide an immediate economic boost. This could involve extending existing subsidies and tax incentive schemes, such as in the US the Section 1603 Treasury Cash Grant³ or Contracts for Difference in Europe. In practice, this is likely to mean a degree of variation in the approaches and mechanisms used across geographies.
3. **Launch a large-scale 1.5°C aligned infrastructure programme.** The almost-zero interest rate environment combined with the need to create jobs and reduce emissions highlights the multiple advantages of a large-scale and net-zero aligned infrastructure programme. This could include:
 - Update 2030 renewable energy targets in line with achieving net zero emissions by 2050
 - Development of a granular 5, 10 and 15 year 1.5°C aligned clean infrastructure strategy
 - Bring forward retirement schedules for fossil fuel plants, replace with renewable generation plus battery storage (Liebreich 2020)
 - Establish a regular timetable for renewable energy project auctions or a commitment to introduce long term power purchase agreements for "subsidy free" renewables.
 - Accelerate the development of large-scale energy storage programs, as well as piloting and commercialization programs for next-gen technologies such as floating offshore wind, marine technologies, and green hydrogen.
 - Consider tax incentives for long term investors in clean infrastructure projects
 - Promote clean transportation infrastructure, e.g. dedicated bicycle lanes or investment in train and clean-bus infrastructure, that incentivizes a modal shift towards low- or zero emissions transportation such as bikes or public transport

In addition, we note that some research institutes⁴ have provided sector recommendations that governments should consider when designing recovery measures and plans. The Asset Owner Alliance will explore these in more detail in the upcoming PRI country climate policy roadmaps.

Energy. Consistent with the recommendations of leading economists and analysts—including the IEA—in order to maximize economic and other societal benefits, recovery measures should be directed toward supporting clean renewable energy such as wind and solar that accelerate clean energy transition. Conversely, recovery programs and investments should not be deployed to support uneconomic existing fossil fuel infrastructure or technologies, or new high-carbon projects such as coal-fired power plants. Responsible recovery measures could include the following:

- Direct support for zero emission infrastructure and technologies.
- Strengthened, rather than weakened, regulations curbing fugitive methane emissions from the oil and gas sector.
- Phase-out of upstream and downstream fossil fuel subsidies.
- Accelerated phase-out of coal fired power plants, e.g. through securitization of existing coal infrastructure and reinvestment in renewable energy alternatives, in line with phasing out reliance on coal in industrialized nations by 2030 and the rest of the world by 2040 at the latest.
- The avoidance of unconditioned bailouts for fossil fuel energy companies, including but not limited to coal, oil and gas companies exhibiting weak fundamentals even prior to the pandemic. Any fiscal support should be closely coupled with requirements to adopt, disclose and implement transition plans aligned with achieving net zero emissions by 2050 at latest.
- Don't revive plans for 'shovel-ready' fossil fuel power plants. No bail out of fossil fuel companies without conditions for net-zero-emission-strategies (including Scope 3 emissions) No extension of fossil-fuel based capacities
- Strengthen rather than weakening oil and gas industry environmental regulations (e.g. regarding fugitive emissions or flaring)

3 This mechanism was used by 110,000 projects following the 2009 financial crisis, supporting 75,000 jobs and 35 GW of new power (Mendelson & Harper 2012).

4 For example CAT 2020, ETC 2020

Aviation

By 2050 the sector is projected to reach 25% of global emissions by 2050, and current industry commitments to half 2005 emissions by 2050 are voluntary. The sector has already received \$126 billion in mostly unconditional bailouts and the international governing body recently revised the baseline of the recently agreed Carbon Offsetting and Reduction (CORISA). In this context, the AoA is calling for development of a long term and binding strategy by ICAO and national governments on GHG emission reduction ahead of COP 26. This should include:

- Enhanced GHG reduction targets and corresponding transformation pathways for the aviation sector in line with achieving net-zero ambition, including intermediate milestones for 2030 and 2040. The use of offsetting to reach these targets should be a last resort option.
- Fleetwide fuel efficiency improvements of 2.5% per year from 2019–2050.
- Accelerating R&D and demonstration of sustainable low- or zero-carbon alternative fuels in the aviation sector.
- Demand management to the extent that fuel efficiency and alternative fuels are not sufficient to meet emission reduction targets
- Government adoption of policies frameworks that incentivises climate mitigation measures in the aviation sector in line with Paris Agreement goals.

Automotive

Targeted green recovery packages should focus on interventions that increase supply and demand for zero emission vehicles. These measures could include:

- A green cash for clunkers scheme might opt to focus on fully electric vehicles. Policies stimulating demand, should not lead to a rebound of sales of combustion engine vehicles.
- Government procurement. Purchasing of electric vehicles for publicly owned buses, taxis and military vehicles.
- Retraining packages for automotive workers who have lost their jobs as result of the coronavirus and / or the demise of the internal combustion vehicle.
- Encouraging collaboration between manufacturers to co-develop and co-finance zero emission technology – including shared fuelling infrastructure, e.g., EV charging or green hydrogen – to achieve greater economies of scale and reduce costs.
- Strengthen rather than weakening existing environmental regulations (e.g. fuel efficiency standards, emissions standards)
- Avoid support for automobile companies without conditions for a net-zero emission strategy (Scope 1-3) including production phase-out plans for combustion engine vehicles (ideally in the early 2030s for two-wheelers and passenger cars).

Industry

Measures here should include government support for energy efficiency schemes, including large scale energy efficiency retrofits. Specific programs could include the following:

- Scrappage scheme for inefficient household goods such as boilers, fridges and washing machines.
- Demonstration of large-scale energy efficiency projects for use for in steel making, reducing the input of iron through hydrogen and electrolysis (CAT 2020)
- Avoid unconditional bailouts of hard-to-electrify sectors (cement, chemicals, steel).
- Avoid support for emission intensive industries without conditions for a net-zero emission strategy in line with 1.5 °C ambition.

Buildings

Recovery measures should support the retrofitting of commercial and residential buildings to promote energy efficiency and conservation. This would tap opportunities to reduce emissions while promoting job growth and reducing energy costs, and may include:

- Scaling up of existing programs for providing financial incentives for building retrofits that lead to net-zero by 2050, through low interest loans and / or tax breaks.
- Retrofit programme for public buildings, such as hospitals, schools, government buildings and social housing.
- Adoption of zero carbon building codes or regulations, integration with EVs, PV and power storage.

Rollbacks of building and construction energy efficiency regulations would be counterproductive, and should be avoided.

Sustainable land use. Measures should be designed to support afforestation, avoid further deforestation, and promote sustainable farming as well as nature-based solutions for adaptation. Such measures could include:

- A large-scale landscape restoration and afforestation programme to boost long-term remediation efforts and long-term environmental benefits.
- A market mechanism for afforestation: The government should leverage private investment through the creation of an Emissions Trading Scheme or Contracts for Difference-style market mechanism. Privatization of public goods (e.g. forests) must not lead to any negative impacts on local communities depending on these goods.
- Avoid rolling back existing regulations and state enforcement of the protection of natural habitats.

Link recovery programs to national emission reduction plans and NDCs. In parallel to recovery packages, governments should look to enact or strengthen climate legislation and regulatory measures. These could:

- Introduce or update climate legislation to establish net zero by 2050 commitments and trajectories.
- Eliminate direct and indirect fossil fuel subsidies.
- Advance electricity market reforms to support electrification of transportation and other uses.
- Phase out (through carbon pricing or regulatory measures) fossil fuel infrastructure and technologies, e.g. coal-fired thermal power plants, the sale of new internal combustion vehicles.
- Adopt sectoral net zero policies for key economic sectors: energy, power, industry, agriculture, automotive, aviation and shipping.

Conclusion

With the prospects of historically high levels of debt-to-GDP in the wake of the coronavirus crisis, it is critical that economic stimulus does not set back efforts to reduce emissions. A global green and resilient recovery program, adapted and advanced across geographies and jurisdictions, is well suited to create jobs and drive the economic growth needed to rebuild following the widespread impacts of the pandemic. Only in this way will the foundations be laid for an irreversible shift to a resilient, net-zero and inclusive economy.

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