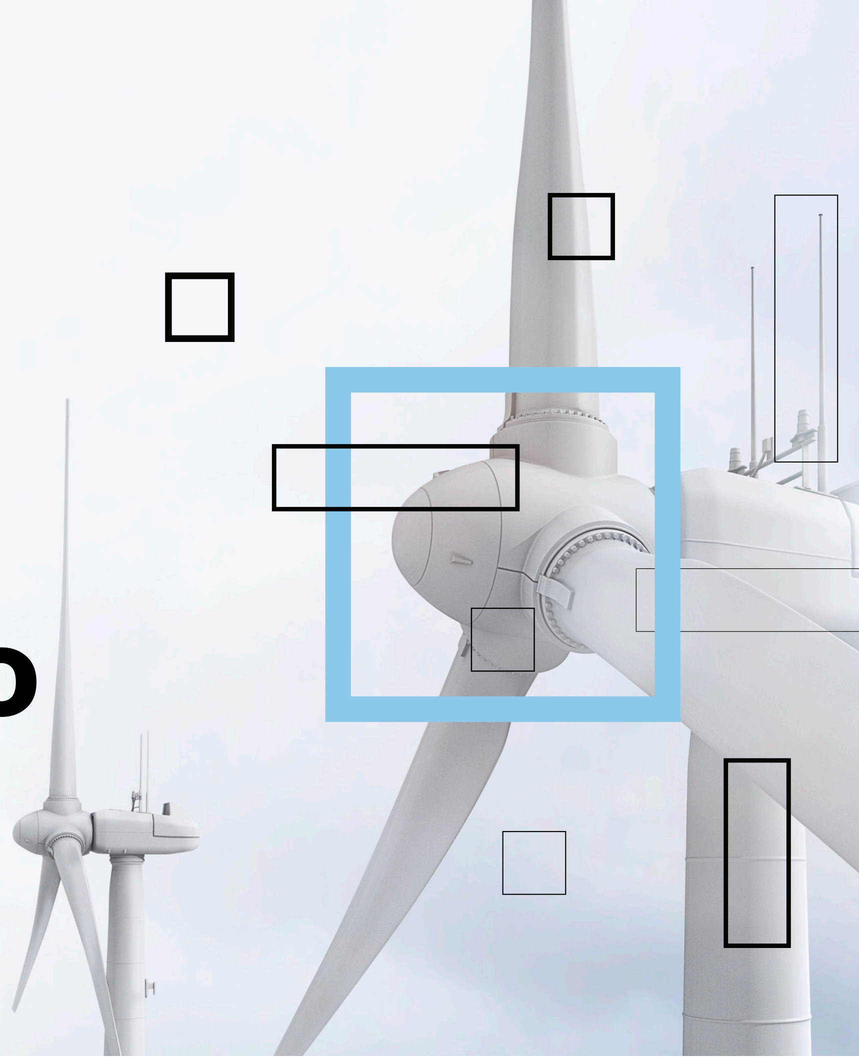

ICE Insights:

The Move to Net Zero

The path to "net zero" carbon emissions is full of challenges and opportunities. Companies that proactively engage in a strategy on transitioning to net zero will be more resilient longer term, and more appealing to various stakeholders.

Carbon emissions into the atmosphere from sources including industry, agriculture and people have caused a rise in the temperature of the planet — leading to environmental catastrophes such as floods, droughts, wildfires, decreased food sources and inhospitable climates. Mark Wiedman, BlackRock's Head of International and Corporate Strategy, estimates that world GDP may decrease by 25% by 2050 if aggressive action is not taken.

Major investors are pushing companies to make explicit plans for their businesses as the global economy moves to eliminate carbon emissions. Many energy firms have already taken initiatives to reduce their carbon footprints.

A recent ICE webinar with Mark Wiedman discussed progress in the transition to a net zero global economy, and the road ahead for companies and investors.

Activism in Action

BlackRock, with ~$U.S.9.5 trillion in assets under management, is advising firms in which it invests to disclose a plan for how their business model will be compatible with a net zero economy (one where global warming is limited to below 2^{0}C, consistent with a global aspiration of net zero greenhouse gas emissions by 2050).

Many firms have already started the transition to a net zero future, with the idea that well-prepared companies will perform better not just for investors, but employees, clients and communities. Industries such as shipping, consumer products and hydrocarbon energy have understood the coming transition for years. Some companies already subject to carbon cap and trade programs and renewable fuel standards, are using markets to meet obligations and manage risk.

Investor interest in bonds linked to environmental, social and governance (ESG) initiatives has grown exponentially. After attracting $U.S.1 trillion in the first six months of 2021, the global market for such debt has surpassed $U.S.3 trillion, according to the Institute for International Finance.

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Risks Are Everywhere

For companies which do not have a transition strategy, the move to net zero can present risks to reputation, financial health and success as the behavior of consumers, investors and governments focuses on taking steps to mitigate climate change.

But planning can be complicated. Plastics, which are based on hydrocarbons, are everywhere. Concrete is also ubiquitous, and releases carbon into the atmosphere when it is created. Manufacturers of plastics and concrete can't just shut down, or the consumer goods and construction industries would grind to a halt.

Simply divesting is not always ideal. For example, urging oil and gas companies to divest from fossil fuel projects could result in the sale of those projects to companies that are less receptive to pressure to decarbonize.

Opportunities Abound

It's already evident that substantial amounts of capital are allocated toward green infrastructure. "If you're looking at infrastructure, look at green infrastructure, where money is pouring in, such as in the U.S., Europe and China. Trillions of dollars in capital will be recommitted into the green economy," Wiedman said.

Some companies are benefiting from being viewed as leaders in the push to decarbonize. "Energy producers in Europe that position themselves as renewable producers are seen as winners in the future, as evidenced by stock prices that are already shifting," Wiedman said.

Investment opportunities have also materialized in the form of Exchange Traded Funds (ETFs). BlackRock recently launched two low-carbon transition readiness ETFs, which represent the largest ETF launch in their history at $U.S.1.8 billion. By contrast, most BlackRock ETF launches are valued at around $U.S.20 million, an indication that interest in proactive companies has been strong, according to Wiedman.

The portfolios are composed of companies that BlackRock judges as leaders in accelerating the transition to net zero — including those that are emitters. Many of these companies have plans to cut their emissions. “We are not going to be entirely without any reliance on carbon at any part of our value chain tomorrow,” Wiedman explained. “How do we accelerate the shift? You need to move capital to companies who want to make the shift.”

The Need for Standardization

Emission and offset disclosures from companies are key to progress towards a net zero economy. Without clear reporting requirements and standards, companies may have less financial incentive to lower emissions. Data must be verifiable, with requirements for public companies, private firms and firms owned by private equity.

Wiedman says frameworks like the Sustainability Accounting Standards Board (SASB) and Task Force on Climate-related Financial Disclosures (TCFD) have been recommended as suitable global standards for disclosures for public and private companies. He notes that corporate adoption of SASB and TCFD is accelerating.

A Transition in Progress

The transition toward net zero is being spurred by growing pressure from governments, investors and consumers. The eventual switch to renewable energy and decarbonization will be long and complex and move at a different pace across geographies. Nevertheless, it is in the best interest of companies to have a transition plan in place — or risk the financial and reputational damage that may arise from being left behind.

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