Covid-19 & Prioritizing The Important Over The Habitual

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'Climate change is the biggest threat to our planet... We can save Earth. It's going to take collective action from big companies, small companies, nation states, global organizations, and individuals." – Jeff Bezos

Human history is abundant with many examples of ignoring expert advice and repeating our past mistakes. Climate change professionals have been talking about risks related to climate change for years. Yet leaders have been postponing action due to "not being an imminent threat". Experts have been warning us of the future consequences of social issues if not tackled properly. Yet organizations have made little progress towards employees' equality and wellbeing. Health specialists have been warning us of the increased risk of infectious zoonotic diseases, those transmitted from animals to humans, due to unsustainable practices such as wide-spread environmental degradation and rampant wildlife trafficking. Yet the world was caught off guard by Covid-19. We usually go on with life, focused on our short-term expediencies till something like Covid-19 comes along and shakes us from our stupor.

Covid-19 has indeed imparted humankind with many lessons. One of the lessons to be learned is that sometimes, through a major crisis like Covid-19, we may have to lose or delay something we had been waiting for and looking forward to for a very long time. On an individual level, many of us had set some personal or professional goals for 2020. When Covid-19 hit, we regretfully had to accept that some of those objectives had to be postponed not only for a few days or months, but in some cases as long as a few years… Another core lesson shown is that sometimes we take things too much for granted while we have them readily available. For example, how often do we use as an excuse being swamped with our daily priorities in order to postpone things that may be the least to be neglected in our lives.

We are genetically hard-wired to focus on the short-term. This trait enabled our distant ancestors to deal effectively with the key threats they faced when they were at risk of immediate danger from a predator or natural disaster. Today, the manifestations of this short-termism still permeate much of our civilization. Although short-term risks are clearly still critically important, many of the top issues now facing us, such as C-19 and climate change, are systemic risks. They require us to also consider the longer-term consequences that are often broader and indirect.

In the past year, we have indeed seen extreme events from Australia to the Amazon to the Arctic that have highlighted how a warming world is a problem for us all now. C-19 has underscored how rather than waiting until the next crisis it is far better to act now. As just one example, though forest fires in Australia are an annual event, the deadliest bushfires in the last 200 years have occurred in 1851, 1939, 1983, 2009, and now 2019-20[1]. The years between them are shrinking rapidly. Previously, the 2009 fires, in which 430,000 hectares were burnt, were regarded as the deadliest. However, the latest 2019-2020 fires are

[1] https://theconversation.com/with-costs-approaching-100-billion-the-fires-are-australias-costliest-natural-disaster-129433

estimated as having burnt over 40 times the size of those fires and an area of 186,000 square kilometers[2] (an area larger than Greece). The full costs of the latest disaster, including social costs such as increased unemployment, will not be fully known for many years. They are expected to be by far Australia's costliest natural disaster.

COULD COVID 19 INDUCE PROPER ACTION FOR CLIMATE CHANGE?

It is clear we should no longer sit around and wait, but collectively raise the bar in terms of rapidly reducing carbon emissions. As the famous Roman Emperor and philosopher Marcus Aurelius is attributed with having said, what we do now echoes through eternity. What we collectively do now in the next few years will decide the kind of world we leave to our children and the next generations.

Until Covid-19, many companies have focused on cost reductions and efficiency improvements, which has contributed to extensive outsourcing and complex global supply chains. However, C-19 has shown how vulnerable supply chains can be if efficiencies and cost reductions are taken to extremes, especially in a context of rapid change and disruption. In the light of a systemic risk like C-19, it seems likely that we will start to see a move towards more resilient and localized operations. Also, there may be an acceleration in the trend towards more responsible and purposeful business. If supply chains and businesses become more resilient, they will be better placed to deal with accelerating disruption and to maintain long-term viability.

C-19 has also demonstrated the enormous potential of new communication technologies that have allowed many companies to cope more effectively with the Covid-19 restrictions. The new technologies are currently causing a transformation with ever faster digitalization within corporations. The speed at which new communication technologies are causing change could also be used to the benefit of facilitating multi-stakeholder collaboration. Additionally, enabling effective remote working could give many companies the opportunity to achieve sustained reductions in their carbon emissions through reduced commuting from now on.

C-19 has also shown examples of the power of international cooperation. Where knowledge has been shared, countries at an earlier stage in the pandemic response have been able to learn from the experiences in countries already affected. Therefore, they could implement measures more effectively. Similarly, there is also clearly enormous potential for effective international collaboration in tackling climate change. To be effective, this cooperation needs to be aligned with the latest climate science including the IPCC 2018 Special Report on Global Warming of 1.5 degrees[3] as well as with the UN Sustainable Development Goals.

Again, as individuals we should not simply wait around for governments to take action and consider ourselves powerless till that has happened. It is true that at one level, global agreement and collaboration between states provides a market signal and framework. Yet, at another level, as highlighted by the recent rapid progress globally in electric vehicles, being spearheaded by Tesla and others, corporations have an essential role to play through innovation and roll out of clean tech. At yet another level, the momentum that activists such as Greta Thunberg and others have helped create show that as individuals there is plenty of tangible impact we can achieve.

GLOBAL STOCK EXCHANGES ACTING AS ENABLERS FOR CLIMATE CHANGE

The scientific consensus is clear that in order to stand a good chance of avoiding a global climate crisis we need to reach net zero carbon emissions by 2050 at the very latest. We have to achieve an annual reduction of at least around 8% every year from this year until 2030. Due to the C-19 restrictions, the latest estimates from the IEA indicate that in 2020, despite the global disruption, emissions will reduce by only up to this minimum threshold. Hence, this highlights the scale of the challenge facing us.

Insufficient progress on climate change by global corporations was also highlighted by an impact

[2] https://en.wikipedia.org/wiki/2019–20_Australian_bushfire_season

[3] https://www.ipcc.ch/sr15/

research called “Sustainability Governance Scorecard” by Argüden Governance Academy, which evaluates companies through a governance lens. According to the study, only 53% of leading ESG-compliant global corporations included in this research had aligned their overall strategy with SDG 13 (Climate Action.)[4]

In recent years, we have already started to see many important initiatives focused on climate change driven by the investor and business communities such as CDSB, CDP and TCFD. However, it would be too optimistic to think that climate change and other material ESG issues could be dealt with effectively by these private stakeholder groups alone. Clearly, support is also needed from the eco-system of stakeholders including global exchanges and regulatory agencies acting in tandem to provide momentum. Influential financial intermediaries such as global stock exchanges can indeed function as great enablers for climate change management and decarbonization. They can facilitate the uptake of climate-related disclosure, risk management and ambitious emissions reduction.

Driving ESG Integration by setting Sustainability Guidelines:

First of all, many global exchanges promote climate change disclosure through their established sustainability disclosure guidelines: They recommend corporations to disclose their carbon footprint alongside their energy, water and waste management performance. To name a few such stock exchanges, Nasdaq in May 2019 launched a new global environmental, social and governance (ESG) reporting guide for public and private companies. Initially it was introduced in 2017 as a voluntary support program for Nasdaq’s Nordic and Baltic markets. The new Guide includes the latest third-party reporting methodologies widely adopted by the industry and aims to help both private and public companies navigate the evolving standards on ESG data disclosure.[5] SET (Stock Exchange of Thailand) also offers guidelines to corporations and conducts a corporate sustainability assessment to screen an ESG Stock List, where they have a dedicated section of questions in the questionnaire on corporate policies, strategies and actions about climate change. In a similar way, BVC (Colombia Securities Exchange) has a prestigious Investor Relations committed program with a comparably dedicated set of ESG and climate change related questions. In spite of not being compulsory, many large corporations listed on the Exchange aspire to be part of it because of its reputation. This program also makes it mandatory for corporations to have a sustainability report. Likewise, JSE (Johannesburg Stock Exchange) established specific guidelines as their listed companies are required to report in line with the King IV corporate governance code on an apply and explain basis. The King Code of Corporate Governance is a globally renowned governance code developed in South Africa led by retired Supreme Court Judge Mervyn King and overseen by the King Committee housed by the Institute of Directors of Southern Africa.

Influencing flow of funds into ESG integration:

Secondly, many exchanges push for the flow of funds through ESG indices for equities and through green bonds for fixed income. Nasdaq for example extends a number of sustainability indices including OMX GES Ethical indexes, NASDAQ Clean Edge US Index, OMX CRD Global Sustainability Index. Nasdaq also launched the first exchange-listed and ESG compliant index future in the world. For fixed income, Nasdaq Nordic launched one of the world’s first Sustainable Bond Markets, which includes Stockholm and Helsinki Sustainable Bond Markets.[6] In a similar way, JSE encourages climate change disclosures via the FTSE/JSE Responsible Investment index, and ESG index whose methodology incorporates TCFD recommendations under the Climate Change theme. For fixed income, JSE has a dedicated segment for green bonds. This will become the Sustainability Segment and expand to include “social bonds” and “sustainability bonds from July 2020 on. NSE (National Stock Exchange of India) also exercises influence on addressing climate change through sustainability indices it has created called “NIFTY100 ESG Index,

[4] https://sgscorecard.argudenacademy.org/findings-and-good-practices/guidance

[5] https://www.nasdaq.com/ESG-Guide

[6] https://www.nasdaq.com/sustainability/offerings

NIFTY100 Enhanced ESG Index and Nifty100 ESG Sector Leader". Corporations have to participate in ESG scoring to be in the ESG index, then they need an ESG score of at least 50% to be included in the Enhanced Index and must have demonstrated exceptionally good governance to be included in the ESG Sector Leader Index.[7] B3 (Bolsa do Brasil) provides a set of indices too that track performances of companies concerned about sustainability best practices. In this context, they also have an index dedicated to climate change called "Carbon Efficient Index" as well as over-the-counter products (Green Bonds, CBIO.[8] Finally, BIST (Borsa Istanbul) exercises impact on climate change management through its sustainability index called BIST sustainability index.

Collective Action by Global Exchanges for Climate Change:

Thirdly, global stock exchanges often foster sustainability through collaborative action. For example, in addition to its existing climate change initiatives, Hong Kong Stock Exchange announced plans last week to launch the HKEX Sustainable and Green Exchange, 'STAGE'. "This pioneering new information platform is expected to be the first of its kind in Asia, and will act as a central hub for data and information on sustainable and green finance investments in the region."[9] In a similar fashion, SET has initiated partnership initiatives regarding climate change. In collaboration with their stakeholders, they offer carbon disclosure training for listed companies free-of-charge. They also have a framework called "SET procurement", where they raise awareness among their suppliers to promote sustainable sourcing and SET Stewardship. Finally, they collaborate with 22 partner organizations through the campaign "Care the Bear, Change the Climate Change by Eco Events" in order to help reduce GHG emissions. Nasdaq also puts forward annual educational ESG training programs, which include a climate change specific event called "Climate Week". These programs provide opportunities for stakeholders to engage and collaborate. Likewise, Nasdaq and CERES' Investor Network on Climate Risk (INCR) are working with other partners to create an investor-centric sustainability reporting proposal for public companies and stock exchanges.[10] Finally, Colombia Securities Exchange has recently signed a commitment with TCFD underlining its leadership on climate change management.

IN CONCLUDING:

We should wake up from our wishful thinking that issues such as climate change or social disparities will magically resolve themselves without proper action from our side. In reality, not paying attention to climate change is the same thing as disregarding our children's future. Overlooking an issue like inequality is the same thing as ignoring a fundamental principle that holds our society together and knowingly letting our societies fall apart.

This is how we end up with today's world as we often take things for granted. As we are dealing with a public health crisis that has spurred an economic and financial crisis, it also became a crisis of confidence and trust. The crisis has become a spotlight on all those issues in our present system — whether they are inequalities in the form of health disparities, or structural, gender, or racial inequities. Only a few months ago, we had our "normal" lives and we should not have taken things for granted. Any forward-looking action we intend to take now has to happen while we are simultaneously fighting the fallout of the coronavirus together with the rest of the world.

Going forward, let us use our collective C-19 experience. This way, rather than going back to the unsustainable way things were pre-Covid, we learn from it. Then we can start to build a future that is sustainable, inclusive, fair and resilient and a better future for everyone, everywhere.

[7] https://www1.nseindia.com/products/content/equities/indices/thematic_indices.htm

[8] http://www.b3.com.br/en_us/b3/sustainability/esg-products-and-services/presententation/

[9] https://www.hkex.com.hk/News/News-Release/2020/200618news?sc_lang=en

[10] https://sseinitiative.org/stock-exchange/nasdaq-2/