Collaboration to battle climate change

Prof. Peter Tufano
Baker Foundation Professor, HBS
Senior Advisor, Salata Institute for Climate and Sustainability

Harvard Business School

Agenda

- How did we get here? Who benefitted along the way?
- Why is it so difficult to get somewhere else? Who will resist change and why?
- Levers for change: Top down, bottom up, and across—individually and in collaboration.
- Recent roadblocks

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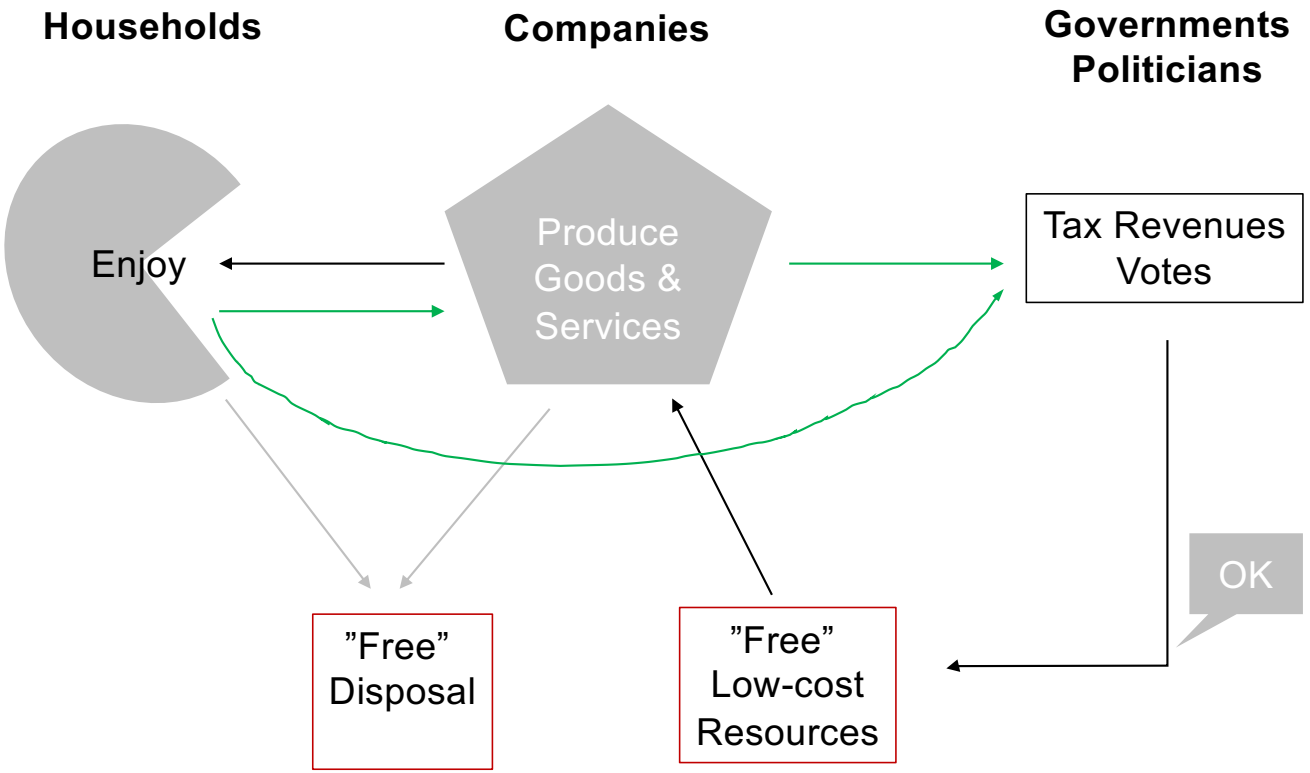
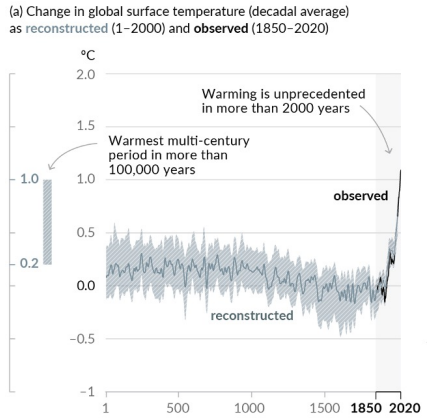
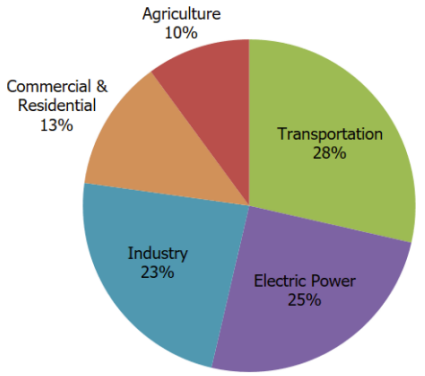
How did we get here?







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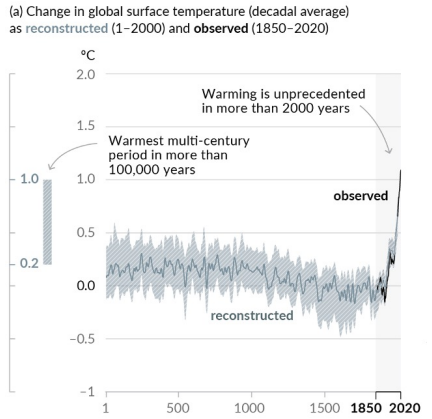
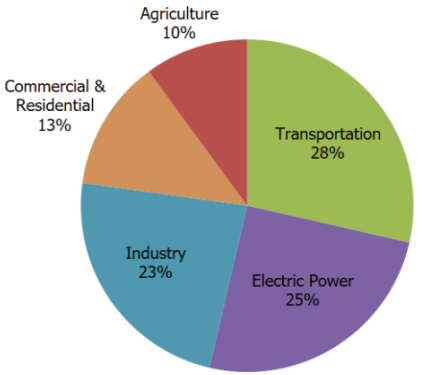
Who *benefitted* along the way? How?

Households

Companies

Governments
Politicians





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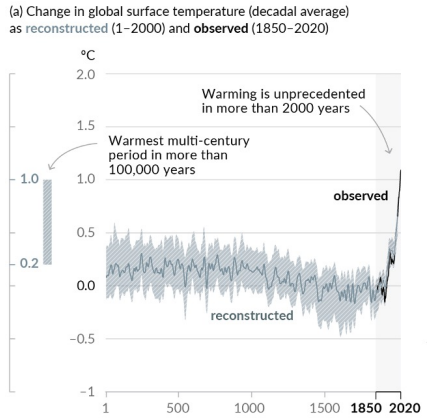
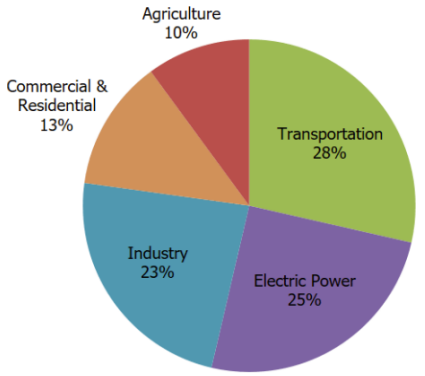
Who *lost*?

Households

Companies

Governments
Politicians





Future Generations

Planet

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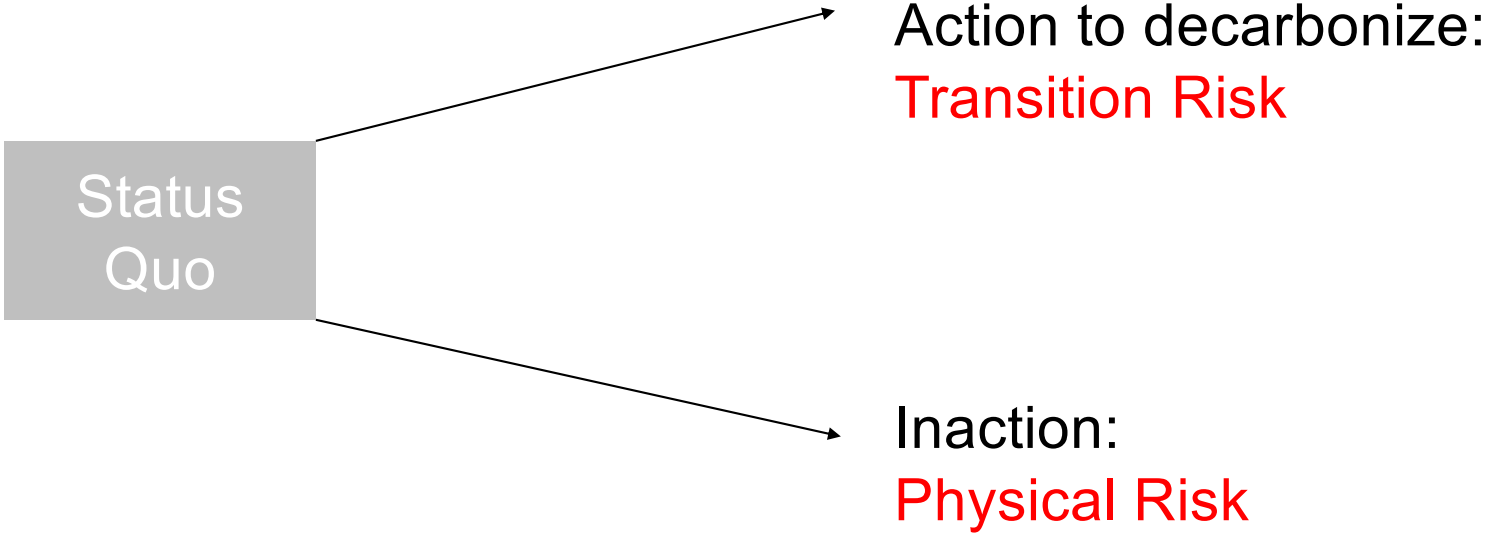
Risk, conditional on two stylized paths



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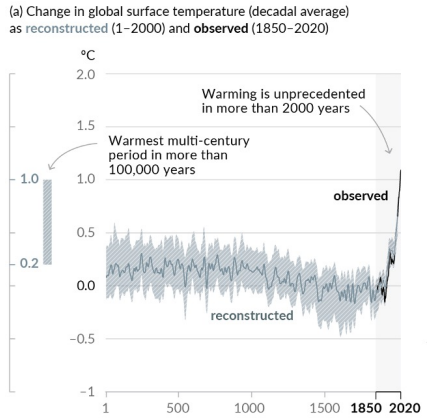
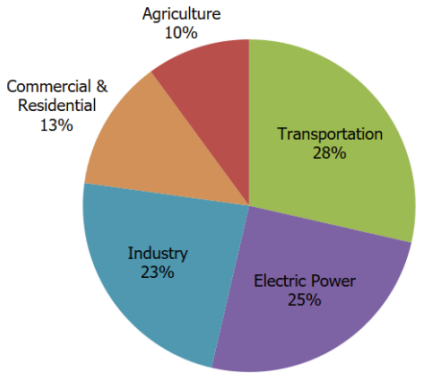
Who is *at risk*? For *which risk*?

At risk from:

	Inaction (Physical risk)	**Action (Transition risk)**
Households		
Companies		
Governments Politicians		
Future Generations		





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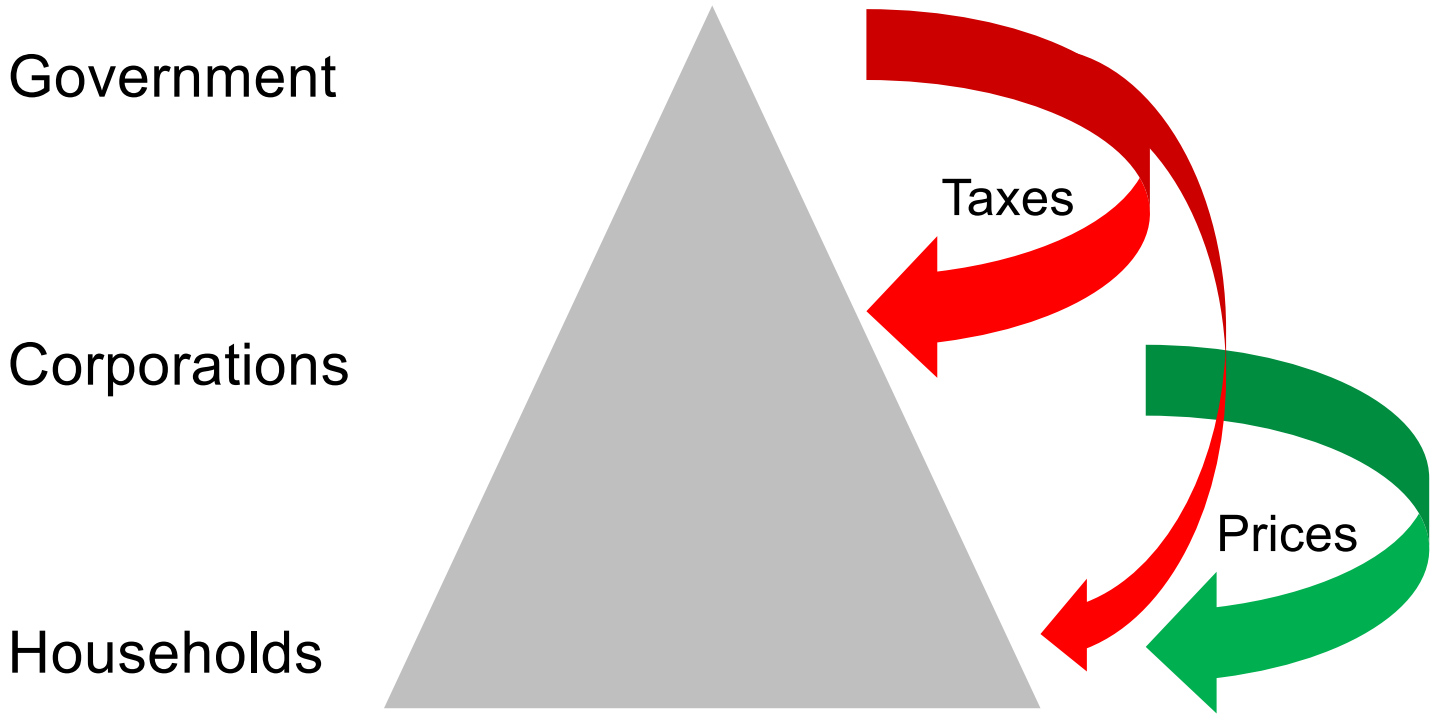
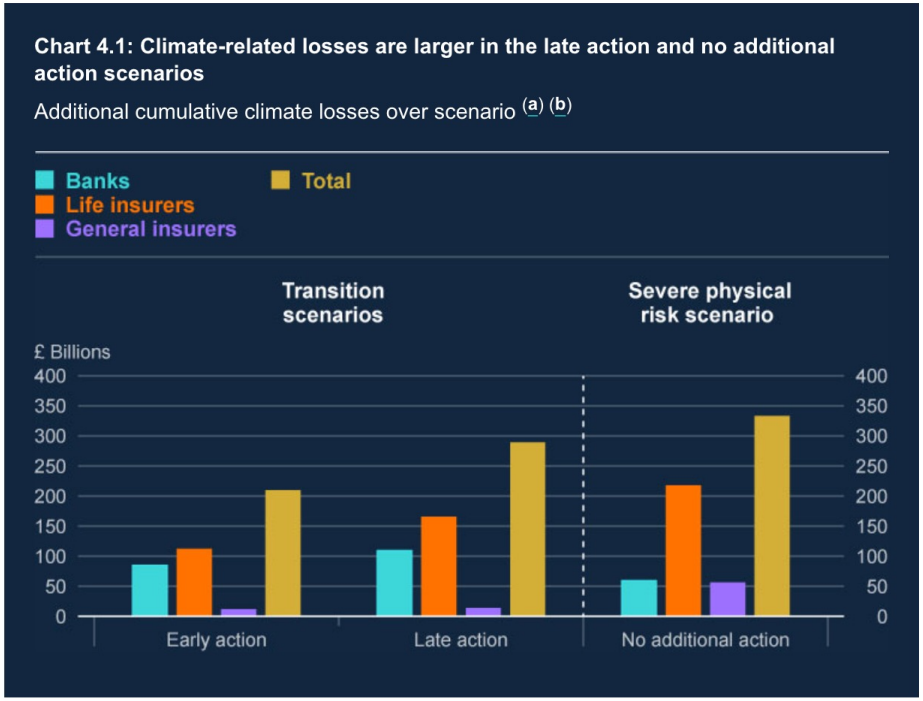
Aside: Who bears the risk *ultimately*?



An example: Financial institutions
Three scenarios→outcomes on banks and insurers

	Early Action	Late Action	No Additional Action
Transition risks	Medium	High	Limited
Transition begins in	2021	2031	n.a.
Nature of transition	Early and orderly	Late and disorderly	Only policies that were in place before 2021
Peak UK shadow carbon price (carbon tax and other policies) (2010 US$/tonne carbon dioxide equivalent)	900	1,100	30
Physical risks	Limited	Limited	High
Mean global warming relative to pre-industrial times by the end of scenario (°C)	1.8	1.8	3.3
Mean sea level rise in the UK (m)	0.16	0.16	0.39
Impact on output	Temporarily lower growth	Sudden contraction (recession)	Permanently lower growth and higher uncertainty
Average annual output growth in the UK (per cent)	1.4, 1.5, 1.6 (Year 6–10, Year 11–15, Year 26–30)	1.5, 0.1, 1.6 (Year 6–10, Year 11–15, Year 26–30)	1.4, 1.4, 1.2 (Year 6–10, Year 11–15, Year 26–30)



Sources: Participating firms' submissions and Bank calculations.

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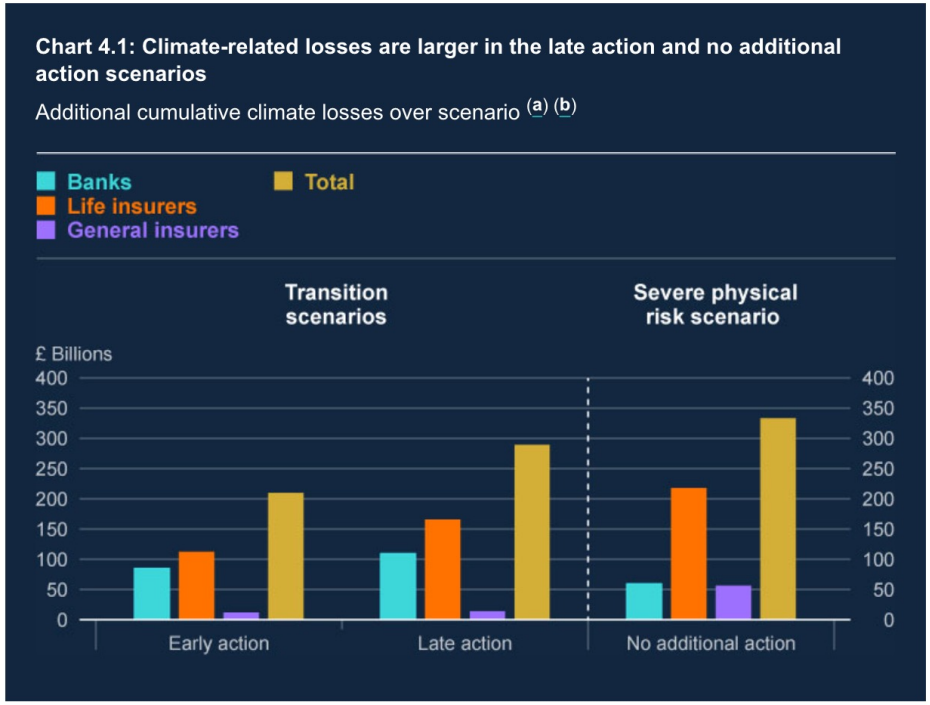
Implications



Sources: Participating firms' submissions and Bank calculations.

- Losses greatest with no action
- Physical risks more costly than transition risks
- Losses lower with earlier action, i.e, more aggressive policies to contain emissions

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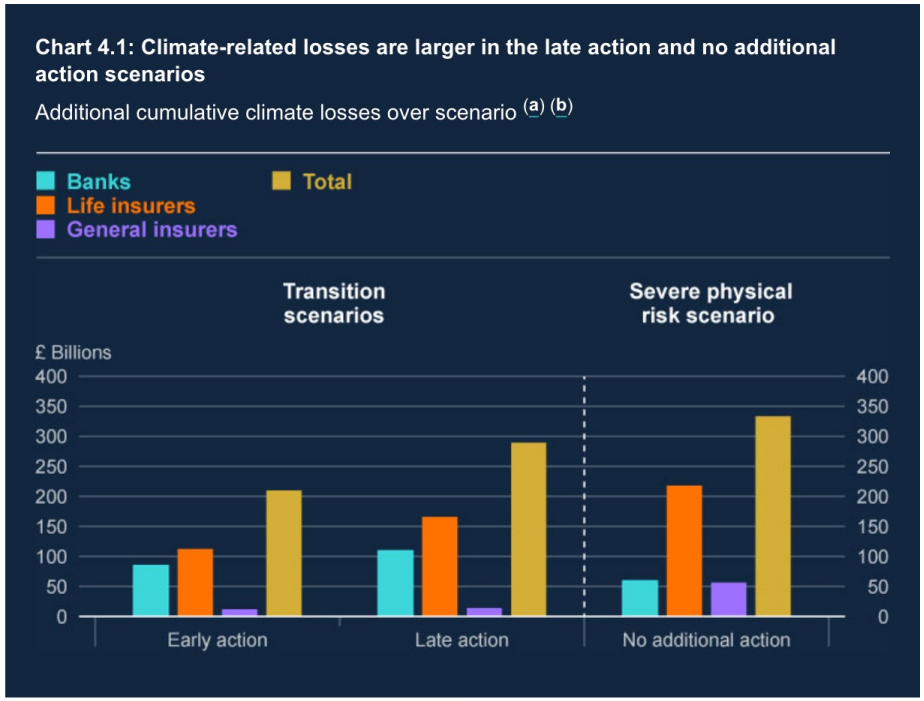
Why so relatively low?



Sources: Participating firms' submissions and Bank calculations.

"Based on banks' and insurers' projections in this exercise, the overall costs to these firms from the transition to net zero should be bearable without substantial impacts on firms' solvency positions, for example through a combination of lower retained earnings and increases in margins on lending to higher risk sectors, and also because not all of the losses on insurers'- investments would ultimately fall on shareholders."

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What do we need? Rapid and decisive action

Who will oppose?

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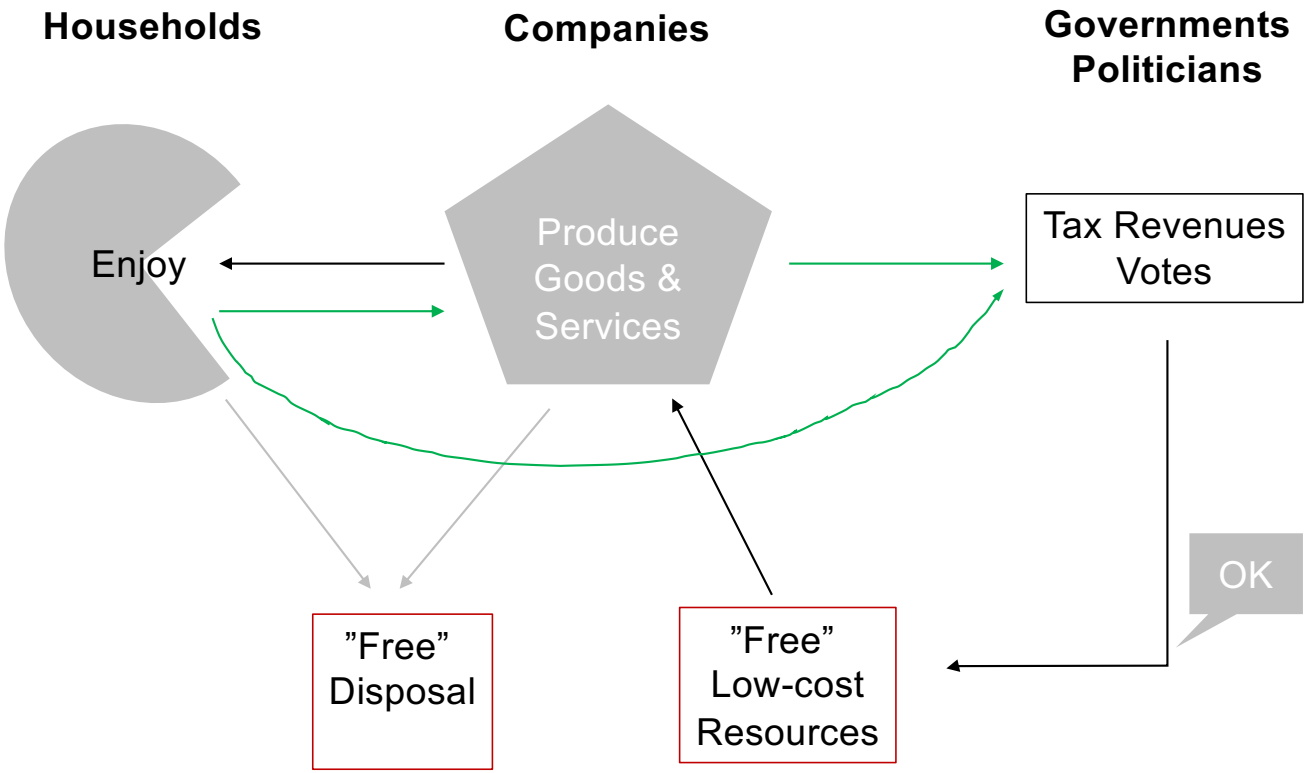
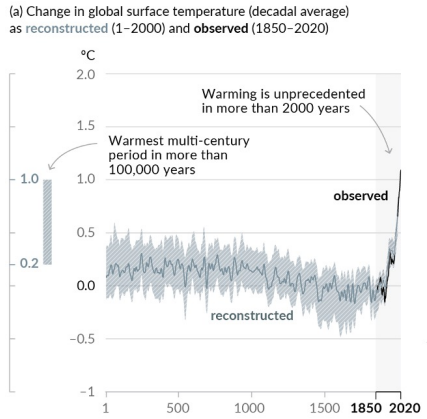
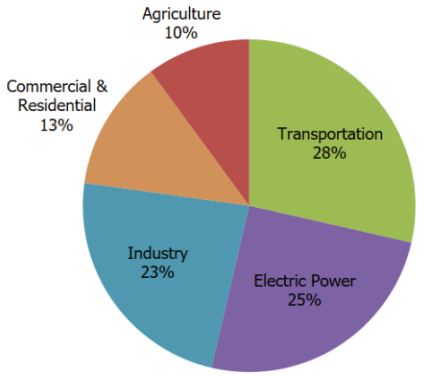
Who might object? Or stall?







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Who can exert pressure? Where?

Government

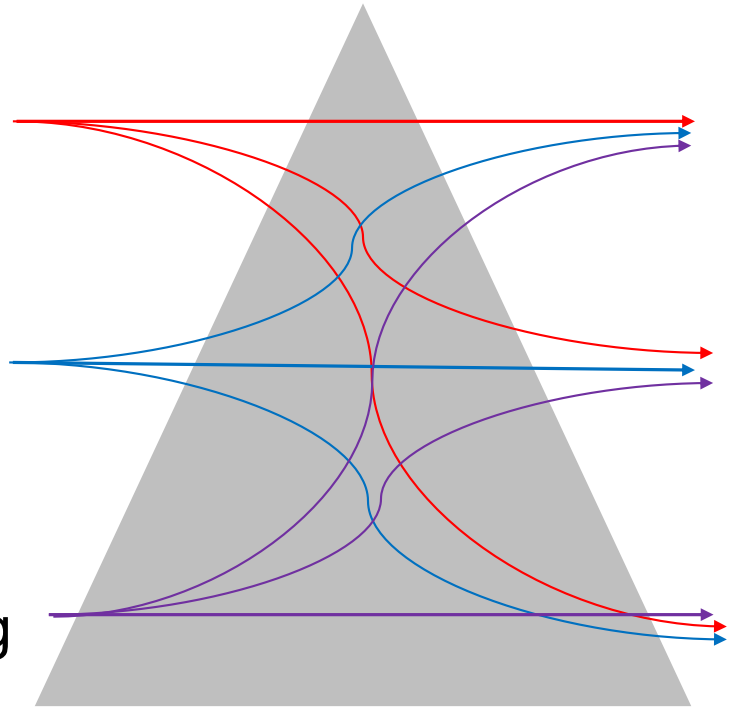
Vigorous enforced policies

Corporations

- Individual action
- Collective action

Households

- Buying, Voting, Working
- Movements



Government

Corporations

Households

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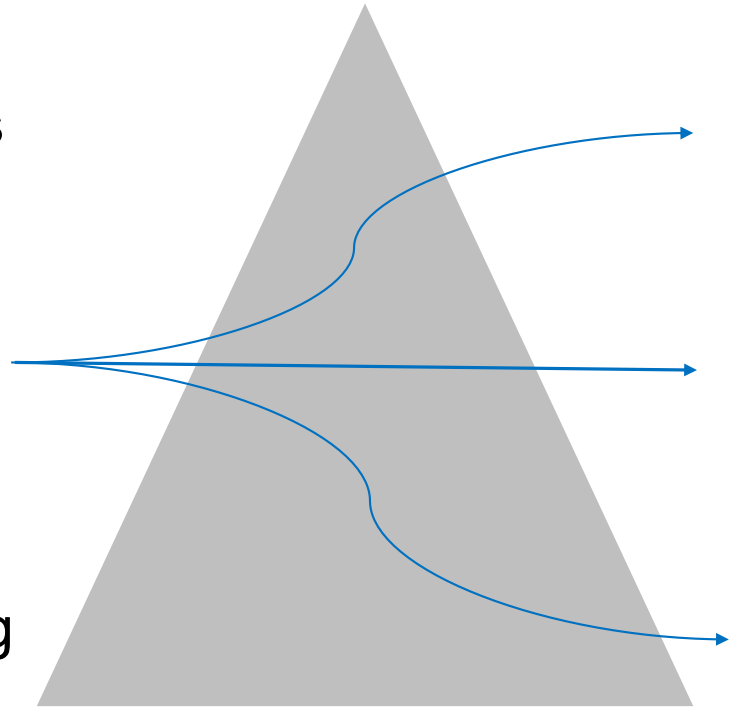
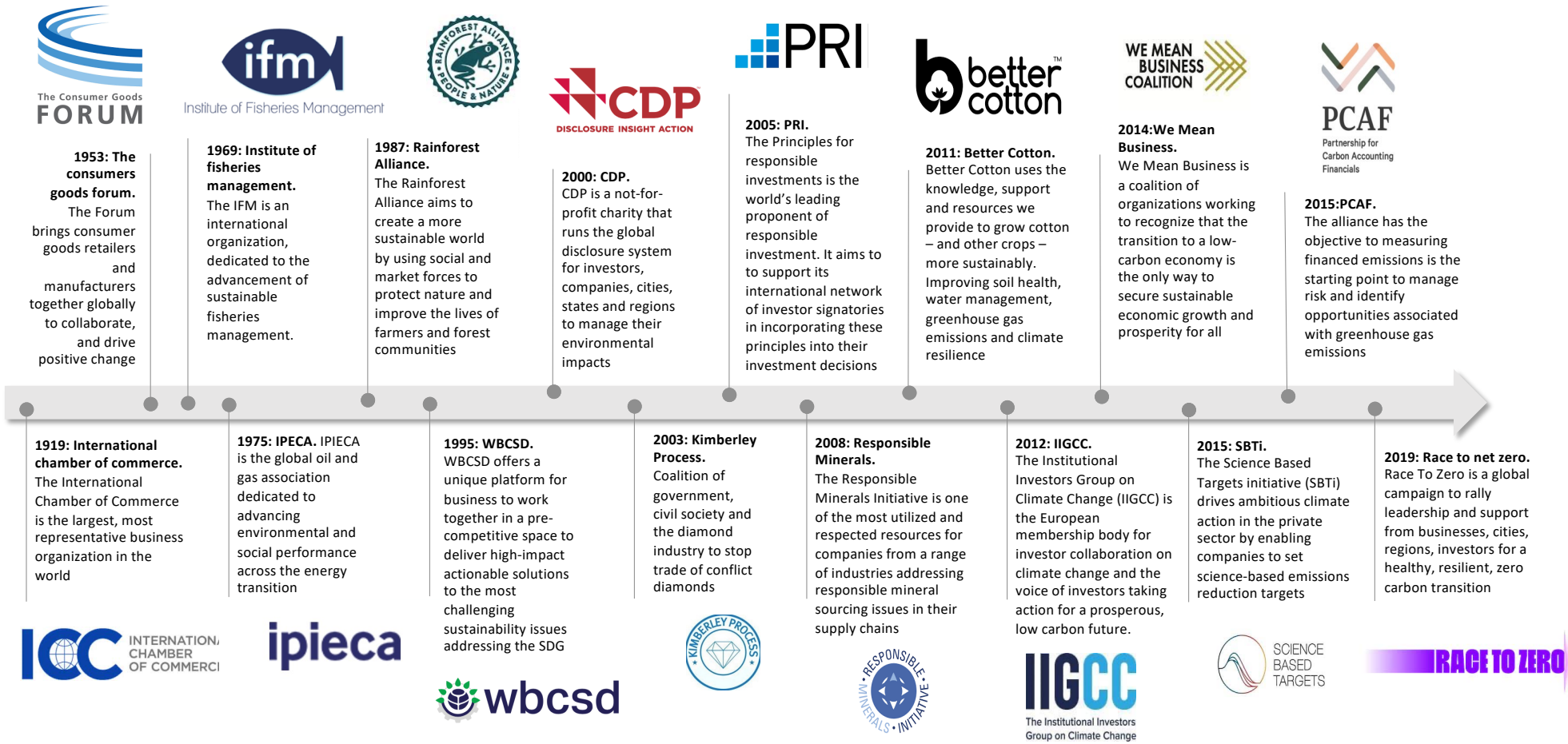


Business collaborations: A long history of fighting climate change



Ongoing work with Knut Haanaes (IMD) and Matteo Gasparini (Oxford)

A sampling of alliances

Business Ambition for 1.5°C

Race to net zero

SME climate hub

The chambers climate coalition

We mean business coalition

Green tech alliance

GFANZ

Investors group on climate change

IIGCC (Institutional investors group on climate change)

RE100

Net zero Asset Managers initiative

PCAF

ZDHC

Climate action 100+

Net Zero Banking Alliance

Japan climate initiative

Climate group EV100

Net Zero Asset Owners Alliance

Asia Investor Group on Climate Change (AIGCC)

Paris aligned investor initiative

NECCUS

Better building partnership

IRENA Coalition for Action

First movers coalition

Better Futures Australia

Tech zero task force

The Food and Agriculture Alliance (FACA)

Second Nature

Sustainable hospitality alliance

Beyond Oil and Gas Alliance (BOGA)

OGCI Oil and Gas climate initiative

Water utility climate alliance

Business Alliance to Scale Climate Solutions

BASCS

Net Zero Insurance Alliance

The Climate Finance Leadership Initiative

Global sustainable investment alliance

Ongoing work with Knut Haanaes (IMD) and Matteo Gasparini (Oxford)

Actions of alliances

Build awareness

Work with policymakers to shape policy are regulation

IIGCC
The Institutional Investors Group on Climate Change

Setting standards

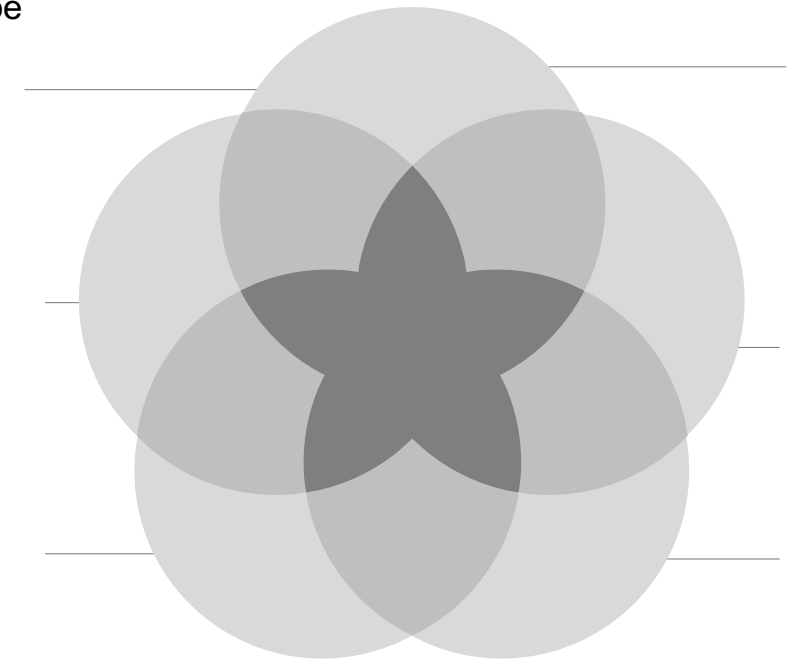
Develop new climate and sustainability standards (e.g., disclosure)

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Setting targets

Set coordinated climate targets and objectives

SCIENCE BASED TARGETS



Convene

Convene key actors for finding solutions for fighting climate change

United Nations Global Compact

Drive implementation

Mobilise institutions to implement climate targets and objectives

RACE TO ZERO

Create credible market pull

Jointly set common standards for procurement across the value chain

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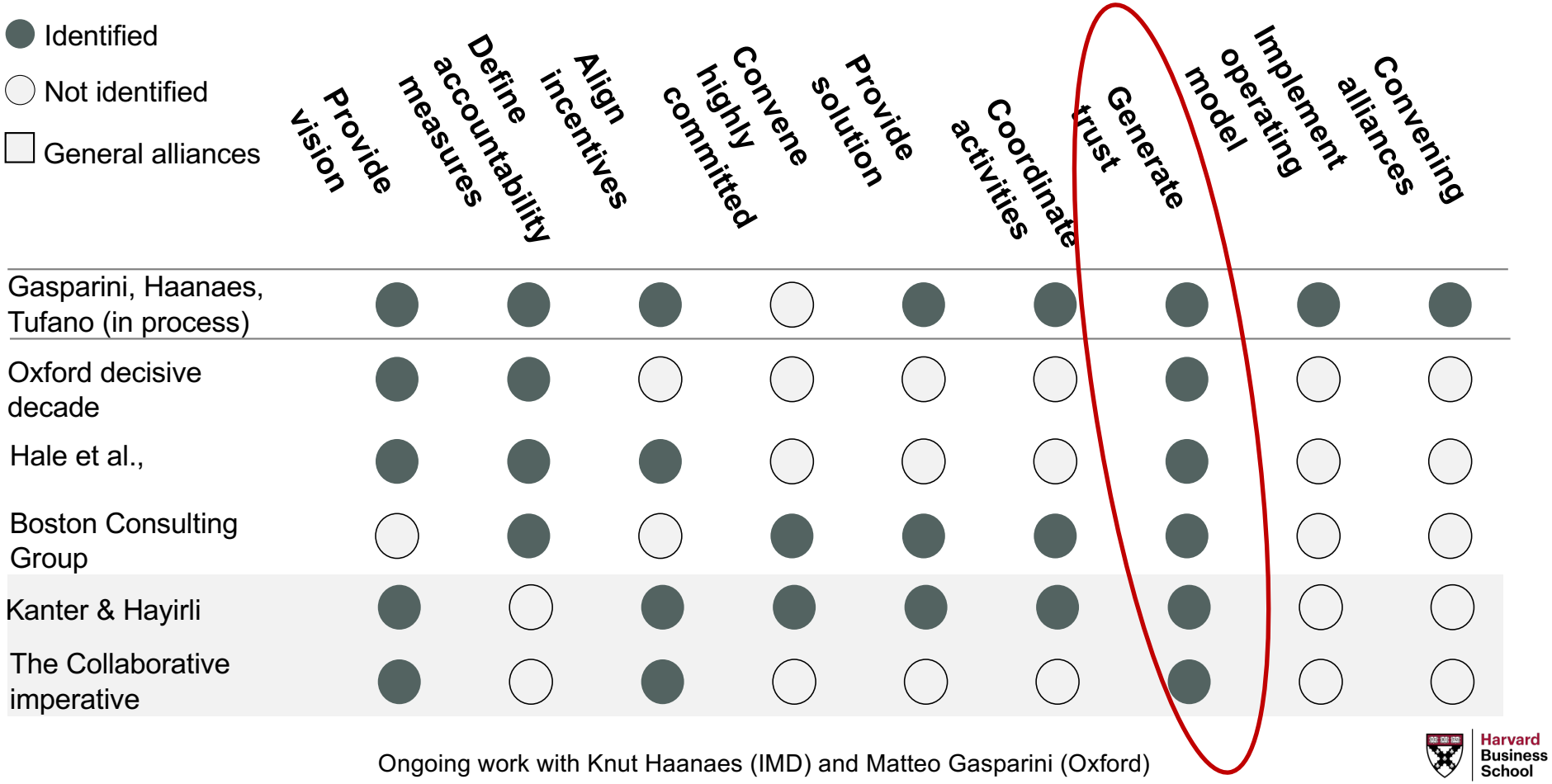
What makes alliances more effective?



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CEOs vs. Alliance/System Leaders

Traditional CEO

- “One” structure (often high complexity inside)
- Competitive strategies (win through advantage)
- Power and authority to allocate resources and make people decisions
- Control over own resources
- Focus on mobilizing resources inside
- Need to define clear objectives and incentives
- A mandate to develop and drive strategies

System leader

- Multiple organizations (often a whole system)
- Collaborative strategies (convene communities)
- Must rely of “soft” power and ability to engage and energize others
- Need to attract resources - disappear fast
- Focus on mobilizing external resources
- Need to be humble, good listeners, and skilled facilitators
- Need to uncover and define vision to drive change

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Problems for alliances

	Description
Believing you are the CEO	Coming in with the corporate hat does not work. Leaders must respect the different realities of alliances to succeed
Aspirations are not met with resources	Many alliances have a purpose and aspirations that require much more resources than they command
The pop-up model	Many climate alliances have emerged quickly and don't build institutions. For example, the secondee trap, where great talent comes and goes
Negative resource cycle	The negative resource cycle where the ambition to survive leads to a broader scope and complexity
Naïve understanding of implementation	Alliances can be great for building awareness, for setting standards, for mobilizing engagement, but they can easily slip into implementation

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Challenges from status quo

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ESG May Be an Antitrust Violation

I'm investigating a coordinated effort to allocate markets.

By Mark Brnovich

March 6, 2022 4:40 pm ET

"As attorney general of Arizona, I have a responsibility to protect consumers from artificial restrictions on production. That's why I've launched an investigation into [Climate Action 100+ group] potentially unlawful market manipulation"

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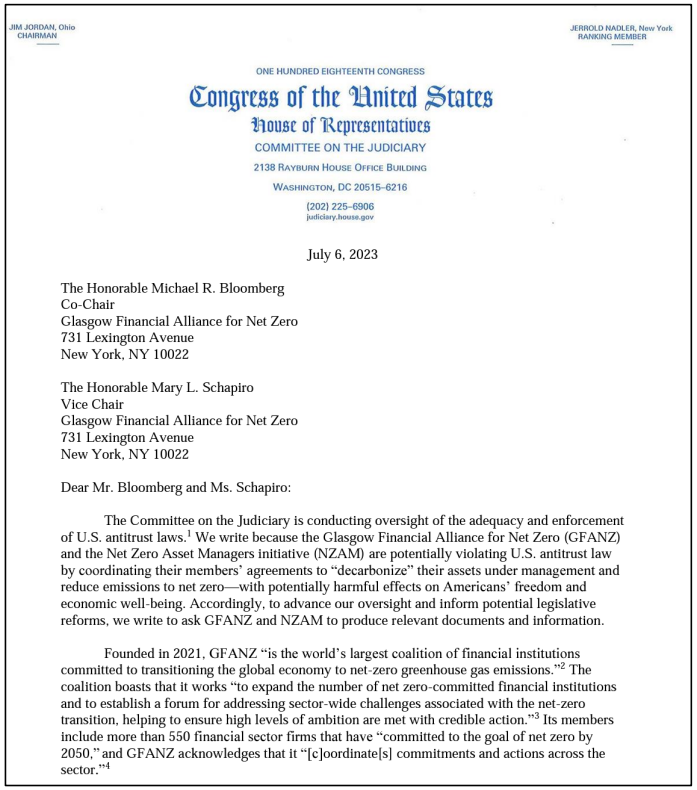
Last week's challenge



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CHAIRMAN

JERROLD NADLER, New York
RANKING MEMBER

ONE HUNDRED EIGHTEENTH CONGRESS

Congress of the United States
House of Representatives
COMMITTEE ON THE JUDICIARY
2138 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–6216
(202) 225–6906
judiciary.house.gov

July 6, 2023

The Honorable Michael R. Bloomberg
Co-Chair
Glasgow Financial Alliance for Net Zero
731 Lexington Avenue
New York, NY 10022

The Honorable Mary L. Schapiro
Vice Chair
Glasgow Financial Alliance for Net Zero
731 Lexington Avenue
New York, NY 10022

Dear Mr. Bloomberg and Ms. Schapiro:

The Committee on the Judiciary is conducting oversight of the adequacy and enforcement of U.S. antitrust laws.[1] We write because the Glasgow Financial Alliance for Net Zero (GFANZ) and the Net Zero Asset Managers initiative (NZAM) are potentially violating U.S. antitrust law by coordinating their members' agreements to "decarbonize" their assets under management and reduce emissions to net zero—with potentially harmful effects on Americans' freedom and economic well-being. Accordingly, to advance our oversight and inform potential legislative reforms, we write to ask GFANZ and NZAM to produce relevant documents and information.

Founded in 2021, GFANZ "is the world's largest coalition of financial institutions committed to transitioning the global economy to net-zero greenhouse gas emissions."[2] The coalition boasts that it works "to expand the number of net zero-committed financial institutions and to establish a forum for addressing sector-wide challenges associated with the net-zero transition, helping to ensure high levels of ambition are met with credible action."[3] Its members include more than 550 financial sector firms that have "committed to the goal of net zero by 2050," and GFANZ acknowledges that it "[c]oordinate[s] commitments and actions across the sector."[4]

"(T)he Glasgow Financial Alliance for Net Zero (GFANZ) and the Net Zero Asset Managers initiative (NZAM) are potentially violating U.S. antitrust law by coordinating their members' agreements to "decarbonize" their assets under management and reduce emissions to net zero—with potentially harmful effects on Americans' freedom and economic well-being.

Accordingly, to help the Committee better understand GFANZ's and NZAM's roles in coordinating agreements among their members to "decarbonize" assets under management and reduce emissions to net zero, please produce, for the period from January 1, 2020, to the present:

(1) – (6): *PT: the kitchen sink*

Please produce the requested information as soon as possible, but no later than 5:00 p.m. EDT on July 20, 2023.

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Take-aways

- How did we get here? Our collective preferences and desires, satisfied/created by companies and permitted by government.
- Why is it so difficult to get somewhere else? Same answer. If can pass along costs, easier (except for ultimate bearer)
- Levers for change: Top down, bottom up, and across—individually and in collaboration. Collaboration useful, but requires complementary capabilities.
- Recent roadblocks. Divide and conquer (or at least delay)

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