

The cost of not acting is high

The world is facing an environmental crisis of unprecedented dimensions. Fighting climate change should be a high priority for humankind as it is closely linked to many other environmental challenges.



Pascal Dudle
Head of Listed
Impact, Vontobel



Matthias Fawer
Senior Analyst
ESG & Impact
Assessment,
Vontobel

Climate change is causing rises in temperature, precipitation patterns, and other factors that are affecting the distribution and abundance of species, which leads to biodiversity loss. Deforestation contributes to climate change by releasing carbon dioxide into the atmosphere, and it also reduces biodiversity and contributes to soil erosion. Climate change is also responsible for altering the availability and distribution of water resources, with some regions experiencing more frequent and severe droughts, floods, and storms. This can lead to water scarcity, which affects agriculture, industry, and human health. Pollution is not only responsible for greenhouse gases but is also responsible for health issues. Additionally, converting land for agriculture, urbanisation, or other purposes can affect the carbon balance of ecosystems, leading to increased greenhouse gas emissions.

Apart from the willingness of different governments to regulate the effects, significant investments are needed in the coming decades to prevent temperatures from rising by less than 1.5° C above pre-industrial levels. Preventing this temperature rise requires a significant investment in transitioning to a low-carbon economy and reducing greenhouse gas emissions. According to the Intergovernmental

Panel on Climate Change (IPCC), to limit global warming to 1.5°C above pre-industrial levels, global CO2 emissions would need to decline by about 45% from 2010 levels by 2030 and reach net-zero around 2050.

The investment needed to enable the real-economy transition is sizable. Estimates indicate that by the end of the decade an additional USD 1 trillion per annum will be required for clean energy investment in emerging markets and developing economies alone to put the world on track to reach net zero by 2050. This reflects a sevenfold increase from today's levels, even before considering climate finance needs in other countries and sectors, such as agriculture and manufacturing, and the requirements for building resilience and adapting to the impacts of climate change that we are already experiencing.¹

“Areas like sustainable agriculture, including companies that develop sustainable farming practices or provide products that reduce environmental impacts, offer attractive prospects.”

Moving ahead

The European Commission answered to the US Inflation Reduction Act (IRA) by proposing a Net Zero Industry Act and a European Critical Raw Materials Act. These aim to scale up domestic manufacturing and to diversify supply chains. The goals are similar to the IRA ones: foster local businesses and supply security. The acts are meant to create better conditions for clean tech manufacturing capacities, which are expected to reach 40% of the deployment needs by 2030. Emphasising global competitiveness and energy independence, they are also meant to bring green jobs, education, talents, and the necessary manufacturing for the energy transition back to Europe. Moreover, they should accelerate permission procedures – the most frequently mentioned hurdle in Europe. To avoid falling behind, the British government

unveiled its own plan to scale up affordable, clean, homegrown power and build green industries – labelled “Powering Up Britain” policy paper to emphasise the domestic focus.

Investment opportunities with a positive environmental impact

Investing in companies and projects that contribute to the fight against global warming and other environmental challenges can be a profitable and impactful investment strategy. However, it's worth noting that it involves higher risks than traditional investments, so it's important to conduct thorough research and seek professional advice before investing. Some areas with attractive prospects can be found in renewable energy and energy efficiency, e.g., Vestas, Prysmian and Nibe are leading companies in these areas. Also, solutions towards green infrastructure, including mass transit, bike sharing, and green buildings, can contribute to reducing carbon emissions. Additionally, areas like sustainable agriculture, including companies that develop sustainable farming practices or provide products that reduce environmental impacts, offer attractive prospects. Innovative solutions for waste management and recycling can contribute to reducing the amount of waste that ends up in landfills and promoting circular economy practices. Ecolab and Smurfit Kappa are a couple examples of companies in this area.

The cost of not taking action to prevent temperature rise above 1.5°C is high. Therefore, investing in climate action is not only necessary to prevent catastrophic climate change, water stress, loss of biodiversity, to name few, but also makes economic sense in the long run. However, it needs collaboration between governments, private sector and financial institutions. All of them play an important role in contributing to a more sustainable and resilient future for all.

FOOTNOTES:

¹ Source: Financing clean energy transitions in emerging and developing economies, IEA, 2021. Reflects the clean energy investment required by the end of the decade within EM&DEs if the world is to meet net-zero by 2050. Estimates exclude China.

Vontobel