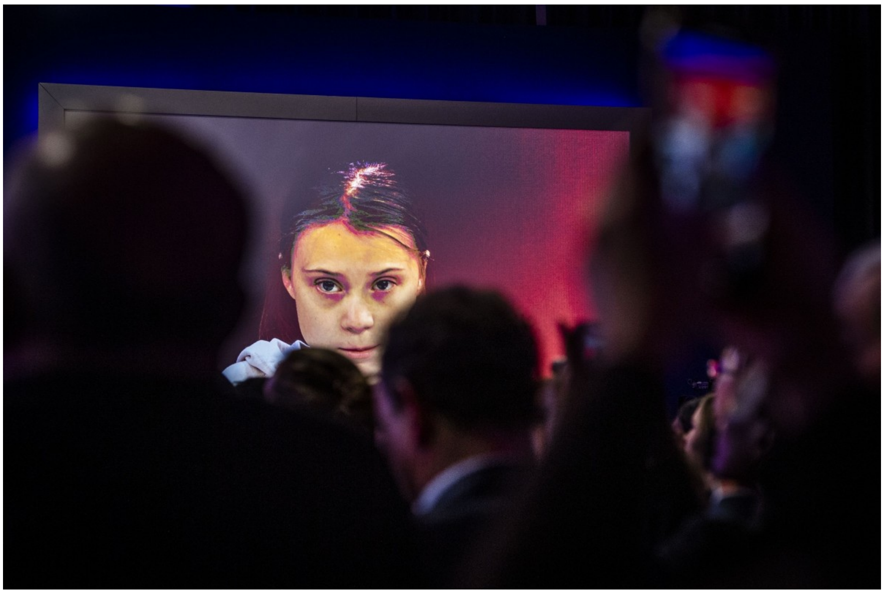
Our three calls on sustainability in 2022

2022 promises another year of political decision-making on sustainability. Expect to see Europe continue its lead and more scrutiny on plans after a year full of pledges. The scope is likely to broaden to social matters. More - borrowed - money on the table should help soften some of the transition pain



The climate activist, Greta Thunberg

Milestones and trade-offs

2022 will be all about keeping up momentum on sustainability. This year, we passed significant milestones: The US rejoined the Paris agreement, Europe launched its Fit for 55 package, and carbon prices doubled. South Korea, Malaysia, Vietnam, Nepal, Laos, Indonesia, India, and Sri Lanka all made zero-carbon pledges. On the corporate side, green bond issuance was at a record high and corporate leaders explicitly supported carbon pricing. Joe Biden's spending plans move the US towards net zero. However, it can still often be characterised as 'more pledges than plans', as seen for example at COP26.

Sustainability, be it climate, biodiversity, human rights, diversity, poverty or health and wellbeing, is mostly about the public and common good, areas where we all depend on the behaviour of others. With that comes the 'tragedy of the commons', where an individual's short-term benefit comes at an ultimate cost to the many. Markets alone have insufficient incentives to achieve optimal outcomes in these areas. Collective action - standards, regulation, taxation and public infrastructure – assure that business cases for sustainable products become financially sustainable – be it green bonds, hydrogen or electric vehicles.

Sustainability is often up to politicians. They decide on the, possibly unpopular, interventions. Often global measures are required. Health and climate are, after all, global public goods. Covid-19 shows us that this is far from easy, even if there's a direct personal risk involved. Climate policy is even harder as returns come decades after the costs, and both pain and gains are far from equally distributed among countries. Progress depends on political support for painful trade-offs.

Here are our three calls for 2022

1 Europe continues to lead

Europe will continue to lead the green transition, with the implementation of an ambitious German coalition agreement probably followed shortly by the Dutch. Elections in Italy and France potentially accelerate the European pace. November's US midterm elections are a huge risk to climate policy with polls hinting at a Republican resurgence, which could see new policy implementation grind to a halt. Rising energy demand will test Asian zero-carbon pledges.

2 More scrutiny while the scope broadens

Scepticism is no longer so much on climate change itself but rather on the zero-carbon pledges made to combat it. Neither the public nor regulators will reward 'greenwashing'. Europe leads here too and requires sustainability disclosure. The exact classification of what is sustainable remains to be seen, but the social taxonomy will broaden the scope to issues such as decent work and health.

3 Fiscal deficits to soften the pain

Financial support from developed countries for climate mitigation in developing countries will be on the table again at COP27. Some countries, potential losers of the transition, will also have to be appeased. Deficit spending, like in the US infrastructure bill or the Next Generation EU fund, will likely remain a politically viable way to soften that pain, especially as interest rates remain low. From the future generations' perspective this may still be acceptable, as much of the money can have positive returns.

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