

SHORT-TERMISM



Time to zero, instantaneity, quick wins and a pre-disposition for near-term decision-making dominate the world we have made. This is the fatal flaw of modern civilisation, incompatible with planetary care.



If systems change and long-term investment are the accelerator pedal to containing global warming to 1.5 degrees and restoring our planet, then short-termism, quick wins, and incremental change are the brakes. How do we shift systems and incentives to avoid siloed and myopic approaches? What will give us the intellectual curiosity and courage to do things differently?



— The hidden costs of climate change – Most actors in the market are still not including a shadow price for carbon (and other climate-related costs) in asset valuations and exchange. This is a significant strategic and business mistake. As long as we do not value assets correctly, we are accumulating risk throughout the economy (e.g. mispriced pension pots). Every asset currently held is mispriced, looking forward.

— In doing so, we fail to incentivise the type of investment we need for climate innovation at scale. Carbon taxes encourage a long-term view and focus finance on the real economy. We need to push the market to measure and shadow price and include capex deductions for making sustainable, 'good' investment in green assets.

— Locked in warming – We know that the carbon budget for a 1.5 degree future is largely used up by infrastructure that has already been built. But this is not being sufficiently factored into our mitigation plans.

— In addition, we are not addressing the effects of locked-in warming effects in infrastructure planning, for example in electrification infrastructure that is not fit for purpose in a world with increased temperatures and constant extreme weather events.

— Narrow focus on GHG emissions – Focusing almost exclusively on GHG and not on other equally destructive issues such as loss of biodiversity, pollution and lack of equity, is encouraging incrementalism and a narrow approach to outcomes and investment.

— Oil and gas industry – It is a fallacy to assume that existing industry players will be able to lead the change in the energy sector. Incumbents are planning for linear, slow and predictable changes, but all signs point to massive disruption over the next 10 years. These changes will be swift and will displace, rather than work with, the 'old guard'. Many oil and gas companies may cease to exist as a result (some

predict oil and gas investors will lose up to \$11 trillion in the next decade). We have just passed the \$1 billion mark globally in oil and gas subsidies despite windfall profits.

— Leadership will need to come from elsewhere. Climate emergency and the pace of change needed means that we cannot support a prolonged period of managed energy transition, which would require subsidies, attention and resources detracting from the move to renewables and other emerging technologies. The challenge we face is how to break the deadlock of vested interests.

— Regulatory frameworks, accounting models and governance are part of the problem, since they tend to discount the future in favour of the present. There are some exceptions – the Wellbeing of Future Generations Act in Wales – which need multiplying.

CRYPTO AS THE BIG SHORT

Energy, food, water, transportation, land: we have made every effort to privatise them even though they are vital supply chains and therefore by definition should be managed with a long-term view rather than short-term profiteering. Crypto seems to be another attempt at privatising something that is in the public domain and should remain public, which is monetary policy.

It is not random that China has forbidden crypto-currency transactions. There are plenty of people who think we can use software to dematerialise the economy focusing away from real value and real issues: wealth without work or assets or risks. But how do you dematerialise food, water, transportation? In many ways crypto is a solution looking for a problem which isn't serving people or climate investment.

GEOPOLITICAL FORKING

There is a possibility that the West goes ahead with a low carbon model and a big part of the rest of the world carries on with a hydro-carbon model for some time to come. Russia's invasion of Ukraine pitched the world into an energy war and a race to secure fossil fuel supplies.

We risk going back to a splintering of the world into two ideologically distinct parts – what Biden unhelpfully described as 'the techno-democracy of the US and Europe and the techno-autocracy of China and Russia' – which will result in fatal delay and disruption. Reconciling short-term energy security and long-term climate goals with a unity of purpose and direction is vital, otherwise what is to stop poorer countries resorting to fossil fuels and sympathetic alliances.

EIT Climate-KIC is Europe's leading climate innovation agency and community, supporting places and industries bridge the gap between climate commitments and current reality.

This is one of ten insights derived from a series of conversations hosted by EIT Climate-KIC. Thinkers and practitioners from multiple disciplines discussed emerging trends, challenges, possibilities and implications for climate actions.

"I am reminded of Keynes who said the difficulty lies not so much in developing new ideas, as it is in escaping from old ones."

Common law might offer interesting possibilities, because it means having to own the downside risk. Maybe courts can help with a raft of cultural, legal and risk based 'sticks'."

"Venture capitalists are motivated by creating personal wealth, so they may be giving to charity but they are still working in a broken system."

"The good news is: the money is there – \$100 to \$200 trillion – If we can get the marketing campaign right we can start to shift the money."



LENDING THE COURAGE OF CONVICTION

Central banks, applying conventional economics, see the crisis we are in as a demand-driven inflation problem when in fact it is supply-driven, because we have underinvested for decades in renewable energy infrastructure. How could organisations work closely with national governments and with citizens to build understanding of the systemic issues at play and provide confidence through innovation to pursue steady, long-term climate strategies despite short-term pressures. The coming polycrisis will intensify this need.

MOBILISING SYSTEMIC INVESTMENT

How can organisations that are part of the innovation ecosystem avoid the trap of 'business as usual' thinking in its own work? How might they work with financial institutions and funders to resource work that requires immediate action but longer-term vision and commitment with regard to returns and value? How much focus should be placed on catalysing innovation in the financial sector as a core proposition versus approaching it as a means to an end?