

# Shaping a sustainable and low-carbon recovery that spurs industry transition

## Background brief

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## Key messages

- The disruptive force of the COVID-19 pandemic opens a narrow policy window to steer economic development onto a more sustainable, equitable and net-zero emissions path
- Many carbon-intensive industries are clamouring for support to avoid job losses and maintain business as usual
- A carbon-intensive recovery risks locking countries onto long-term carbon-intensive pathways.
- History shows that post-crisis recovery measures can lead to positive change, but not without sustained effort and policy coherence
- Policy levers for a sustainable, just and resilient recovery include: conditional bailouts; targeted tax relief; green public procurement, green bonds, tax credits and government-backed loans to catalyse green investment; and social welfare support and just transition measures
- There is also a need for “shovel-ready” industry transition projects in sectors able to employ and upskill large numbers of workers, while delivering medium-term returns in line with existing policy commitments

## The COVID-19 pandemic and opportunities for transformation

The global economy is expected to shrink by up to [3%](#) in 2020 due to the COVID-19 pandemic response, leading to [“the worst economic fallout since the Great Depression”](#) according to the International Monetary Fund. The International Labor Organization warns that the pandemic will have a [devastating impact on employment](#), “wiping out 6.7% of working hours globally in the second quarter of 2020 – equivalent to 195 million full-time workers.” Already in the US, 22 million people have [registered for unemployment benefit](#) out of a workforce of 167 million. Around the world, the pandemic has [upended people’s lives](#) and made more visible [stark structural inequalities](#) in society.

Such social and economic instability and disruption is not exclusive to this pandemic – it was seen in previous major global crises from the Spanish influenza and World War I to the 2008 financial crisis. And as before, many governments have now developed rescue and recovery stimulus packages.

Short-term health and relief measures are critical, to minimize the spread of the disease, reduce the immediate impact of the crisis and alleviate suffering. At the same time, many governments are starting to consider longer-term recovery measures and stimulus packages to help boost their economies and avoid lasting damage.

From the UN and the Organization for Economic Co-operation and Development to civil society, organizations are calling on governments to ensure that these recovery efforts are used to shape economies so they are better able to meet the climate and sustainability commitments that countries have made under the Paris Agreement and the 2030 Agenda for Sustainable Development – and do not dismantle progress made to date. And in the EU, there are strong calls to ensure the the European Green Deal delivers for a green recovery.

The current disruption affecting power dynamics, institutional structures and daily behaviour has opened a [policy window](#) for greater action on climate change, based on the following:

- A **common problem has been identified**, in this case the economic risk resulting from the COVID-19 pandemic.
- **Policy solutions** to achieve a sustainable and low-carbon recovery exist.
- **Political will to take action is there**, and public expectations area high that action of some sort will be taken.
- **Underlying systemic inequalities** are more visible, amplifying the need for societal transformation.

## A narrow window

The policy window is, however, narrow. This was to be [a critical year](#) for addressing climate change, for protecting biodiversity, and for the Sustainable Development Goals. And 2020 is also the year in which the first phase of the Paris Agreement, on pre-2020 climate action, concludes. It is the year in which countries must submit new or revised national climate action plans, or NDCs. And it kicks off a decade in which global greenhouse gas emissions have to [decrease by 45%](#) Celsius if global warming is to be limited to 1.5 degrees celsius.

In particular, industry, energy, infrastructure, and agriculture systems must soon be transformed if 1.5°C scenarios are to remain feasible. Societal transformations are also needed to ensure that low-carbon pathways “leave no-one behind”, as is building the resilience and adaptive capacity of vulnerable populations.

Some momentum on the above had already been building, particularly with regard to industrial transition, with Sweden and India launching the [Leadership Group for Industry Transition](#) in late 2019. Industry big hitters from Scania in Sweden to Dalmia Cement in India and ThyssenKrupp in Germany, all with targets to reach net-zero greenhouse gas emissions by 2050, have joined the the Leadership Group. Commitment is also growing within the finance sector, not least through the [Net Zero Asset Owner Alliance](#), a group of pension funds and insurance companies dedicated to transitioning their investment portfolios to net-zero greenhouse gas emissions by 2050.

However, if the economic disruption wrought by the COVID-19 pandemic reduces or even stops investment in renewable energies, green hydrogen technologies, or carbon capture and storage, it may be impossible to implement the available solutions before the window of opportunity closes.

## The risks of carbon-intensive lock-in

The current policy window is also a contested space: voices calling for sustainable, just and resilient recovery are not the only ones being heard. Many politically powerful carbon-intensive industries are [lobbying](#) for economic recovery measures that protect their businesses and employees and help the world return to a pre-pandemic status quo. Already many smaller, non-diversified crude oil companies have [filed for bankruptcy](#) due to plummeting demand for oil, and the plight of these fossil fuel-based interest groups is not to easy for politicians to ignore.

There is therefore a significant risk that economic recovery measures might lock economies and societies into carbon-intensive, fossil fuel-dependent pathways. Many countries were already facing such [carbon lock-in](#). Carbon-intensive investments – and the technical, economic, and institutional factors supporting those

investments – have created a path dependency that makes switching to low-carbon solutions and pathways much more difficult and costly.

The threat of carbon lock-in from carbon-intensive recovery measures has three dimensions:

### **Technological lock-in**

Once technologies become popular and competitive, the structures that support them – for example, infrastructure, supply chains, market mechanisms, and policies and regulations – tend to keep them alive. The lifespan of existing carbon-intensive technologies will only increase if economic recovery measures [fail to redirect financial flows](#) towards resource and energy efficiency, renewable energy sources, electrification of transport, and research and development on ways to make steel and cement without releasing CO<sub>2</sub>.

Some examples of response and recovery measures being implemented or advocated that risk further entrenching technological carbon lock-in are:

- The Canadian province of Alberta has indicated it will [invest over \\$1bn](#) in the Keystone XL pipeline.
- The airline industry in the US has asked for [\\$50 billion in federal aid for bailouts](#); President Trump has indicated his intention to heed this request.
- In China, [evidence](#) shows that carbon emissions are already rising as demand begins to return to normal levels, and the Politburo has called for “active” stimulus to speed up large-scale construction projects, which will require steel, cement and other materials that is currently produced in carbon-intensive processes.

### **Political lock-in**

When political parties, trade unions or large businesses, and the informal ties and norms that bind them together, serve to preserve existing industrial structures, it can be very hard to implement any aspect of industry transition. If the current pandemic causes attention to shift too far away from the climate crisis, political lock-in is likely, as vested interests may argue that “now is not the time” for climate action and “righting the ship” should be first priority.

There are already a range of response and recovery measures being implemented that might lead to political lock-in:

- In the US, the Environmental Protection Agency has [suspended enforcement of environmental laws](#) during the COVID-19 outbreak.
- There has been a wave of new US state [laws criminalizing protest](#).
- Canadian oil producers are calling for [suspension of lobbying transparency rules](#).
- Czech Prime Minister Andre Babiš has publicly urged the EU to “forget about” its Green Deal initiative for now and instead focus on the pandemic response – an [attitude echoed by Poland's Deputy Minister of State Assets Janusz Kowalski](#).

### **Societal lock-in**

As technologies and their supporting architecture become more and more embedded in society they begin to reflect – and often reinforce – prevailing norms, power dynamics and social stratification. The current pandemic shines a light on existing inequalities in many societies around the world. For example, we know that [certain sections of the population are more vulnerable](#) to its impacts than others. And there is growing recognition that the [gendered implications of the pandemic are universal](#). Government measures to protect the current global

economic system could lead to societal lock-in that [preserves these inequalities](#) and prevents transitions and transformations that are necessary to build a just, equitable and sustainable society.

Recovery measures and responses that might lead to societal lock-in include:

- Framings of recovery that focus on individual preparedness and responses (instead of systemic change) and around “getting back to normal”.
- [Demonization of public transport](#), which may trigger greater preference for car use after lock-downs ease.
- [Surveillance measures](#) that might be difficult to roll back after the pandemic ends. Potential lock-in from these measures is also technological: precedents in surveillance technology use that are being set now, will have impacts on future technology development and use.

## Recovery measures can catalyse industry transition activities

Despite concerns over carbon lock-in, people across the world are coming together through online platforms as never before and rebuilding notions of community. Innovation is rife as people seek ways to boost their resilience to unprecedented change. And many governments – aware of the disastrous economic consequences of the pandemic – are using recovery packages and measures to push forward with their low-carbon development plans, thereby preventing political carbon lock-in that could arise through delaying climate action.

For example, [South Korea](#) became the first country in East Asia to announce a Green New Deal Manifesto in March 2020, and did so within the context of the unfolding pandemic. Meanwhile, European Union leaders have agreed that the EU’s economic recovery plan will take into account its mission to fight climate change, and will be consistent with “[green transition](#)”. In other cases, though, the danger of carbon lock in appears more imminent.

History suggests that such initial post-crisis support measures can catalyse a raft of subsequent economic and social changes, which is just what the industry transition needs

For example, increased use of social security systems in the wake of World War I and the 1918 influenza pandemic led governments in Western Europe to reinforce the view that all citizens should be treated equally, with a focus on income and wealth redistribution. Indeed, the social policies put in place by many governments (Germany, Austria, UK, US, Canada, etc.) in the 1920s marked an essential transition phase in the development of many [universal welfare state systems](#) in later decades, where issues of social justice were central to the development of social legislations.

With these points in mind, here are five policy levers for a sustainable, just and resilient recovery that continues to catalyse the industry transition:

- **Conditional bailouts.** Bail out programmes are costly and can last a long time, as demonstrated by the US’s [Troubled Asset Relief Program](#) and the UK’s bail out of the [Royal Bank of Scotland](#) during the 2008-2009 financial crisis. Where bailouts are provided to industries such as aviation and shipping, governments should [attach conditions](#) – for example, attaching a requirement to reduce carbon emissions to financial assistance, as is the case for [Austrian Airlines](#).
- **Tax relief geared towards environmental tax reform.** Tax relief can be designed so that it [excludes firms](#) which pay out dividends or are registered in tax havens and facilitates a shift to a [carbon fee and dividend](#).
- **Green public procurement, fossil fuel subsidy reform, tax credits and government-backed loans.** Through various measures governments could [reform fossil fuel subsidies](#) and [redirect and catalyse new financial flows](#) towards greener investments, including investments in renewable energy sources as opposed to oil

and gas; battery-powered cars and electrification of transport; and research and development for ways of making steel and cement without releasing CO<sub>2</sub>.

- **Social welfare support.** It is imperative that green recovery measures go beyond technological and political solutions to also incorporate societal solutions that address the inequalities that the pandemic has shed light on. This could include widespread socialized healthcare and ways of measuring wellbeing that go beyond GDP, and [shifting national priorities](#) away from endless economic growth and mass consumerism. Importantly, recovery measures need to move away from bailing out large corporations and companies, particularly oil and gas giants, and instead [redirect debt relief and financial capital](#) toward individuals and small enterprises suffering from income losses. Of course, the ways and means of doing this will differ considerably across the world.
- **Just transition measures.** Moreover, the imperative of “[just transitions](#)” remains important: rather than bail out industries to save jobs, governments should look to [create green jobs](#) for those workers with relevant skillsets, reskill those who need it and support those that lose their livelihoods. Post-pandemic planning should also be an inclusive processes, engaging with labour unions and other worker and citizen representatives. For EU member states, it makes sense to anchor recovery efforts within the EU Green Deal and financial mechanisms such as the EU’s [Just Transition Fund](#).

## Final thoughts

The current pandemic presents a unique opportunity to governments and policymakers to [enhance the resilience](#) of political and financial systems to the climate crisis. They can achieve this in particular through implementing green deals and legislation that requires banks and financial institutions to phase-out fossil fuel investments and transition to a greener economy.

Yet the future in a post-pandemic world is **deeply uncertain**, which is manifesting itself in stock market fluctuations, consumption patterns, and delayed policy decisions. The current crisis has changed many aspects of our societies in profound ways, and how far-reaching and long-lived these changes will be is unclear. Already the current social contract between governments, citizens and private enterprise appears to be shifting, with significant ramifications for governance models, labour markets, consumer behaviour, trade flows and policy ambitions.

On one hand, lack of information and increased ambiguity about the post-pandemic world – especially after the disruptive and negative impacts of the crisis on socioeconomic structures and people’s livelihoods – can be alarming and paralyzing, leading to an understandable desire for a return to “normality”.

On the other hand, **uncertainty is an opportunity for progressive change**. Uncertainty opens up a wide spectrum of possibilities to move away from old dysfunctional structures and practices and transform societies in order to reach sustainable development goals, reduce structural inequalities, and enable just and green industry transitions. To take advantage of this opportunity for change in the face of pressure to return to normality rests on building trust between governments and the citizens and private enterprises they govern. Trust and collaboration also needs to be built across geographies, so that industry transition and economic transformation is rooted not only in advanced industrial nations of today, but also the emerging industrial nations of the future.