5 climate trends for 2021

By Daniel Klier

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With 2020 so dominated by the Covid-19 pandemic, it would be understandable for politicians, policymakers and the private sector to be consumed by further lockdowns, vaccine roll-outs and economic recovery. But the climate emergency will not wait for a return to normality. Ambitious action from all parts of society needs to be taken in the here and now.

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Fortunately, some stars are beginning to align on this topic. Climate commitments are now forthcoming from a huge range of countries and institutions. COP26, the yearly UN climate policy gathering, will now take place in November 2021, after being postponed due to Covid-19.

Hosted by the UK government in Glasgow, it will be a key moment to lock in ambitious low-carbon transition policy goals across the world. We expect the following five trends to dominate the run-up to this event.

1. More power to climate diplomacy

The three major global economic blocs – the US, the European Union and China – have plenty of disagreements, but since Joe Biden's election to the US presidency in November, they are united by a desire to take firm action on climate change.

Biden has appointed former US secretary of state John Kerry as special climate envoy, raising the prospect of a greater role for climate diplomacy. This could mean improvements to the 2015 Paris Agreement, greater international collaboration on technical development and investment, or action on specific economic sectors and industries. China recently committed itself to net-zero emissions by 2060, and the EU has set its sights on the same target by 2050.

The UK has also recently announced ambitious offshore wind targets, and will be ending its financial support for fossil fuel production overseas. It has also renewed its Paris Agreement pledges, which will translate into a 68% reduction in UK emissions by 2030. These are encouraging developments as we head into COP26, and will increase the pressure for action on the private sector.

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2. Transition opportunities

The transition to low carbon is starting to pick up pace, particularly in industries where emissions are high and hard to abate. For example, electrical vehicle (EV) sales bucked the overall auto sector decline in 2020. By September, EV sales in the EU had increased by 81% year-to-date, and more than 350 EV models are due for launch across the world next year.

Important work is ongoing in other sectors. In October 2020 the European Commission announced plans to renovate 35 million energy-inefficient buildings by 2030. Buildings account for 40% of energy consumed and 36% of energy-related greenhouse gas emissions in Europe. There is increasing awareness of the need to build new, sustainable infrastructure in the fast-growing Asian economies.

Developing better investment solutions for sectors that are making progress in emissions reduction, but cannot yet qualify for pure green finance, is an important task for the financial sector. This will be an important step in the transition process for heavy-emitting sectors such as steel production and aviation. As new transition products come to the fore, financial institutions and their clients should work together closely to find the right solutions for each client transition journey. HSBC has worked with other market participants to develop new green and social bond principles that will help guide the growth of the market.

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3. Increasing climate-finance returns

Investors have a growing appetite for sustainable finance. This is driven partly by greater pressure from stakeholders, but primarily by expectations of higher returns. In an extremely bumpy year for equities, ‘climate stocks’ (eg., renewable energy, energy storage, agriculture and transport efficiencies) made a 37% gain, against 11% for the overall market.

The green and sustainable bonds market also proved its durability in 2020. Despite a dip over the first half of the year, in Q3 green bond issuance alone reached $64.9bn – the highest volume in any third quarter period since the market’s inception. Total historical green bond issuance is now almost $1tn.

The European Commission recently announced that it will be raising 30% of its Covid-19 recovery fund – €225bn – through green bonds, making the EU by far the largest issuer of such instruments. In 2021, we can expect the sustainable finance market as a whole to continue growing strongly, providing solid returns for investors, and pathways to low-carbon transition for businesses.

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4. A growing role for nature-based solutions

Protection of specific natural environments and ecosystems is also coming to the fore. For instance, mangroves, seagrass and tidal marshes are capable of taking up carbon dioxide from the atmosphere several times more quickly than forests on dry land. By storing ‘blue carbon’ (as carbon locked in marine and coastal habitats is sometimes known), they help to limit global temperature rises.

This can be achieved in part through financial product innovation. With the support of the World Bank, in 2018 the Seychelles became the first country in the world to issue a ‘blue’ bond, the proceeds of which are reserved for marine conservation. In 2019, HSBC was the sole lead manager on the World Bank’s €200m blue bond. We have pioneered products to help protect Australia’s Great Barrier Reef, and partnered with Pollination to create a series of natural capital funds that will help preserve ecosystems around the world.

Ventures like these open up an exciting new market for climate finance. A greater focus on the environmental impact of the private sector may also increase calls for a widespread, functioning carbon offset market.

5. A just transition

With the recovery from Covid-19 an ongoing concern, there is an opportunity to use COP26 as a catalyst for both tackling climate change and rebuilding the global economy on a more resilient, prosperous footing.

It must be a key moment in securing a just transition, one that protects jobs, strengthens local communities, and helps out vulnerable economies. It isn’t enough merely to lower emissions. Doing so while damaging prosperity across the world would be no kind of victory.

Time for action

No COP event has been accompanied by such high stakes. In 2015, the Paris Agreement attempted to limit global temperature rises to 1.5°C. However, despite net-zero commitments from major economies, a UN report has found that we are still on track for a catastrophic 3°C increase by 2100. The longer we wait to take more aggressive action, the harder it will be to close this gap. We also face a pressing need to rebuild economies damaged by Covid-19.

COP26 needs to produce a viable roadmap for tackling these problems. Making progress through 2021 on the five trends outlined above – more effective climate diplomacy, faster transition, better climate-finance returns, more nature-based solutions, and prioritising a just transition – would help build momentum for a successful summit.

ABOUT THE AUTHOR

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