

COVID-19 and Climate: A Certain Chemistry

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The Shocks

The COVID-19 pandemic has resulted in an unprecedented impact on people, work and lifestyles, institutions, and the environment. Millions worldwide have been infected, and hundreds of thousands have perished. Hospitals and medical professionals are engaged in an unenviable struggle to cope with increased demand.

There are widespread factory shutdowns and disruptions to production and distribution channels. With rising global unemployment levels, the demand for social and government safety nets has skyrocketed. There are notable declines in consumer spending, air travel, and road transport. Many are working from home. Some argue that work will never return to what it used to be during pre-COVID times. For example, detailed analyses produced by Goldman Sachs Equity Research (July 2020) show that Australia is experiencing the largest drop in the demand for the central business district (CBD) office spaces in the last 50 years. Their models predict a 42% reduction in net effective rental income from Melbourne CBD office stock by December 2021. For Sydney, it is approximately 40% less than pre-COVID levels. Undoubtedly, the road to economic recovery is long and hard.

The 'Silver Linings'

Despite these consequences, there are several 'silver linings'. The widespread decline in economic activity, the lockdowns, and travel restrictions have led to reduced fossil fuel usage, lower vehicle and greenhouse gas emissions, and consequently, to cleaner air, less pollution, and lighter carbon footprints. In some parts of the world, [authorities are taking steps](#) to 'lock-in' some of these beneficial '[by-products](#)' of the COVID-19 pandemic. For example, New Zealand has taken initiatives to decarbonise its vehicle fleet by exempting electric vehicles from road user charges and promoting alternative fuels in the freight industry. In Northern Europe, authorities are encouraging walking and cycling (as an alternative to fossil-fuel-based road transport) by providing monetary incentives to buy and maintain bicycles and by allocating more road space to pedestrians and cyclists. In Italy, local councils are proposing to reduce road speed limits and allocate priority seats for pedestrians and cyclists on public transport.

Similarly, some energy firms such as Woodside Petroleum, Shell, BP, Exxon Mobil, and Oil Search are beginning to see more opportunities in hydrogen and liquid natural gas in a decarbonising world. These corporations have taken steps to incorporate the complex interaction between the COVID pandemic and environmental concerns into their financial forecasts. For example, during the financial year that ended on 30 June 2020, [Woodside Petroleum has written off \\$US5.76 billion](#) in hydrocarbon asset and licence impairments due to reduced long-term demand and the risk of higher carbon pricing.

The Challenges

Despite these 'silver linings', it is a fallacy to assume that there is widespread climate risk awareness among individuals and institutions. [A recent study by Global Association of Risk Professionals \(GARP\)](#) (2020) on sustainability and climate risk has revealed that only 15% of the respondents thought their organisation had a current plan to address climate change and risk. Even though there was consensus among the survey participants that proactive strategies are in fact needed to address climate change, nearly 50% of the respondents were uncertain as to what needs to be done to mitigate climate risk. Undoubtedly, organisations need trained professionals, specialists, and dedicated teams to assess, measure, and then mitigate climate change and risk. Similarly, the recovery strategies in the 'yet-to-be-seen' post-COVID era should not undermine the current emphasis on climate change and risk. For example, the recovery strategies should not discount the carbon prices applied on emissions, but rather exceed operation-specific minimums stipulated in national regulations.

Above all, the current pandemic and climate risk have common grounds: they are complexly interwoven; both bring about high impact exogenous shocks that have far-reaching implications, and they entail realities that cannot be 'assumed away' anymore in economic and corporate planning or forecasting.



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