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Trump's withdrawal from the Paris climate accord

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We have talked to the ESG analyst team of Erste AM about Trump's withdrawal from the Paris climate accord in a roundtable discussion: Dominik Benedikt, Alexander Osojnik, Stefanie Schock, and Walter Hatak.

What does the withdrawal of the USA from the Paris climate accord mean for climate protection?

Osojnik: The withdrawal of the USA is a setback for the global efforts to contain climate change. However, it is not the end of global engagement in this area. The European Union, China, and India have clearly declared themselves in favour of continuing the efforts. Expectations are for the announced withdrawal of the USA to lead to stepped-up cooperation by the remaining countries. Also, the withdrawal is not as certain as assumed. The USA can withdraw from the accord at the earliest on 4 November 2020, i.e. one day after the next presidential elections in the USA.

How likely is the accord to meet its CO₂ targets without the contribution from the USA?

Schock: The faster action is taken, the easier it will be to achieve the Paris climate targets. Waiting longer today would mean deeper cuts later. Therefore, it would be a problem if the USA were to emit carbon dioxide ruthlessly for the coming four years. After all, the USA is responsible for about a fifth of global CO₂ emission. In comparison, China and India together account for more than 44% of global emissions.

Benedikt: In contrast to Trump's assumption that climate protection would only harm the US economy, technologies geared towards the future also offer opportunities. Other players have recognised the fact and are exploiting the status quo. For example, we expect to see even quicker progress in China and India when it comes to their attempts to take over the

economic and political leadership in topics relating to future developments. This could make up for the withdrawal of the USA at least partially.

What stance do big companies take?

Benedikt: Trump's decision is seen from a very critical perspective by the US industrial sector. Leading companies such as Apple, Facebook, Microsoft, and Peabody Energy, the biggest private coal mine operator in the world, have pointed out that the withdrawal from the Paris climate accord is a step in the wrong direction. In spite of record results from the combustion engine business, Ford sacked its CEO only a few days ago. His mistake was not to have a sufficiently wide array of strategies in future technologies in place such as e-mobility for example. Even Exxon Mobile, which denied climate change for a long time, was forced to make overcoming climate change one of its corporate goals by an overwhelming majority of its shareholders a few days ago.

Schock: The fight against climate change offers enormous economic chances. The US economy does not want to lose out on them. Trump wants to save about 70,000 jobs in the US coal industry. This can be related to the about 700,000 new jobs in future technologies such as renewable energies – in the USA alone. We expect the big US companies to continue investing in climate technologies, simply because it pays off. In addition, no internationally operating group can afford to bear the risk of uncontained climate change. Among them are for example volatile or disappearing water reserves.

Hatak: Interestingly, the Mar-A-Lago property of the Trump organisation is located at one of the coastal regions in Florida that would be the first to fall prey to the rising sea level. Maybe this could trigger a change of heart?

What role do other large countries and regions play in this topic?

Hatak: Only Syria and Nicaragua have not signed the Paris climate accord. It is surprising that Donald Trump is actually prepared to be in this camp of outsiders.

Osojnik: As addressed earlier, we expect regions and countries such as the EU, China, and India that want to continue contributing to the fight against climate change to step up their efforts. Here, we expect interesting developments, because even today China already invests more in renewable energies than in fossil energy carriers.

Benedikt: Even in the USA, the resistance against Trump's position has been on the rise: many big cities such as New York, Chicago, Los Angeles, and the city quoted by Trump, i.e. Pittsburgh, will continue their fight against climate change. California will not give up its role as pioneer in the climate and environmental area.

How can investors react to these developments?

Benedikt: Basically, the consequences of uncontrolled climate change could also benefit certain investors. For example, one could participate in the rebuilding of towns destroyed by catastrophes or drive the monopolisation of arable land and water. However, we regard such "doomsday bets" as problematic both for ethical reasons and from the perspective of risk management. It is one of the principles of Erste AM for example not to engage in food speculation.

Schock: Sustainable investments in particular can help combat climate change: we invest in those companies that harbour the lowest degree of climate risks or that offer specific solutions. This way, we can reduce the CO₂ intensity of our funds by about 60% of the most important global referential index. One example is our ERSTE WWF STOCK ENVIRONMENT fund: the producers of renewable energies in which the fund invests produced solar and wind power facilities in 2016 that during their useful life will be saving 580mn tonnes of carbon dioxide. This is equal to the combined emissions of France and Spain in 2013.

! Risk notes according to 2011 Austrian Investment Fund Act

ERSTE WWF STOCK ENVIRONMENT may exhibit increased volatility due to the composition of its portfolio: i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time.

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