



# A challenged future: choosing the path ahead

Framing content ahead of our second ESG Day

Empowering  
Communities to Progress.



# EXECUTIVE SUMMARY

In November 2023, we held our first ever ESG Day, bringing together over 11,000 colleagues, clients and other stakeholders to explore our role in empowering a just and fair transition.

A year later, ESG Day returns – and this time, we want to put the focus firmly on the need for greater progress in tackling some of the toughest issues facing our society today. From climate change to social inequality, we need action and we need answers. Urgently.

The event will serve as a forum to review and assess the concrete solutions available as we seek to address a range of pressing challenges, and to set the table for these discussions, we have put together this paper, which will dive into the details and context of our three main panels.

**The first tackles the effects of the green transition on society** – how the shift away from fossil fuels and to new more sustainable sources will upend the current landscape of production and consumption, and the impacts this will have on society as a whole.

The second explores **the inherent trade-offs that will be required to bring about meaningful improvements in terms of sustainability** – from potential adverse effects on biodiversity generated by social transformation projects, to the converse risk of upending communities by transitioning away from the energy-intensive industries they depend on – not to mention the fight for resources in the face of other urgent priorities, such as digitalisation and defence.

Our final panel looks at **practical ways that financial institutions and their corporate clients can play their part** in driving change, reinforcing best practice and addressing funding towards sustainable models.

*We look forward to discussing all this and more on the day.*

Read more about the event on our dedicated landing page



# INTRODUCTION

During our first ESG Day, held in November 2023, Professor Telmo Pievani introduced the concept of **cathedral thinking**: the idea of laying the foundations of our future world, even if it will be the next generation, and not us, who will benefit from it. It's about letting go of our short-term perspective and spending today to collect tomorrow in terms of measurable impacts on society.

This is the concrete definition of how we view sustainability at UniCredit.

At last year's event, we challenged ourselves to enrich our dialogue with key stakeholders by creating a space for impactful discussions around some of the most critical challenges we all face today.

The **main takeaway** from that day was that interconnection is fundamental: the worlds of science, politics, media and civil society must collaborate, holding themselves to account, sharing knowledge and best practices, defining common standards and actively participating in the transition.

When we look at sustainability, we must always consider the three ESG dimensions at the same time – articulating methodologies and frameworks in this direction.

Within this context, **the 'S' must be at the centre**, because social is the first pre-requisite to drive change. Indeed, within our own ESG strategy, we place equal weight on environmental and social concerns.

It's important to be aware of this interaction and to take a pragmatic view – acknowledging that compromises will be necessary and focusing on where we can collectively add most value.

We must work towards a culture of prevention, rather than simply managing emergencies as they happen. It's imperative that we measure our impact and give visibility to alternative models, case studies and levers to power the transition.

This paper seeks to move the discussion forward, address the issues and serve as a framing device ahead of our second ESG Day, **'A challenged future: choosing the path ahead'**, which will take place on 14th November, 2024.

Our first section is dedicated to **how climate change and technologies are re-shaping society**, followed by a second on **the costs and opportunities associated with the green transition**, before concluding with a focus on social impact, looking at **how the climate crisis is weighing on the labour market**.

We hope you **enjoy this paper** and that it helps **stimulate your own thoughts on these critical ESG topics**.

## THE SOCIAL DILEMMA: HOW CLIMATE CHANGE AND TECHNOLOGY ARE RESHAPING SOCIETY

*A successful green transition will require a two-pronged approach: reallocating resources from unsustainable economic activities to sustainable ones, while simultaneously increasing the capacity and productivity of sustainable endeavours.*

*This will mean significant changes in the global production and consumption landscape – decoupling growth from intensive resource usage. With this in mind, it is fundamental to give visibility to new models and approaches if we want to accelerate the path to transition.*

The continued evolution of technology and the accelerating climate crisis are reshaping modern societies and will continue to be the main drivers of societal change in the coming decades. The impact of these factors converges on power grids. The electrification of tasks that are today run by extracting and burning fossil fuels requires enormous investment in scaling up current resources as well as deploying technologies that currently are still in development.

This comes against the backdrop of new sources of demand for electricity that threaten to place more strain on power networks, in addition to population growth, economic development, and new technologies such as AI. Reaching net-zero CO<sub>2</sub> emissions requires the implementation of new technologies and behavioural changes that will need not only to replace current fossil-fuel-based power generation but also to offset new demand from society's evolving needs.

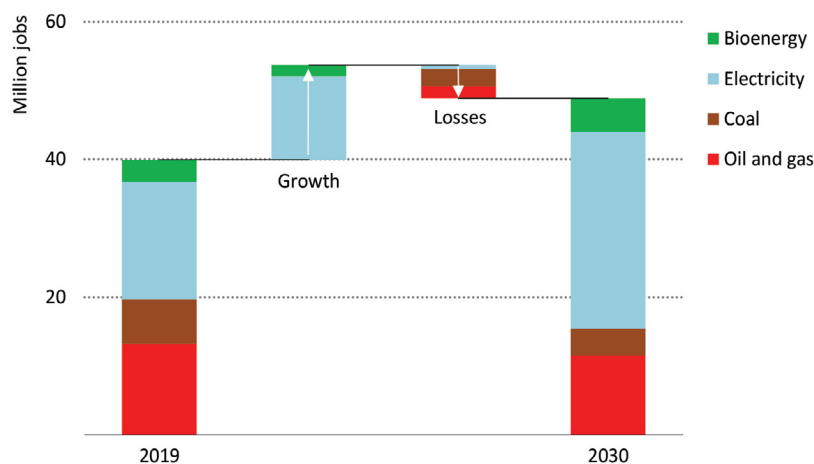
The development of these new digital and environmental technologies is essential to this increasingly electrified society that enables power generation to move away from burning fossil fuels, which has been the key to progress since the Industrial Revolution.

This will, of course, entail a significant financial cost, but beyond this it's important to remember the environmental impact. For example, while generative AI is likely to be an essential tool for the digitalization of society, Bloomberg reports that OpenAI recently pitched the Biden Administration a plan to build multiple 5GW data centres to cover future demand, each of which has the capacity to power around 3mn homes<sup>1</sup>. In the near term, rapid growth in investment and expansion of data centres worldwide will place additional strains on power networks and will compete for new investment spending in renewable power generation.

If the expansion of clean power is managed successfully, investments in digitalization and climate technology are expected to lead to higher economic growth and job creation. The IEA forecasts that staying on track with net-zero emissions targets would result in an annual 0.5% boost to economic growth between 2026-2030<sup>2</sup>.

However, job losses in traditional energy businesses will not necessarily be transferred to new energy sectors, as many of the new energy jobs will require different skills from traditional energy jobs. This change is likely to lead to displacement of workers along generational and regional lines and therefore will require careful management from governments and companies to reskill and re-educate displaced workers.

### GLOBAL ENERGY SECTOR EMPLOYMENT IN THE NET ZERO SCENARIO



On the other hand, the cost of inaction is far greater. Even the relatively optimistic case for meeting the goals of the Paris Agreement of limiting global warming to around 1.5C involves some (albeit more manageable) worsening of current environmental conditions. Higher warming levels are expected to lead to greater social stresses worldwide that would hit the developing world especially hard. For example, the World Bank estimates that a “pessimistic scenario” of reacting to climate change could lead to as many as 216mn climate-change migrants by 2050 or as few as 44mn in a “more climate-friendly” scenario.

This would, in turn, have negative impacts on GDP on nearly all regions but would be especially punishing for the least developed economies and would likely create greater political instability in more developed economies as they absorb economic migrants.

**These are precisely the topics that the first panel of our ESG Day will look at. Are we ready to face this transformation? What technologies are currently available to us? And how can we balance the short-term environmental impacts of these technologies with the long-term benefits that they promise?**

## A ZERO-SUM GAME? SOLVING SUSTAINABILITY TRADE-OFFS

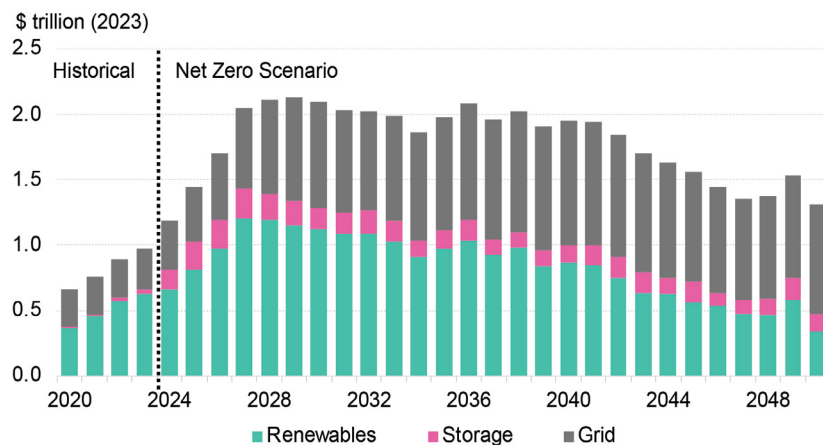
*Any attempt to generate meaningful environmental impact is also an exercise in managing conflicting interests. In an increasingly polarised world, we must be attentive to inherent trade-offs between environmental and social issues.*

*For instance, prioritising transition targets risks harming social communities dependent on energy-intensive industries, and prioritising social transformation could have adverse impacts on biodiversity. Likewise, environmental initiatives must compete for resources with other global priorities, such as digitalisation and defence.*

Warnings about the economic and geopolitical consequences of climate change have been growing more frequent and more concrete for many years, but change has been held up by a failure to commit sufficient financial resources to transforming economic sectors reliant on fossil fuels.

In the COP28 climate summit in December 2023, nearly 200 parties agreed to triple renewables capacity by 2030. But while current investment in energy is rising meaningfully every year, Bloomberg’s BNEF research organisation estimates that continuing at the same build rate from 2023 would leave the world 29% below the net-zero pathway<sup>3</sup>. Reaching the net zero target will require a dramatic increase in energy investment, especially in the coming years, peaking around 2030.

### OUTLOOK FOR ENERGY INVESTMENT IN BNEF’S NET ZERO SCENARIO



Source: BNEF, “Unlocking investment to triple renewables by 2030”

Investment in the energy transition competes with other investment needs within societies. Some global corporations are already struggling with investment levels in new climate-friendly technology and are unsure if the consumer demand is sufficient to generate sufficient profitability to justify increased investment in next generation products.

Recently, some automotive and utility companies have delayed some of their climate goals and have raised pressure on politicians to water down climate targets that they feel are too ambitious. These investments in clean energy compete for government resources with other objectives at a time of already historically high government debt levels.

In Mario Draghi's recent report on "The future of European competitiveness"<sup>4</sup>, he cites three major needs that require "massive investment": 1. Digitalization, 2. Decarbonization, and 3. Boosting the EU's defence capacity.

These are not meant to be mutually exclusive goals, but it is easy to imagine that they would compete with each other for public and private finance given strained national budgets.

Accelerating investment in the energy transition from governments and corporates is also increasingly grappling with other emerging risks, such as risks to biodiversity. A societal transition is likely to be transformative—and could have knock-on effects in terms of nature-related systemic risks.

These are related to tipping points that can result in the collapse of an ecosystem. Certain regions or economic activities are especially sensitive to these changes, resulting in physical and transition risks for these economies that can ultimately threaten financial stability as well.

Environmental finance is only now starting to analyse and understand these potential risks and there are few good methodologies available for limiting them. They are incorporated in the EU's "do no significant harm" policy in its Sustainable Finance legislation, meaning that any harm to biodiversity must be considered when evaluating the any sustainable investment. However, this remains an evolving consideration within sustainable finance planning.

**These topics will come into focus in the second panel. How can we strike a balance between our often competing environmental and social commitments? How can we ensure enough resources are allocated to critical sustainability priorities? And how can we lessen the impact of the transition on energy-intensive industries?**

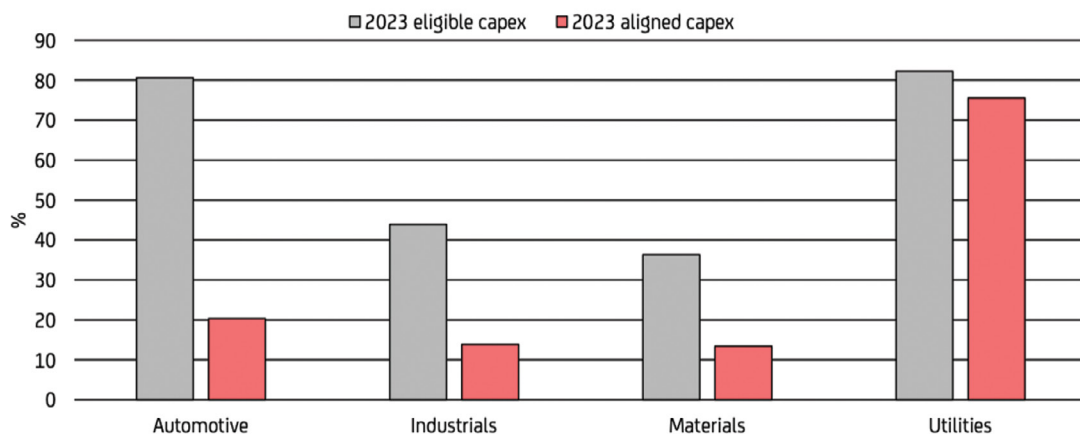
## THE WAY FORWARD: FROM RESPONSIBILITY TO RESPONSE-ABILITY

*Financial institutions and their corporate clients all have a crucial role in driving change, reinforcing best practice and addressing funding towards sustainable models.*

The conflicts and complications of the energy transition that we have discussed in this paper will have to be managed because the complications of not taking decisive climate action are, quite simply, much greater. The best way to mobilise resources to take meaningful climate action is to recognise the many opportunities that the transformation will offer. **This is especially true for the early movers that take risks to develop new climate-friendly technologies and services.** Mario Draghi stated in his paper on how to enhance European competitiveness that Europe is already a leader in climate technology . As important as it is to change behavior, investing in climate technology<sup>5</sup> offers potential for long-term profitability that can put society on a more sustainable basis and avoid some of the worst effects of climate change.

The European corporate sector has begun this transformation, but still requires considerable investment growth before investment levels reach their full potential. The most recent EU green taxonomy reporting shows that only the utility sector is narrowing the gap between the capex that is eligible to be considered green under the taxonomy rules and what is actually aligned. Other energy-intensive sectors still show significant gaps between the investments that are currently aligned with the EU's goals and what are eligible but are not yet aligned. These gaps between eligible and aligned capex reflects unused potential and indicates possibilities for future investment growth.

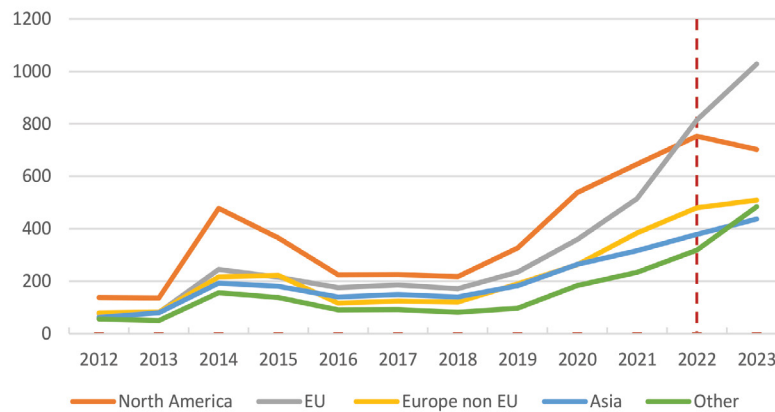
### TAXONOMY-ELIGIBLE VS. TAXONOMY-ALIGNED CAPEX IN KEY INDUSTRIES



Source: Bloomberg, UniCredit Group Investment Strategy

**Leaders in climate change investment can also benefit from increasing climate awareness throughout society. Climate anxiety is especially high among younger generations.** Companies that address these concerns in their work policies and product branding stand to benefit from these increasingly climate-aware segments. But climate engagement needs to be a real commitment rather than just a marketing platform. Awareness of the risk of greenwashing is increasingly permeating society, demonstrating that consumers are conscious of some companies' efforts to use climate awareness to sell products rather than to effect real change. In Europe awareness of greenwashing is especially high, resulting in higher reported incidents of greenwashing given this rising sensitivity to misleading climate messaging.

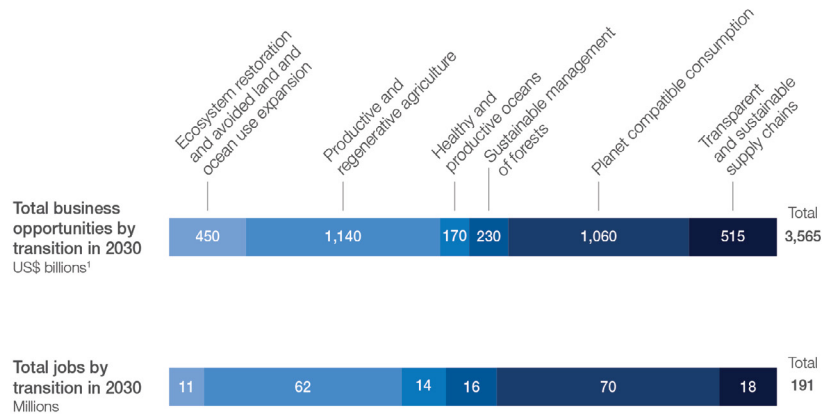
### ALLEGED INCIDENTS OF MISLEADING COMMUNICATION ON ESG RELATED TOPICS



Source: European Banking Authority, RepRisk ESG Data Science

The business opportunities involved in managing this transition adeptly are massive for corporations, especially in Europe, where renewable energy sources are more plentiful than carbon-based energy resources. The World Economic Forum estimates that USD 3.0tn and 117mn jobs globally stand to be created amongst those countries that are the leaders of the energy transformation. They include opportunities from urbanisation (compact built environment), infrastructure design to minimise biodiversity loss (nature-positive built environment), clean utilities (planet-compatible urban utilities), incorporating existing ecosystems into urban areas (nature as infrastructure) and a re-imagined transport infrastructure (nature-positive connecting infrastructure). Corporate investment has already taken the first steps toward this development, but accelerating this transition is in everyone's interests as we progress toward the first marker of progress in achieving the Paris Agreement in 2030.

## FIVE TRANSITIONS TOWARD A MORE SUSTAINABLE GLOBAL ECONOMY



Source: World Economic Forum “The Future of Nature and Business”, Business and Sustainable Development Commission (BSDC); The Nature Conservancy (TNC); New Climate Economy (NCE); McKinsey Global Institute (MGI); International Finance Corporation; UN Environment Programme; Market research; Literature review; AlphaBeta analysis

**We will conclude with a series of best-practice case studies from both public and private sectors. What are the key steps businesses must take to prepare for the transition? How can we promote best practice and encourage a culture of entrepreneurialism around sustainability topics? And how can we integrate the insights shared both here and throughout our ESG Day to ensure a just and fair transition?**

## TRANSITION IS NOT A DECISION, BUT A PROCESS

It’s abundantly clear that a deep transformation of the way we live and work is needed to transition to a low-carbon economy and prevent a deepening of the crisis that we find ourselves in.

Our forthcoming ESG Day will put the focus firmly on the need for greater progress in tackling some of the toughest issues facing our society today – ranging from how climate change and technology are reshaping society, to how we can go about solving sustainability trade-offs.

The event, built around our clients and held in tandem with COP29, will serve as a forum to discuss the concrete solutions available to us as we seek to address a range of pressing challenges.

From our perspective, we cannot be the bank for Europe’s future without addressing our impact on the environment and actively supporting the green transition in all its forms.

We believe that leading by example on key ESG issues is the right thing to do.

And we do hope that you can join us.



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4. European Commission, 2024, **The future of European competitiveness**, p.14
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## LEGAL NOTICES

### Glossary

A comprehensive glossary for many of the terms used in the report is available on our website: [www.investmentinsights.unicredit](http://www.investmentinsights.unicredit)

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