Moving from Ambition to Action
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In 1450, the Venetian cartographer Fra Mauro created his *mappa mundi, the* most accurate map ever drawn. He created the map – not by drawing it up according to how he thought the world *should* look from sitting in the monastery – but by talking to people on the ground – the traders, explorers, and refugees – *that were actually out navigating the world*.

As we try to draw a map for our pathway to net zero, that's what I'd like to share today: what I've learned from the conversations, experiences, and events over the past couple years. We know we want to go to net zero – now we need a realistic map for *how* to get there.

In 2015, a global consensus emerged in Paris around limiting global warming ideally to 1.5 degrees – and more recently, around achieving net zero carbon emissions by 2050.

Since that milestone, we've seen the physical effects of climate change – whether it's the unprecedented fires from Australia to the American West to the Amazon, or the flooding around the world, including right here in Venice. And these physical effects – which will only continue to mount – are playing out in financial terms as well, as they increasingly impact insurance rates and financing decisions.

As an asset manager and fiduciary to our clients, BlackRock is at the nexus between owners of capital and the companies and assets we invest in on their behalf. That's why, I wrote a letter to CEOs last year about a fundamental reshaping of the economy. I wrote that climate risk is an investment risk and that it would have a profound impact on their businesses and ultimately how investors would evaluate them. And that BlackRock and other investors would increasingly be asking for greater transparency into the ways that climate risk would affect their ability to grow, and how they were preparing for the future.

Not all industries and companies are moving as fast as we'd like. But I do believe disclosures are improving dramatically and we're beginning to see a real

transformation in the corporate world as more and more companies commit to net zero plans.

And I believe we will see continued progress on corporate disclosures as more governments consider making them mandatory. But we need greater global consistency in this rule making. We need to put politics aside and create a standard taxonomy for sustainability reporting or it won't work. Investors need a single standard by which to judge companies.

As necessary and useful as some of these steps are, they are, frankly, the easy part.

In fact, they'll be nothing more than window dressing unless we begin to take steps on comprehensive, long-term planning. If we hope to be successful in truly making sustainable progress, I see three critical issues that we need to address:

First, we need to broaden the focus beyond just public companies.
There's been tremendous progress in the public markets recently. Two years ago, I anticipated a tectonic shift in capital. That shift is now underway, and it's actually happening at a pace faster than I ever imagined. Sustainable investing strategies globally saw nearly $400 billion of inflows in 2020 and are on track to grow almost twice as quickly this year. I believe that this is the beginning of the most profound transformation of the financial system I've seen in my 40-year career in finance. But the shift is happening mainly in the public markets and among public companies.

Disclosure has reshaped behavior in dramatic ways. Most of them positive. But one negative effect it's having is creating a massive incentive for public companies to divest dirty assets. By some estimates, by the end of the decade, oil and gas companies will divest more than $100 billion of assets.

Divesting, whether done independently or mandated by a court, might move an individual company closer to net zero, but it does nothing to move the *world* closer to net zero. Indeed, it could even have the opposite effect.

As private and state-owned companies produce a greater and greater share of oil and gas, there will be less scrutiny and less disclosure around global emissions.

TCFD, of course, requires public companies not only to disclose their direct emissions, but also emissions throughout a company's supply chain or a bank's lending book.

To reduce these Scope 3 emissions, big public companies and banks are now being cast in the role of "emissions police" – having to cut off business or lending to companies, often smaller companies, that have not yet reduced their own emissions. This will have the unintended consequences of fueling a backlash against our big companies. It will promote the narrative of big versus small and further polarization.

We've made important progress getting large public companies to move forward. It's been a critical early step. Now, we need a comprehensive approach that applies to companies, both public AND private.

Second, as we move forward with the energy transition, we need to make sure that we are pushing just as hard on the demand side as we are on the supply side. Otherwise, we risk a supply crisis that drives up costs for consumers – especially those who can least afford it – and risks making the transition politically untenable.

The gap in cost between clean technologies and those that emit greater amounts of greenhouse gases is still enormous for most things, and we need to work to bring down the green premium. Rising oil prices will only mean greater dependence on coal in the emerging world, therefore we have to manage the supply and demand curve more effectively.

Virtually all the recent focus and real movement has been on the supply side, while very little is being done about demand. In fact, right now demand for hydrocarbons is actually accelerating, driving energy prices higher.

We have to ask ourselves: Will people accept $100 or $120 oil, even in the short term?

While some see higher prices as a way to constrain demand, rising costs in the energy sector will only sow greater economic inequality and a world of "haves and have nots." This will feed political polarization, and we've already seen how populist leaders can undo years of work and progress with little more than a single tweet.

The solution has to focus on bringing down the green premium by changing behaviors and making huge investment in new technologies, while minimizing the stranding of assets.

We've seen some progress closing the green premium by bringing down costs in the energy and transportation sectors. But there are sectors –cement and steel are just two examples – that are major sources of emissions, where there has been very little progress to date.

The energy transition is going to require unprecedented investment in new technology to decarbonize every sector of the economy.

Sixty years ago, when President John F. Kennedy committed to putting a man on the moon, it seemed like the greatest technological challenge ever undertaken.

At the peak of the Apollo program, the US government was spending more than 6% of discretionary spending on the space program. But that moonshot was modest compared to the one for a carbon-free economy that we face today.

Yet, government's ability to finance it is even more constrained. Right now, almost every government – as we're seeing with the US infrastructure bill – is relying on deficit spending. But deficit spending has its limits, especially when governments are also spending on the physical impacts of climate change.

If we're going to bring down the green premium, we need to get serious about attracting private capital for technological innovation. Approaches that fail to mobilize private capital, are not going to be enough to get the job done.

A successful transition that doesn't impose politically unpalatable costs on those who can least afford it will require that we carefully balance supply and demand. At the same time, we need to mobilize public AND private capital to bring down the green premium.

Third and finally, we need to rethink how we are going to attract the necessary capital to facilitate the transition in the emerging markets.

Economic development in each emerging market is going to depend on how quickly they become green.

That will also require enormous amounts of capital. There IS private capital that CAN be mobilized for the emerging markets, but we need to rethink the way the international financial institutions can support low-carbon investments at scale.

The IMF and World Bank were created nearly 80 years ago based on a bank balance sheet model and a very different global challenge. They have achieved great things and have strong networks and relationships in emerging markets. But when it comes to unlocking asset owners' capital for sustainability, we need to rethink their roles. The transition of the emerging markets will depend on reimagining these institutions for the world of sustainable investing in which we are living **today**.

We need a financing system that isn't built around bank balance sheets – but one that is built to attract asset-owner capital into sustainable investments and economies that offer long-term, durable returns. The green banks being established around the world – and currently under consideration in the US as part of the infrastructure bill – could be a powerful mechanism for accelerating green investment. But they won't be enough on their own.

We need global solutions and international organizations that are willing to mitigate the risks of investing in emerging markets.

If we're going to attract the hundreds of billions of dollars of private capital for brownfields and other sustainable projects in the emerging markets, we need more solutions like those used in mortgage-backed securities where some degree of losses is absorbed before they impact private investors.

BlackRock is pleased to have joined in creating the Climate Finance Partnership in conjunction with our government partners, France, Germany, and Japan, as well as philanthropic partners. This is a public-private structure designed to attract private capital for sustainable infrastructure – like renewable power – in emerging markets. Government and philanthropic institutions are providing subordinated capital as a means to provide risk and return protection that attracts private capital. Just this past week we held a first close for the fund. This is the type of public-private partnership we need to provide first-loss protection for investors.

However, as excited as I am about this Partnership, we need solutions of a much greater magnitude.

If we don't have international institutions providing that kind of first-loss position at a greater scale than they do today, properly overseeing these investments, and bringing down the cost of financing and the cost of equity, we're just not going to be able to attract the private capital necessary for the energy transition in the emerging markets.

While these challenges on the journey to net zero are massive, I remain an optimist and do believe that the climate transition presents a historic opportunity.

By BlackRock's research, the transition could drive as much as 25% higher cumulative GDP growth over the next two decades alone. It represents an investment opportunity of at least $50 trillion. As an asset manager, we know asset owners want to be a part of this opportunity. But a lot of change still to needs to happen to achieve that.

We need a globally consistent approach that spans both the private and public sectors. Each side needs to work together in defining sector-specific pathways to net zero.

We need to do as much as possible to mitigate rising energy costs and to ensure a just transition for **all** stakeholders in the global economy.

Careful planning, coordinated action, and continued mitigation of the risks will be the way we can all achieve our shared goals. Broad-based public policy, investment in sustainable, scalable energy sources, and long-term planning are what's needed to drive change. This won't be easy – we need a comprehensive plan for a just transition or we won't have comprehensive success.

Thank you.