Energy transition and COVID-19: Impacts on transportation

By: Cheryl Wilson | November 2, 2020

Washington - Calvert's view is that a temporary decline in the annual rate of emissions in one year resulting from stay-at-home orders to combat the novel coronavirus COVID-19 does little to reduce the long-term risk of climate change. Instead, significant, recurring reductions in annual emissions are needed.

We believe that pressure from governments, consumers and investors on companies to continue to invest in the energy transition — the ongoing transformation of the supply, transmission and distribution systems, as well as end-use technologies, with the objective of delivering a decarbonized, lower-cost and more resilient system — is unlikely to abate in the wake of the COVID-19 crisis. As a result, the events of 2020 do not interrupt our medium- and long-term environmental, social and governance (ESG)-driven energy transition investment thesis, but instead reinforce this ESG viewpoint.

This blog will focus on the impacts on transport applications, but you can read about this topic in more detail in our new white paper, "COVID-19 and the energy transition: A reinforcement of Calvert's long-term ESG thesis."

Transport applications

Most transportation industries are in the early stages of developing or deploying low- or zero-carbon technologies, and face decades of investments to reduce climate policy risk. Longer-term climate policy pressure is, therefore, unlikely to shift, and may even accelerate via economic stimulus plans in some regions.

Automotive: Global automobile sales have already been weakening in recent years, but a significant drop-off in consumer demand during the pandemic has led to year-over-year sales declines. However, despite a need to cut costs, there have been few indications that automakers are significantly slowing plans to reduce CO_2 emissions from their product portfolios. Automakers that continue to increase the availability of electrified models despite the slowdown are best prepared to minimize climate regulatory risk over longer time frames and take share in the nascent battery-electric and plug-in hybrid electric vehicle markets. Sector recovery will take time as automakers reopen factories shuttered due to government restrictions, the parts supply chain similarly ramps, automakers rebuild inventories and consumer demand builds.

Trucking: Shipments of the heaviest on-road trucks were already weakening before the pandemic, and year-over-year new orders dropped in both North America and the European Union. Tighter regulations on carbon emissions from medium- and heavy-duty trucks in a number of regions will likely continue to pressure equipment manufacturers to increase supply of alternative power trains, such as hybrid, battery-electric and hydrogen fuel cells, over the medium to long term. Since this segment of road transportation is challenging to decarbonize, and technology development is still in the early stages, equipment makers that maintain or boost investment in new technologies will be best prepared to reduce medium- to long-term climate policy risk.

Aviation: CO_2 emissions from aviation have decreased during the pandemic due to significantly reduced passenger air travel. While some airlines have announced retirements of older, less fuel-efficient aircraft in order to shrink fleet sizes and reduce costs, many airlines have also announced delays or cancellations of new aircraft orders. The use of new-generation aircraft remains the primary tool for airlines to reduce fuel consumption, and delays in adopting new aircraft, in turn, delay CO_2 emissions-intensity improvements.

The International Civil Aviation Organization (ICAO) adopted the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) in 2016, which aims to hold net emissions from international flights stable at the average of 2019-2020 levels. In June, the ICAO agreed to adjust the baseline to 2019 to eliminate the impact of reduced 2020 aviation activity. Since demand is likely to take several years to reach prepandemic levels, airlines face little compliance pressure, which could delay any momentum in the industry to begin tackling CO_2 emissions and, in turn, increase the ESG investment risk associated with the industry.

Bottom line: We believe the energy transition continues to grow as an ESG investment tail wind. Companies in industries facing more near-term regulatory pressure, such as automobile manufacturers, are unlikely to change course due to the pandemic, while companies in harder-to-abate industries facing less policy pressure, such as aviation, could deprioritize climate strategies. To learn more, download our white paper here.

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