Fixing Net Zero Leakage

 In the context of climate change policy, leakage refers to an increase in greenhouse gas (GHG) emissions in one jurisdiction resulting from emissions reductions in another jurisdiction. For example, a company might relocate production facilities from a state with strict carbon regulation to a state with no carbon regulation, and overall GHG emissions might remain the same as a result. Corporate net zero pledges—though voluntary—are also susceptible to leakage. Major oil companies that have made net zero pledges are selling off oil and gas fields. Mining companies have exited the coal business by spinning off new companies focused on coal. Similarly, institutional investors that have made net zero pledges are starting to divest from carbon-intensive assets. Unfortunately, the net zero strategies being implemented in each instance may lead to little, if any, overall reductions in GHG emissions. The new owners of fossil fuel assets likely intend to fully develop those assets. And notwithstanding divestment efforts, carbon-intensive companies often will have continued access to capital from other investors.

 This research project will explore ways to prevent or limit net zero leakage. Options include: incorporation of safeguards against leakage into net zero standards and guidance, sector-wide adoption of net zero pledges, and policies and laws aimed at shrinking demand for carbon-intensive assets.

Al Lin