Regnan

Navigating climate strategy amid regulatory turbulence

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Abstract

As the world grapples with escalating physical impacts of climate change, the outlook for effective policy responses remains uncertain. Current changes including changes in the U.S. administration, socio-economic dynamics and policy uncertainty are slowing momentum. Physical impacts of climate change are unfolding faster than anticipated, bringing risks into shorter timeframes.

An "inevitable policy response" is anticipated as societies confront these impacts, but its timing and effectiveness are contingent on public awareness and political will. The likelihood of a disorderly transition is rising, with heightened risks of reaching critical tipping points. This scenario underscores the need for policymakers to navigate the complex interplay between climate change, economic pressures, and societal dynamics to mitigate the most severe impacts of climate change.

> While the pace and intensity of physical impacts of climate change interact with policy and socio-economic systems, the physical geographic interactions and processes that drive climate and weather are agnostic to political ideology.

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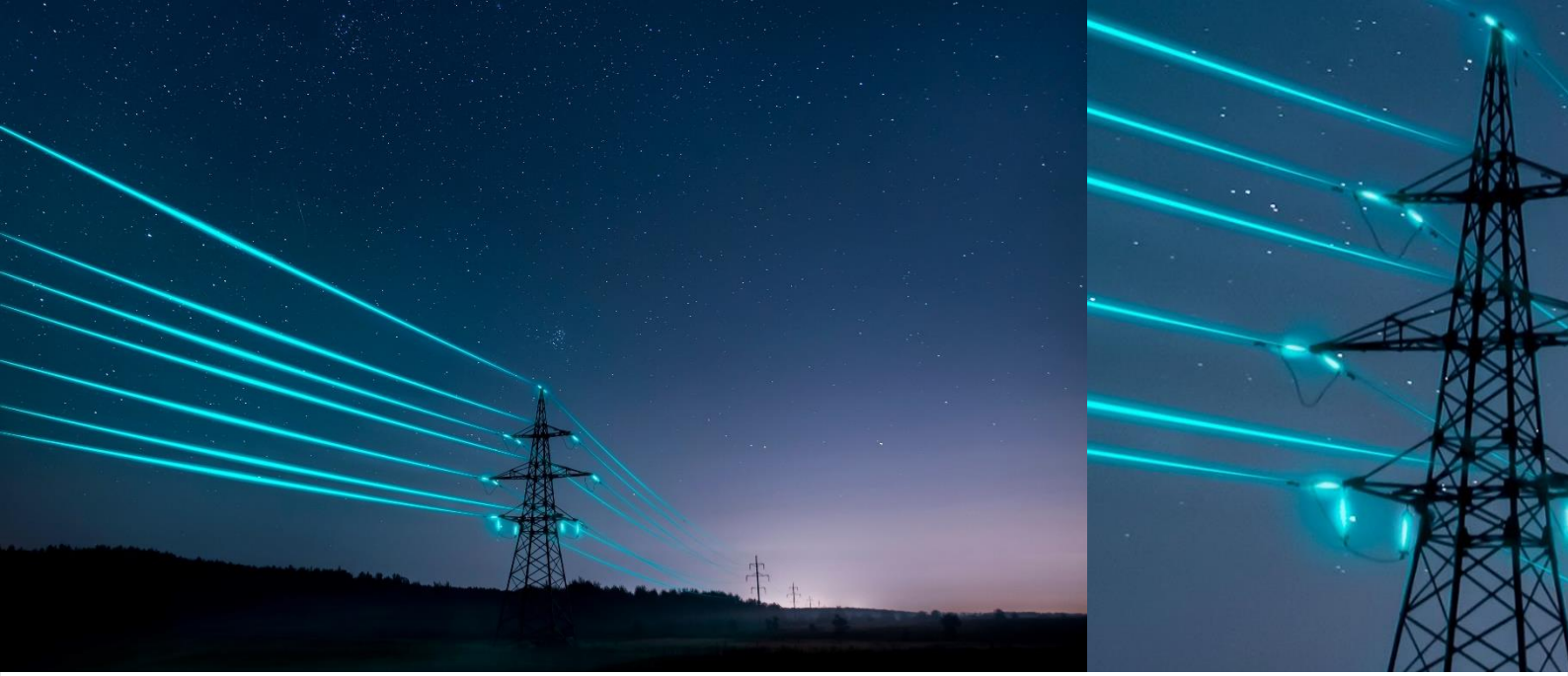


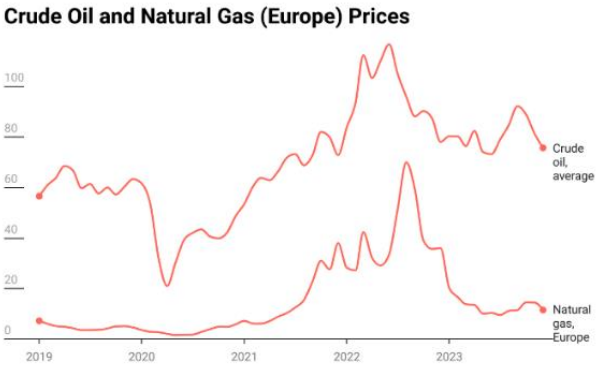
Introduction

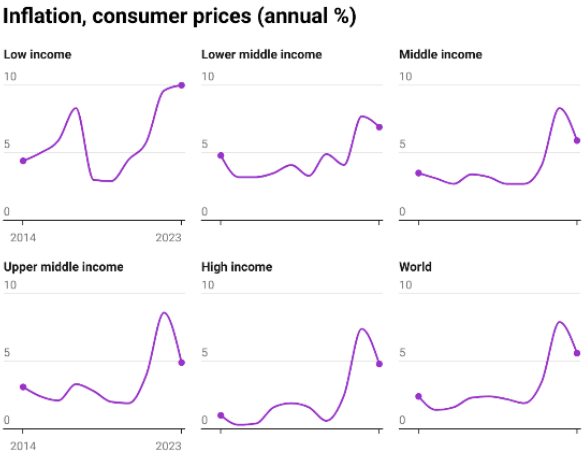
The recent shift in climate policy, marked by the U.S. federal government's pullback from greenhouse gas (GHG) regulation, has implications for global climate governance. We see signalling from the federal level to generally hinder GHG regulation in the US more broadly, despite ongoing state-level initiatives. The U.S. withdrawal from the Paris Agreement has also prompted other nations, such as Argentina[1] and Indonesia[2], to reconsider their commitments, however, unlike the U.S. these countries face significant economic and diplomatic hurdles to abandoning their obligations due to their ties with Paris Agreement proponents.

Socio – economic context and policy momentum

The current landscape of climate policy and economic challenges are deeply intertwined with the lingering impacts of the COVID-19 pandemic, the ongoing conflict in Ukraine, and the resultant inflationary pressures, particularly in energy markets. The pandemic has left a lasting legacy of record government debt, disrupted labour markets, and altered consumer behaviour, contributing to economic dislocation and persistent inflation. Meanwhile, the conflict in Ukraine has exacerbated energy insecurity.

These global economic and energy challenges have led to social unrest and strained national budgets and inflation. Consequently, policies aimed at reducing greenhouse gas emissions are often viewed as an additional driver of energy cost inflation, hindering the pace of climate action and related regulations.





1 https://www.ft.com/content/4957bc54-5b7b-496d-8c98-ba42ff508e85
2 https://www.ft.com/content/41d8a4f7-4e4c-4131-9dd8-e2530d3210b6
Data for charts: The World Bank

Socio – economic context and policy momentum

The new socio-economic and regulatory environment is expected to slow policy momentum, at least in the short-medium term, with headwinds emergent from:

- Regulatory design: policies that internalise externalities are by design inflation inducing, such that they increase costs for GHG-intensive enterprises, thereby incentivising a shift to less intensive alternatives.
- Cost-benefit dynamics: the transition involves short-term costs during the capital-intensive phase, with benefits realised in the long term.
- Industrial transition challenges: the need for significant labour reorientation from sectors undergoing transition (e.g. traditional to low-carbon energy, agriculture), including those communities that depend on those sectors. Challenges include the acquisition of novel technical skills, difficulties in retraining labour with domain specific skill sets. These have the potential to lead to political pressures from regions and communities not benefiting directly from the transition.

As the above notes, efforts to mitigate climate change and reduce emissions have been hindered by an apparent oversight in adequately balancing and addressing the social dimensions, particularly the imperative of a just transition. The just transition's should consider external factors, e.g. inflation, COVID, and be adaptive to how GHG regulations may interact with those external factors.

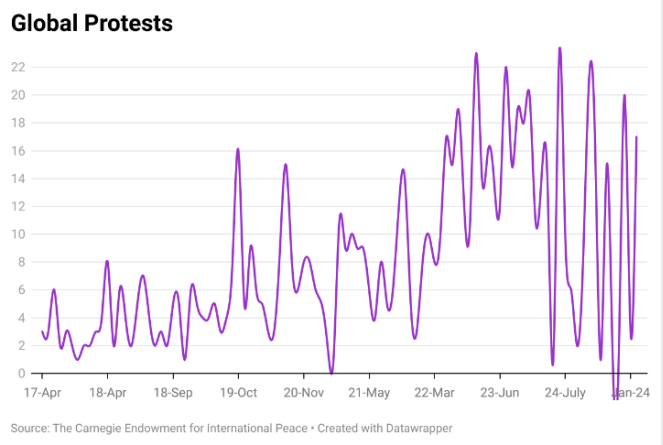
This omission has precipitated the emergence of socio-economic challenges that now impede meaningful progress in emission reduction.

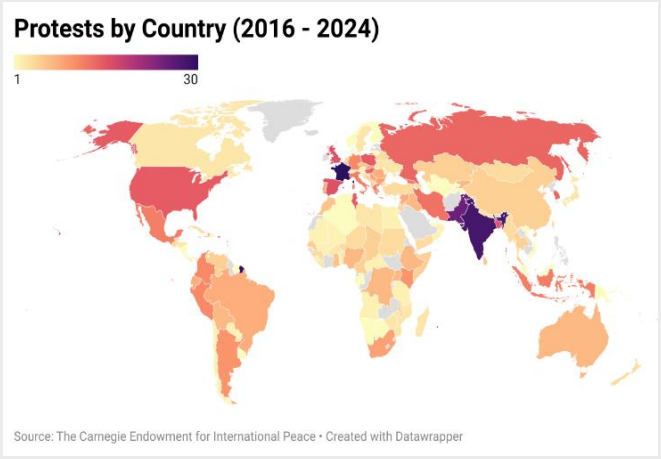
Each element of the socio-economic and regulatory framework interacts with others, generating feedback effects that can either impede or augment climate change mitigation strategies. Understanding these interactions is essential for achieving optimal outcomes, as it enables policymakers to navigate the complex interdependencies between economic, social, and environmental factors, thereby facilitating a more effective and inclusive transition to a low-carbon economy.

Climate protests in focus: Unpacking the data behind the movement

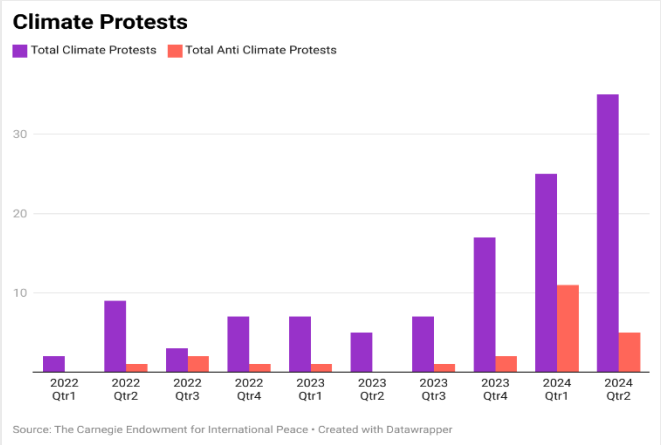
We used data from the Global Protest Tracker maintained by The Carnegie Endowment for International Peace to decipher societal dynamics associated with climate change.

The rise in social unrest following the COVID-19 pandemic is not unexpected, as economic pressures including increasing cost of living being a precursors to social unrest.



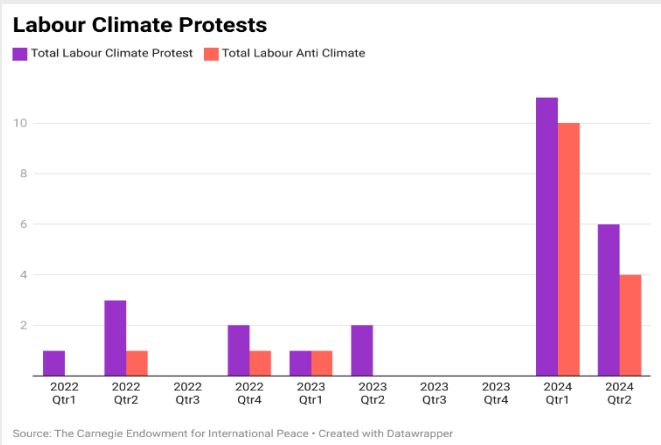


Climate change-related protests have also seen an increase, with a primary focus on advocating for climate action. However, there has been a significant rise in anti-climate protests during the first two quarters of 2024.



Upon isolating labour-related protests, excluding those initiated by youth, indigenous peoples, and political parties, **a pronounced anti-climate orientation becomes evident.** A significant majority of these protests exhibit an anti-climate stance, which underscores the assertion that there is insufficient consideration of the costs incurred by labour in sectors undergoing transition, particularly within the agricultural sector.

This trend underscores the necessity for more equitable policy frameworks that take into account the socio-economic impacts on industries experiencing substantial transformations as a result of climate policies.



Data for charts: The Carnegie Endowment for International Peace https://carnegieendowment.org/features/global-protest-tracker?lang=en

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Shifting sands: The evolving landscape of corporate climate ambitions

As policy momentum slows, companies are correspondingly revising their previously established climate targets and strategies.

A notable example is BP's strategy reset in February 2025.

As a part of the reset the company increased investments to oil and gas and committed to adopt a more selective approach to their investments in low carbon options.

Previously In 2020, the company established a goal to decrease oil and gas production by 40% by 2030 relative to 2019 levels. However, by 2023, this target was revised downward to a 25% reduction.

> *"In 2020, we made some bold strategic changes accelerating into the energy transition while progressively reducing our hydrocarbon business. [..] Our optimism for a fast transition was misplaced, and we went too far, too fast."*
>
> (BP Capital Markets Day, 26 February 2025)

Shell	The company is implementing cost reductions and operating with a lower capital expenditure level compared to peers, this streamlined plan also involves slowing down green projects.
Equinor	Reduced green budget. The company's capital expenditure for new energies from 2025 to 2027 has been cut by 50% compared to its original plan. Additionally, its renewable capacity target by the end of the decade has been lowered from 12-16 gigawatts to 10-12 gigawatts.

Shifting sands: To be different, or to be the same?

Regnan has previously, in January 2024, internally opined and assessed the robustness of ambitious climate targets set by companies, particularly those operating in industries characterised by low technological, institutional, and political readiness. The analysis questioned whether these commitments were driven by genuine strategic intent or a desire to conform with prevailing industry dynamics. To frame this inquiry, we drew upon the conceptual framework presented in "To Be Different, or to Be the Same? It's a Question (And Theory) of Strategic Balance" by Deephouse (1999).

By applying this framework, we posited that companies must navigate a balance between differentiation and conformity to achieve optimal performance. Differentiation involves distinguishing a company from its peers through innovative strategies or technologies, while conformity entails aligning with industry norms or standards to enhance legitimacy.

In the context of climate change mitigation commitments, we hypothesised that companies adopt ambitious climate targets to differentiate themselves from peers, even when the required technologies are uncertain and institutional and political readiness is nascent. We suspect the long-term horizons involved provide comfort that technocratic solutions will eventually emerge. Their peers, initially hesitant to commit due to these uncertainties, face pressure from shareholders and stakeholders for lagging behind when a peer has already made a commitment. Consequently, these companies conclude that they must also make similar commitments to maintain industry alignment and enhance their legitimacy, calculating the risks and consequences associated with failing to meet these commitments, stemming from challenges related to low technological, institutional, and political readiness, apply universally across the industry, thereby mitigating idiosyncratic risks.

Outlook

In the context of prevailing policy uncertainty and socio-economic dynamics, two interrelated phenomena warrant close attention: **escalating physical impacts of climate change and the higher probability of a disorderly transition from an inevitable policy response.**

Regnan has long held that physical impacts of climate change will persist even under the most optimistic low-carbon transition scenarios, the uncertainty surrounding policy and the resultant slowdown in policy momentum will only serve to exacerbate the physical impacts of climate change. Evidence indicates that these impacts are unfolding at a faster pace than previously anticipated, thereby bringing certain risks into shorter to medium-term timeframes.

Academics and policymakers have argued that as the general public, policymakers, markets, and other stakeholders increasingly digest and internalise the impacts and cost of physical impacts of climate change, mitigation efforts will accelerate, even if the transition is abrupt and disorderly, potentially resulting in substantial economic and social costs, as societies attempt to avoid the most severe physical impacts caused by climate change. This has been dubbed the “inevitable policy response”.

How inevitable is the Inevitable Policy Response?

The anticipated inevitable policy response assumes: first, that the general public will associate and link extreme weather events to climate change, second, that this association and understanding are substantial enough to overcome other socio-political and economic issues and be sufficiently prioritised, and third, mitigation efforts are timed such that tipping points are not reached.

The academic evidence supporting the first assumption is mixed. While some studies indicate that exposure to extreme weather events, such as tornadoes, hurricanes, floods, and wildfires, can influence factors like concern about climate change and support for policy measures addressing the issue[3], other studies yield null or highly nuanced findings[4]. Notably, research identifies political ideology as a significant factor in how evidence of climate change, as manifested through extreme weather events, are interpreted.

Anecdotally, while we note that the temporal compression of extreme weather events, such as the occurrence of floods that historically happened once every 100 years now happening more frequently, e.g., every 50 or 20 years, constitutes a significant reduction in their recurrence interval, but, when viewed through the lens of human timescales, these events remain sufficiently distant to potentially be overlooked or underestimated. This temporal spacing may lead to a tendency to disregard such events, as their infrequent occurrence can create a perception of them being too remote to warrant immediate concern.

3 Demski, Christina and Capstick, Stuart and Pidgeon, Nick and Sposato, Robert Gennaro and Spence, Alexa Climatic Change, 140, 2017; Giordono Leanne and Boudet Hilary and Gard-Murray Alexander Local adaptation policy responses to extreme weather events Policy Sciences, 53, 2020. doi: 10.1007/s11077-020-09401-3

4 Brulle Robert J and Carmichael Jason and Jenkins J Craig Shifting public opinion on climate change: An empirical assessment of factors influencing concern over climate change in the US, 2002–2010 Climatic Change, 114, 2, 2012. doi: 10.1007/s10584-012-0403-y; Carlton J Stuart and Mase Amber S and Knutson Cody L and Lemos Maria Carmen and Haigh Tonya and Todey Dennis P et al. The effects of extreme drought on climate change beliefs, risk perceptions, and adaptation attitudes Climatic Change, 135, 2016. doi: 10.1007/s10584-015-1561-

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Outlook cont.

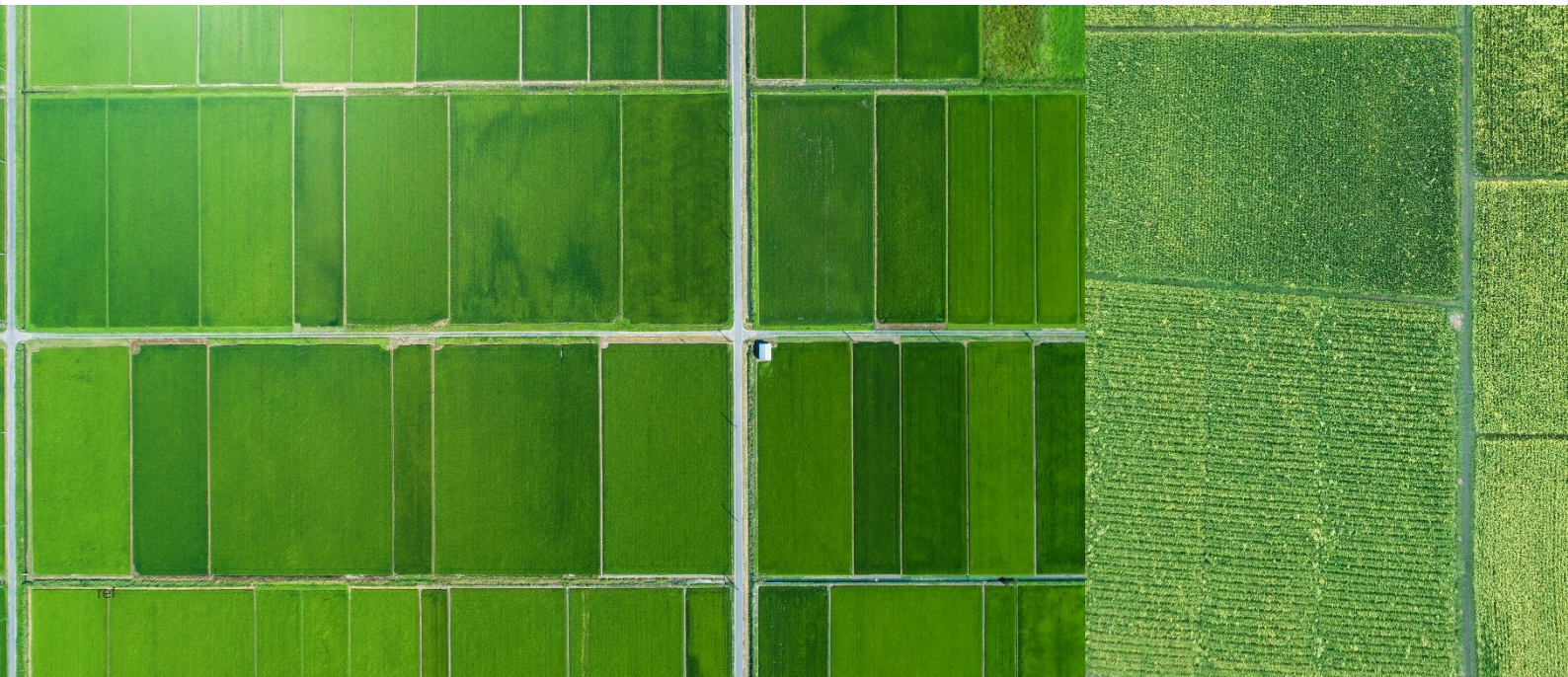
Notwithstanding the limitations inherent in the assumptions of an inevitable policy response, Regnan anticipates that policymakers will eventually develop a policy response as they come to understand and acknowledge the magnitude of socio-economic and landscape impacts associated with climate change, as well as the attendant adaptation costs. This recognition is likely to influence political discourse and alter the political landscape.

In the short term, the likelihood of implementing meaningful measures to mitigate greenhouse gas emissions has diminished, while the probability of escalating physical impacts of climate change has increased.

Over the medium term, the probability of effective action to arrest emissions remains neutral, although the likelihood of a disorderly transition is rising.

Concurrently, the probability of intensifying physical impacts of climate change has increased, with an elevated risk of reaching critical tipping points. This is attributed to the persistence of greenhouse gases in the atmosphere and the slow response of natural systems, such as oceans, which will continue to drive warming for decades even if emissions are reduced or halted.

In the long term, the probability of a disorderly transition has increased, as has the likelihood of escalating physical impacts of climate change, with an enhanced risk of reaching tipping points. This prognosis is underpinned by the enduring presence of greenhouse gases and the delayed response of natural systems, which will perpetuate warming for decades even if emissions are curtailed or ceased.



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