

Michael Sheren & TTU

Nik Gowing

Welcome to talking about Thinking the Unthinkable, our latest leadership, conversation, and podcast. I'm Nik Gowing, Founder and Director of the Thinking the Unthinkable project.

Are you changing your business model in the radical ways needed to accommodate the urgency which is required to tackle this enormous climate emergency? Well, many leaders are still struggling to grip the scale and speed of what they need to do. So radical thinking is needed. And as we'll hear, there are significant positives and opportunities to embrace, despite so many deeply unsettling issues confronting every leader these days.

Joining me for this thinking the unthinkable conversation is the investment banker Michael Sheren. For ten years until 2022 Michael was a senior advisor at the Bank of England, especially on credit risk, climate risk, and securing financial stability. Among many other responsibilities, he's also chair of the Banking and Environment Initiative at the Cambridge University Institute for Sustainability leadership.

Welcome, Michael. Let's start our 18 minutes with the question we need to ask. Are leaders, by and large, ready to change their way of doing business in the ways needed to embrace the climate, nature and sustainability emergencies?

Michael Sheren

Good morning, Nik. It's a great pleasure to be here. And to answer your question, which will really kick us off : absolutely "no". Leaders, whether it's in the real economy, finance, or political leaders have not embraced the challenge and they have not communicated the challenge.

Nik Gowing

Do they understand it?

Michael Sheren

Some do, some don't. I would argue on the political side, some of them really don't have that background and really don't understand it. There's a mis, there's a misalignment of their horizons. So they completely try and shut it out. Other leaders, they're just literally who do understand it, they're afraid. They understand, to your point, the literally existential threat, and all the change that needs to happen. And in that they're worried about tax revenues; they worry about employment; they're worried about dislocation of society and societal threats.

So in some ways, it's almost so big, we're in a - you know - just - you know - in case of emergency break glass, and they're afraid to break the glass. Because they're not sure just how bad it will be. Others to be fair, they're distracted, and there's no shortage of big things to be distracted by: COVID, wars, geopolitics, inflation.

And then there's a few others that are completely focused on the incumbent interests, because those are the people who pay to help them get elected. They're the ones that have built the economy. Those are the ones that are providing those jobs and tax revenues.

And so there's just a whole potpourri of things that are causing leaders to basically do nothing or not do anything near the level of work that needs to take place to transition this global economy.

Nik Gowing

Are they conscious, do you think of the kind of position they're taking kind of instinctive, almost denial? Are they aware of what they're doing or not doing?

Michael Sheren

From my experience in both the Bank of England- I had the great pleasure of representing the United Kingdom in the G 20. So at the very highest global level I got to speak to quite a few leaders. And even four or five years ago, some of the leaders just did not understand. And still some of them will not take the actions needed to start transitioning the economy.

And again, we use the word economy a lot. But the economy is people's jobs, its industries, it's everything from your dry cleaner on the corner to General Motors in between. And trying to get a brand new business model across all of that globally, from Bangladesh to Canada, is a daunting task. But if we don't take this task in hand, as you know, the implications are utterly existential.

And so that's why I'm actually shocked that leaders haven't sat down and had a conversation with their citizens about what does a transition mean. So if we break the glass, metaphorically, then what's next? What do people need to know about, because you're not giving them good information from leaders who understand what the transition can be? And both tell them the opportunities, the risks, but also what are the safety nets that are being put in place, or should be put in place, to allow them to be comfortable about a transition?

Nik Gowing

Are they are in denial? Are they just risk averse? Because I mentioned right at the beginning that much of your work has been about climate risk and about financial risk and so on. In other words, is it, are they saying it's more of a risk to embrace sustainability than to actually ignore it?

Michael Sheren

I think that's a really astute observation. Because it's . . . you reach - as we've talked about - tipping points. So is the risk higher on denial or higher on action? And right now, I think we're really at that tipping point. Some of them are going to have to at some point, embrace, break that glass and start doing the hard work. But they can't do that without bringing their populations on side. You and I have been very fortunate. We talk to you talk to other journalists and policymakers, to captains of industry. But no one's having or preparing the global citizenry about what they need to think about. And if you

don't get them on board, if these leaders don't start leading, explaining, providing what does a transition look like, and what does it mean to you when the tipping point comes - and you've seen the weather around the world you've seen . . . It's not just poor Bangladesh, who gets pounded all the time. But it's now the United States. It's Beijing, it's Greece. So the risks are mounting. And putting off that conversation: that tipping point between was it better to just kind of avoid it and do something? Or is it better to rip the bandage off and actually start explaining what this transition would mean and what we need to do?

Nik Gowing

Can I put it to you are maybe being a bit too tough in the sense that there are those out there - and I talked right at the beginning about positives and opportunities - who have seen what is possible, and what is needed to be done even if it means reducing emissions by 42% by 2030, which is what COP28 is about. [Yes, Yes!] Are you being a bit over critical of leaders? There are those out there who are prepared to do this and can see it.

Michael Sheren

Maybe I'm being a little tough. But I don't I honestly don't think so. I think those that have been who do understand it really haven't, as I've said, started the starting gun on what a transition means. Now, there is no silver bullet on this. But one thing that would be a starting point, which would actually start the transition. The IMF just came out again - and they've done this almost every year, for every other year, for a few years - they said "look: you need to start taxing carbon".

Now imagine if you're a small dry cleaner or your General Motors, and you have to pay for the carbon you admit. Now there's really good policy ways of adjusting this. You can say, well, if you have to pay this tax, and you actually start transitioning your business model, you can then get a tax abatement on the capex you spend.

But having the leadership in a country, well the only country I know that's got a carbon tax right now, an active one, not a carbon program like abatement programs or cap and trade programs, but actual outright tax, I believe is Singapore. But imagine every single company having to do that. If you looked at their cash flow, once they paid for their tonnage, and then ultimately the valuation on a company that's actually affected by that cash flow. Every single asset manager in the world right now is sitting on mispriced stocks, bonds and real estate because once the cost . . . [INTERRUPTION].

Nik Gowing

Do they know that?

Michael Sheren

Many of them do. I talked to them. When at Cambridge University I talked to them about this. And they want me to pull out a crystal ball and tell me exactly when that will happen. And I wish I had that because I would have probably a much easier life. But it is going to happen.

And so I don't believe you even start to transition. We there have been some great industry leaders. And I think the automobile industry has been really out in front. They've been fast movers in trying to go to EVs. And EVs, by the way, are only the first step in cars.

Everyone talks about the negative externalities are the bad stuff around EVs, which is the cobalt, the mining in the Congo. But you know, what, 10 years from now, 15 years from now, 20 years from now, we'll be looking at those primitive lithium ion batteries because the technology will keep leapfrogging and so it's your first step.

But that first step hasn't been taken in so many different places. Water is such an absolutely essential commodity for all of us. And if you think about the amount of water that's used to grow crops that is used to feed livestock, we could be using that water for human purposes.

So you still have to think you're thinking the unthinkable? Well, then how do we think about agriculture, you know. Vertical farms instead of traditional ones. Meats that are produced in labs. I'm sorry to bring up Singapore a second time, but I think they're the first country that's approved lab based chickens for mass use.

When you talk about these vertical farms: they are 90% less water intensive. They're more nutritious. You can't do them for every crop. I was at a Swedish Chamber of Commerce event with you a couple of weeks ago, in which a young person came out and talked about pet food. In which he said 37% of the global livestock is used for pet foods. She came up with an alternative which is insect based high protein, and it was so good that she ate some of it.

But this is thinking the unthinkable. This is about how do you reimagine business models that we've had for thousands of years when it comes to agriculture? Fish? I met a company that makes sushi grade salmon, imagine getting the seas a break. And this is pure stem cell salmon. There's no mercury in it. There's no pollution in it. But it's about being brave enough and being able to take that step.

The sad thing is some of these companies that we know, won't make that transition. And that's what I think the people, the world, citizens of the world want to have a conversation [about], because as policymakers actually do demonstrate leadership, maybe only because the tipping point we hit, then they need to say to them, we're going to provide for you living wages, retraining. And these are the conversations. Because if you're going home at night, and you're hearing people like you and I tell people how bad this is going to be in the midterm, the midterm is our lifetimes. But without something that helps them understand how they'll carry on their lives through the real economy changing. And that only does it with leadership from policymakers, and those that have run the real economy.

Nik Gowing

All right, Michael, I can imagine there are some out there watching this. Leaders protect potentially, who's saying, Why is he whingeing about us? What would he do? What can he say to encourage us? And

I'd like to draw upon that experience in these last few minutes. So we can end on a positive note, which shows there is real opportunity. And there are those who are doing well out of this as well, and others can repeat that.

Michael Sheren

Yes. Well, the first thing is the great news about the opportunities is there's going to be a tremendous amount of jobs created in the transition. So if you're in the 99% there will be jobs. I'm sitting here in the UK right now and our homes are expensive tents. Basically, they're not well insulated, they're heated by fossil fuels, they're expensive. And to convert them over to heat pumps and to insulate them will be very expensive.

The medium income in the UK is roughly £26,000. So there will need to be both support from government. But in doing that you're creating jobs. You need new types of . . . literally plumbers to come in and take out the old stuff. You need circular economy, which will take the copper, the plastic, and actually reuse them again, which will create huge amounts of jobs. They have to manufacture heat pumps. And if you're the government, you're helping support your citizens to do this through subsidies, the amount of jobs created will create tax revenues, that will pay that up over time.

So for those people, I want to tell them, there will be jobs. And they are opportunities. You need smart leaders that can construct long term plans that will pay off.

Nik Gowing

Tell me what a smart leader is though. Easy to say it [yes]. Easy for you to come up with that phrase, smart leaders. Leaders believe they're smart, otherwise, they wouldn't have the job. What can make a smart leader in this environment where there are risks to be taken. And it could be expensive - to use that terrible word - to fail even if you've tried something good. But actually it hasn't worked out.

Michael Sheren

There are risks to be taken and there will be failures. So you need to be a leader who . . . a smart leader in that definition is someone who does think through with their policymakers with their industry, what do we need to do? And I'll give you a quick rule of thumb. The G20 countries produce 80% of the carbon emissions. So if you're in a G20 country, you know exactly what your percentage is.

The first thing you need to think about as a smart leader is how do I get my absolute carbon emissions down to tie into my 2030 goals and commitments in 2050? Which industries do they come from in my country? Argentina: it's going to 37 percents agriculture. In Germany, it's going to be more around industry. So you have to understand your sectors. Where it comes from? What are the substitutions? What are the costs associated with that? What kind of retraining you need to do? What tax revenues?

It's literally being a global policy/economic thinker. About understanding where the risks are, and how you can start changing them, substitute them to deliver on a very distinct landing spot. You've committed . . . every country in the world has committed to where they're going to land. What the

smart leader does is figure out how they get there in the sectors that are most intensive in their country. And what is the leapfrogging technologies? Because it will be technology that is going to help us transition, whether it's a more energy efficient solar panel, or whether it's great new fish or meats coming from laboratories and everything in between. Because if we don't have the technology, doing the same old ways of doing things will not deliver.

So a smart leader has to really almost be bringing in the right people that are visionaries in the sectors they're in, and say what are the substitutions? How can we leapfrog? And how can we do this by reducing the carbon emissions?

Nik Gowing

What about how quickly this can be done? Because as I said right at the beginning, the scientists are saying there's even greater need for urgency now. That means greater application with the enormity of what has to be done to reach even 2030, let alone 2050. What's your feeling about how this can be achieved?

Michael Sheren

It's going to be bumpy, because it needs to start today. It needs to start . . . it needs to be the big brunt of it. The hardest part of the transition has to take place in the next 10 to 15 years. And that's a highly accelerated period of time to change the entire global economy.

So the first things first: you need to have that conversation. And you need to get both the people that are going to be doing this and your population on side. They need to buckle up. Because it is going to be a tough 10-15 years. A total timeframe is roughly 30 to 50 years. We're not in . . . we're not in complete clear skies by then. But if we haven't gotten most of it done by then we failed.

But the first is we knew about this. And you know this as well, in the 1990s. I've seen television clips of scientists back then articulating that I could have played to you yesterday. This is not new, but we've delayed. We've delayed, we've delayed. And the science is telling us right here right now. Everyone who's watching this podcast sees the news. They may have been flooded themselves. They may be dealing with drought. They may have migration, because of the droughts, the manifestation, the crystallization of the risks are taking place right now.

We've wasted a lot of time. So we need to start immediately.

Nik Gowing

There's been a real emphasis in the last couple of years literally, about how we've been abusing nature. In other words, we've been abusing nature with everything we do. Do you think the depth and the scale of abuse of this planet has really now been understood yet, even if it's scaring people? Does scaring people produce the kind of radical rethinking that you're promoting?

Michael Sheren

I don't know if scaring them actually does. But I, to your point, I said at Cambridge University, I have colleagues that are scientists and they are absolutely terrified by the melt in the Antarctic. By the release of methane in Russia, in the permafrost. Around literally threats to the Gulf Stream.

We talked about this when we first kicked off the G20 in 2016 as something that will take place next century. It's been moved forward to this century with the low end of the tail risk, literally starting, I think it's next year.

So the threat to nature, if we don't protect nature, if we don't protect the biodiversity. . . I talked about that collapse at tipping point. Even if we start reducing our carbon emissions, but if we keep cutting down trees, we keep destroying nature and biodiversity, that will accelerate that tipping point. It's like shaving off all of your hair and going into the sun and hoping you won't get a sunburn on your scalp. You need to keep the biodiversity intact. And I think it unfortunately got detached from carbon and climate about 10 years ago when it shouldn't have.

Nik Gowing

Just very quickly. Do you think there are more investment bankers thinking like you, or not enough yet?

Michael Sheren

I don't know. I'm just an old dog learning new tricks. So as I said, I was an investment banker in my first part of my career, then a policymaker. And the investment banker you see now is actually a green FinTech one, who is only looking to finance green and sustainable things. So I'm hoping other colleagues in this industry, look at that, as well as ways to transition the brown industries out as quickly as possible.

Nik Gowing

Thank you, Michael.

Michael Sheren. Thank you so much for joining us here on this podcast for Thinking the Unthinkable. A transcript is posted in parallel on our website, so you can look at what Michael has been saying in more detail.

Do join us when we have our next conversation about thinking the unthinkable. From me Nik Gowing until the next time, keep thinking unthinkable, like Michael is. More than ever, it's both possible and necessary. Bye bye.