EDITORIAL

COVID-19 AND THE ENVIRONMENT

Due to the externalities of economic activity, the lockdown has had a considerable impact, not only on the economy but also on the environment. In a post-lockdown world, the question is how and to what extent the experience of the pandemic will influence the environment in the years to come. Covid-19 may make people more health-focused, including how the environment influences one's health. This may change behaviour in terms of mobility and spending. It may also cause an increase in the allocation to sustainable investments, which in turn could influence corporate strategies. Changes in global value chains can also have an environmental impact. For fiscal policy, there is an opportunity of meeting the short-term goal of boosting the post-pandemic recovery by making investments that contribute to reaching the goals related to climate change and the environment.

There are multiple, direct and indirect, relationships between the Covid-19 pandemic and the environment. The lockdown had a profound impact on economic activity and, as a consequence, on the environment. This reminds us of the environmental externalities which follow from production and spending decisions. Noise levels declined[1] and air quality improved[2]. The relationship can go in the other direction as well with exposure to air pollution possibly influencing the spread of the contagion and its fatality rate[3]. With the significant easing of lockdown measures in a large number of countries, the focus is now shifting. The question is whether and, if so, how the experience of the pandemic will influence the environment in the years to come. This is a matter of attitude, behaviour and policy. On attitude, Covid-19 may make people health-focused, including how the environment influences it. This may change behaviour in terms of mobility –travel, distance to work, means of transport- and spending, e.g. buying vegetables from local farmers. On the other hand, in the absence of a vaccine, there is concern that the environmental footprint could actually increase, should people shift to buying more plastic-wrapped fruit and vegetables. There may also be an influence on how people invest their savings with an increased allocation to sustainable investments. This in turn would influence company behaviour. A recent study covering 6,000 listed companies in 56 countries has shown that in the first quarter this year, when the pandemic was spreading, the share price of companies with a high score in terms of corporate and social responsibility (CSR) declined significantly less than the low-CSR score firm.[4]

Another area where company decisions following Covid-19 could have an environmental impact is the reorganisation of global value chains. Following the supply disruption experienced in many sectors, companies may decide to increase the geographical diversification of their suppliers, which could have an impact on transport-related carbon emissions.

If what matters to people changes following the pandemic, this may influence the political debate and how people (are expected to) vote. It may also cause a shift in policy priorities. This is clearly the message from the European Commission which in its EUR 750 billion Next Generation EU proposal emphasises the need *"to protect livelihoods, get the economy back on its feet and foster sustainable and resilient growth"*[5]. It is a matter of trying to kill two birds with one stone: meeting the short-term goal of boosting the post-pandemic recovery by making investments that contribute to reaching the goals related to climate change. Recent research suggests that this should be possible. *"There are a set of fiscal recovery policy types which offer high economic multipliers and positive climate impact"*: investment in clean energy infrastructure, efficient use of energy, education and training, investments for ecosystem resilience, clean R&D spending.[6]

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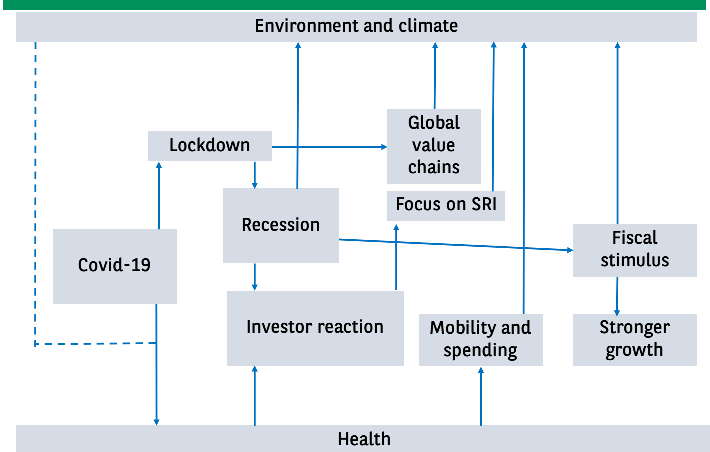
RELATIONSHIPS BETWEEN THE COVID-19 PANDEMIC AND THE ENVIRONMENT



SOURCE: BNP PARIBAS ECONOMIC RESEARCH

1. *Scientists report drop in Earth's movement amid coronavirus lockdown*, British Geological Survey, 9 April 2020. The press release mentions that average daytime noise levels at seismic stations in the UK in the two week period since the start of the lockdown were 10 to 50% lower compared to the beginning of the year.
2. *Does lockdown reduce air pollution? Evidence from 44 cities in northern China,* Rui Bao and Achend Zhang, Science of the Total Environment, https://doi.org/10.1016/j.scitotenv.2020.139052
3. *The deadly link between COVID-19 and air pollution*, World Economic Forum, 15 April 2020. The article mentions an Italian study showing a link between the contagion rate and air pollution in northern Italy and a Harvard study which has found a correlation between air pollution and COVID-19 deaths in the US.
4. The CSR score is based on environmental, social and CSR-strategy criteria. *"To illustrate the estimated magnitudes, consider two otherwise similar firms in the same industry and economy. One has a pre-2020 CSR score at the 25th percentile and the other is at the 75th percentile. Our estimates suggest that the average stock returns of the high-CSR score firm would decline by 2 percentage points less than the low-CSR score firm in response to the average growth of COVID19 cases two months after the outbreak of the pandemic. Ceteris paribus, these estimates suggest that the stock price reaction to COVID19 for the high-CSR score firm would be 19% less than the low-CSR score firm."* Source: Corporate Immunity to the COVID-19 Pandemic, Wenzhi Ding, Ross Levine, Chen Lin, and Wensi Xie, NBER Working Paper No. 27055, April 2020.
5. Questions and Answers on the MFF and Next Generation EU, Brussels, 27 May 2020
6. *Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change?* Cameron Hepburn, Brian O'Callaghan, Nicholas Stern, Joseph Stiglitz, Dimitri Zenghelis, Oxford Review of Economic Policy, May 2020. The analysis was conducted based on a survey of 231 central bank officials, finance ministry officials, and other economic experts from G20 countries.