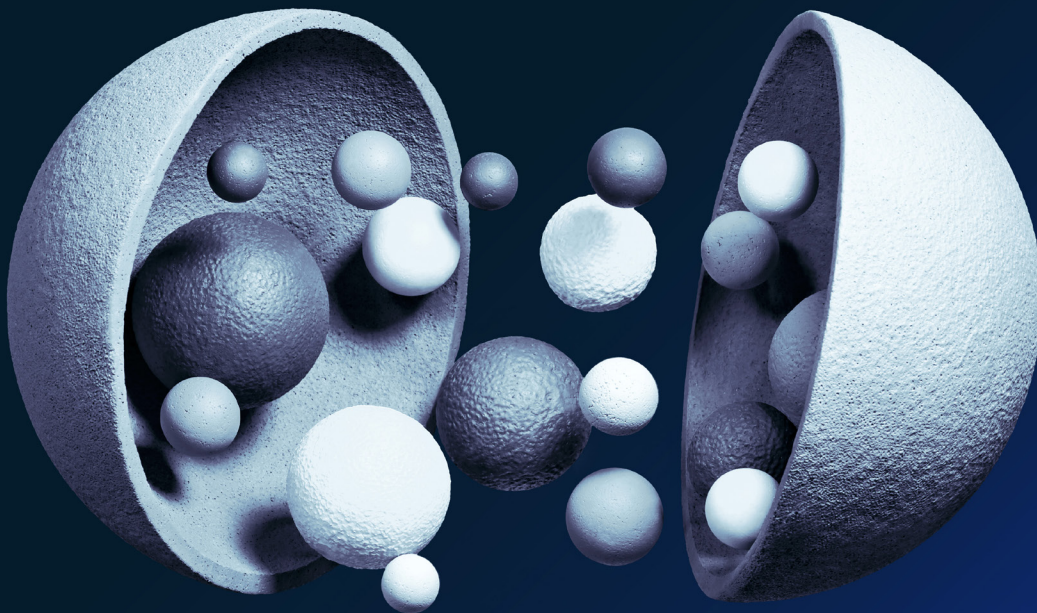


Risk Practice

COVID-19: Briefing note #62, July 7, 2021

When two distinct goals are imperative, the only choice is to solve for both.



Throughout the COVID-19 pandemic, businesses and governments faced the need to solve multiple, competing priorities simultaneously. One of the toughest: how to keep an economy going while at the same time shutting it down to protect citizens from infection. As some regions emerge from the worst of the health crisis, it's tempting to think that there could be a return to focusing on just one main concern. But this week, McKinsey experts examined sectors, particularly defense and national infrastructure, where solving for dual imperatives is more important than ever.

Defense forces, which typically account for at least 50 percent of governments' carbon emissions, could help prevent climate change—and the many risks it implies—by taking dramatic action to decarbonize. Obstacles to change include the primacy of having mission-critical capability and long equipment life cycles (which means fossil-fuel-powered equipment in use now, or coming into service shortly, will still be fielded in 2050). But defense forces can begin setting priorities for decarbonization by categorizing their emissions as those for which they are directly responsible and those resulting from the supply chain, and by how much emissions reductions would impact mission-critical initiatives (exhibit).

Exhibit

Defense-force emissions can be categorized based on emission type and ease of reducing emissions.

Emissions-reduction actions

	Scopes 1 & 2: Emissions for which defense forces are directly responsible	Scope 3: Emissions resulting from the full supply chain, including both direct suppliers and subsuppliers
Emissions not linked to mission-critical capabilities	<p>Focus on quick-win opportunities under full control of the defense force, comparable with decarbonization in any other industry</p> <ul style="list-style-type: none"> • Understand emissions baseline and targets • Consider how the organization can support change • Identify and prioritize initiatives • Implement reduction initiatives and conduct tests of low-carbon opportunities 	<p>Provide incentives for supply chain to decarbonize core functions in the short term and cease purchasing unnecessary, non-mission-critical goods or services</p> <ul style="list-style-type: none"> • Build decarbonization into the supply chain (eg, by developing emissions-reduction targets and requirements for suppliers) • Consider how the organization can support change • Consider reduction initiatives and test capability of low-carbon opportunities
Emissions linked to mission-critical capabilities but can be addressed without any impact to mission	<p>Reduce emissions intensity of mission-critical activities or replace with low-emissions alternatives where possible</p> <ul style="list-style-type: none"> • Understand emissions baseline and targets • Create a framework so more complex initiatives can be successful • Identify and prioritize initiatives • Implement reduction initiatives and conduct tests of low-carbon opportunities 	<p>Provide incentives for supply chain to reduce emissions intensity of new and existing equipment in areas where solutions are available</p> <ul style="list-style-type: none"> • Build decarbonization into the supply chain (eg, by developing emissions-reduction targets and requirements for suppliers) • Create a framework so more complex initiatives can be successful • Consider reduction initiatives and test capability of low-carbon opportunities
Emissions related to mission-critical capabilities; a decrease in emissions would affect those capabilities	<p>Develop negative-emissions schemes to decarbonize currently irreducible emissions in the short term; focus R&D on developing long-term solutions</p> <ul style="list-style-type: none"> • Understand emissions baseline and targets • Plan capabilities • Create a framework so more complex initiatives can be successful (eg, by funding research to develop low-carbon alternatives) • Identify and prioritize initiatives • Seek to become net negative in selected areas to offset the irreducible emissions in other areas 	<p>Work with supply chain to develop zero-emissions solutions to currently irreducible emissions over the long term and offset emissions over the short term</p> <ul style="list-style-type: none"> • Build decarbonization into the supply chain (eg, by developing emissions-reduction targets and requirements for suppliers) • Create a framework so more complex initiatives can be successful • Seek to become net negative in selected areas to offset the irreducible emissions in other areas

The May 2021 ransomware attack on Colonial Pipeline, the United States' largest pipeline network for delivery of refined petroleum products, made one thing clear: national critical infrastructure just inherited a new imperative, which is to build cyber resilience. In light of the new level of threat, companies will have to improve their knowledge of their own operations and vulnerabilities and establish high-fidelity baselines for the devices on their networks so they can detect subtle anomalies. Owners and operators must move to a zero-trust mindset and need to improve their systems' ability to respond and establish control.

In the not-so-distant future, waste products such as used cooking oils and agricultural residues will fuel airplanes in the sky. One country championing the use of such sustainable aviation fuels (SAFs) is India. McKinsey's recent report with the World Economic Forum's Clean Skies for Tomorrow Coalition—which is working toward making carbon-zero flying a reality by the middle of the century—is a blueprint for India's ongoing transition to SAFs. The coalition's community in India has set the goal of flying 100 million passengers on SAFs at a 10 percent blend by 2030.

Here are some other key findings from our sector research this week:

- On the *Inside the Strategy Room* podcast, Tanya Baker, global leader of Goldman Sachs' internal incubator GS Accelerate, talks about what it takes to foster entrepreneurship. Two big lessons: if you have to choose between a great idea and a great team of people, pick the people, because ultimately talent rules outcomes. Her second takeaway: people who have been successful in other roles at Goldman Sachs are not always the same people who will succeed at building a new business. Entrepreneurship often requires a separate set of skills.

- On *The McKinsey Podcast*, senior partners Kim Baroudy and Massimo Mazza discuss the state of entrepreneurship outside the confines of Silicon Valley. Europe's fragmentation—its 24 languages and multiple regulatory environments—is a hidden strength, as it forces founders to think internationally. Capital growth and the kinds of companies achieving scale in Latin America is changing fast. Silicon Valley can feel flattered by imitation, as tech hubs grow in Tel Aviv, São Paulo, Frankfurt, London, Shanghai, Paris, Berlin, and Stockholm.
- How did Nordic companies come to form the vanguard of innovation in digital, mobile, and instant payments? Claus Bunkenborg, CEO of MobilePay; Peter Klein, executive vice president, strategy and solutions, for new payment platforms at Mastercard; and Lars Sjögren, CEO of P27 Nordic Payments, discuss the influence of Nordic history and business culture on the sector. One theory: a history of wars has forced these small countries to learn to compromise and collaborate.

Our most recent edition of McKinsey for Kids introduces younger audiences to mangrove forests and explains why building a business case for mangroves can help protect Bengal tigers and king cobras. For more perspectives, please see the full collection of our coronavirus-related content, visual insights from our “chart of the day,” a curated collection of our first 100 articles relating to the coronavirus, our suite of tools to help leaders respond to the pandemic, and how our editors choose images that help readers visualize the impact of an invisible threat.