What did COP26 really achieve and what will be its impact on the investment industry?

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As the dust settles on COP26, Ogier's Head of Sustainability Andrea Leung asks whether the negotiations were a success or a failure, and examines their impact on the global finance industry.

The Glasgow Climate Pact was agreed by 197 countries. But while many consider these to be the most significant climate talks since the 2015 Paris Agreement, not everyone shares this sense of triumph.

The stakes at COP26 could not have been higher – this was a summit on climate change, an unprecedented global threat to humanity. So was it a success or failure? The answer is not exactly straightforward. In short, COP26 made some wins but it also had shortcomings.

The UN Secretary General Antonio Guterres put it best when he said, "Outcome is a compromise, reflecting the interests, contradictions and state of political will in the world today. It's an important step, but it's not enough. It's time to go into emergency mode. The climate battle is the fight of our lives and that fight must be won."

The wins of COP26

One COP is never expected to be the game changer to solve the deep climate crisis, but COP26 did deliver many significant achievements, which were made both within the formal negotiations and around the COP, where commitments were made by non-state actors.

1. **Increased submissions of Nationally Determined Contributions (NDCs)** - 124 new or updated NDCs (interim targets for 2030) have been submitted by 151 parties (out of 193 parties to the Paris Agreement) to the UNFCCC as of 2 Nov 2021, as well as two NDCs proposed by India and South Korea, representing 90.8% of global emissions[1]. Among the latest submissions, 74 parties submitted further information on their long-term visions, strategies and targets for 2050 and beyond, such as the UK committing to achieve net-zero

emissions by 2050 and China committing to carbon neutrality before 2060. Some countries were reported to have announced long-term net zero targets but no formal communications with the UNFCCC have been registered - for example, India's pledge on net zero by 2070. Nevertheless, the direction of travel for a global decarbonisation is clear.

2. **Accelerated the climate action timeline:** Studies[2] have shown that if the 2030 targets in the NDCs submitted are fully implemented, the projected temperature rise would still be 2.4 °C, significantly higher than the Paris Agreement temperature goal to limit global warming to well below 2°C, preferably to 1.5°C. However, the pact does request countries to revisit and strengthen their targets as necessary by the end of 2022, instead of the five years stated in the Paris Agreement, reflecting a growing sense of urgency.
3. **Progress towards consigning coal to history:** Countries agreed to 'phasedown' unabated coal power and phase out inefficient fossil fuel subsidies. Despite the profound disappointment at the shift in language from the stronger wording 'phase out,' used in the earlier draft text, coal and fossil fuel subsidies were explicitly referenced for the first time in the UN climate decisions.This is a significant step forward to reduce fossil fuel use.
4. **Doubled adaptation finance:** The pact urges developed country parties to at least double their collective provision of climate finance for developing country parties from 2019 levels by 2025, and also calls upon multilateral development banks and other financial institutions and the private sector to invest in climate projects, particularly for adaptation.
5. **Finalised the Paris Rulebook:** The Paris Rulebook, the guidelines for how the Paris Agreement is delivered, was finally finalised after six years of discussions.This will allow for the full implementation of the landmark accord and a transparency process which will hold countries to account as they deliver on their targets.This includes the notoriously sticky Article 6 which is intended to provide the rule book for international cooperation, governing an international framework for carbon accounting and carbon markets. One of the key aims of having a robust mechanism is to avoid 'double counting' of emissions cuts claimed by two different countries or groups.

The shortcomings of COP26

The major shortcoming is that the commitments made so far still fall short in achieving the Paris Agreement goal. Another central issue is around finance, commitment credibility and the trust between developed and developing countries, which has been the battleground since the beginning of the international negotiations.

1. **2030 targets remain inadequate:** The updated national 2030 targets to date (without long-term pledges for 2050 and beyond) has helped reduce the emissions gap, but a gap of 19-23 giga tonnes of carbon dioxide equivalent remains.That would put us on track for a 2.4 °C temperature increase by the end of the century. In an optimistic scenario, assuming full implementation of all NDCs and long-term net-zero targets, the temperature rise would be

limited to 1.8 °C, significantly lower but still higher than the Paris Agreement goal[3].

2. **Implementation plans are critical:** While many countries now have long-term net-zero targets, many do not have detailed implementation plans of how these targets could be delivered in the next 30 years and beyond.
3. **Climate finance falls short:** Developed countries missed the target, originally set back in 2009, of mobilising climate finance of US$100 billion per year by 2020 to fund climate actions in developing nations. In 2015, it was agreed to extend the target to 2025. However, the Climate Finance Delivery Plan, released just before COP26 to provide confidence on how the target is to be met, expects the target will also be missed in the years 2021 and 2022.
4. **Loss and damage remains unresolved:** Small islands states and vulnerable countries, emitting minimal emissions, are facing existential threat from climate change caused by historical emissions from rich developed countries.The Santiago Network, created at COP25 to catalyse the technical assistance on loss and damage, was further operationalised but it will not be fully operational until COP27. The vulnerable countries demanded a facility to finance loss and damage urgently but resolution was not reached. COP26 promised to discuss funding arrangements through the Glasgow Dialogue in the future.

Initiatives from around the COP

COP26 created huge amount of momentum and catalysed many ambitious initiatives created outside the formal COP proceedings, which included commitments from businesses, financiers and philanthropists, which included:

- Powering Past Coal and Global Coal to Clean Power Transition Statement.

- The Glasgow Breakthroughs on technology innovation in five sectors: power, transport, steel, hydrogen and agriculture.

- First Movers Coalition of major global buyers committing to help commercialise key emerging clean technologies across hard-to-decarbonise sectors eg steel, concrete, shipping and aviation.

- Over 100 countries signed up to the Global Methane Pledge aiming to reduce global methane emissions by 30% by 2030. UN reports[4] find that methane emissions reduction is a cost-effective solution to close the emissions gap and reduce warming in the short term.

- Glasgow Leaders' Declaration on Forest and Land Use covering 90% of forests worldwide aiming to halt and reverse forest loss and land degradation by 2030.

- Declaration on accelerating the transition to 100% zero emission cars and vans globally by 2040, signed by almost 40 countries and over 100 cities/regions, vehicle manufacturers, fleet owners and operators and investors.

- The Global Energy Alliance for People and Planet funded by some of the world's largest philanthropies including the Rockefeller Foundation, IKEA Foundation and Bezos Earth Fund. The Bezos Earth Fund also announced the single largest pledge of US$2 billion at COP26 for restoring nature and transforming food systems.

What does the outcome of COP26 mean for the investment community?

Finance is critical to the successful implementation of the initiatives mentioned above. It is estimated that US$125 trillion of investment is required to transform our economy and private actors play a critical role in helping to deliver these investments.

On the Finance Day at COP26, the Glasgow Financial Alliance for Net Zero (GFANZ), a global coalition of financial institutions and investors from over 450 firms across 45 countries, announced that over US$130 trillion of private capital is committed to transforming the economy for net zero.

But in order to deliver this massive amount of clean finance, the right framework is required to enable a transformational shift in investment strategies.The financial sector needs science-based information, quantity and quality of climate-related disclosure and standardisation to streamline the process, avoid confusion and greenwashing. While recognising the climate emergency and challenges ahead in developing such a robust global framework, financial institutions cannot wait for perfect methodologies to start their net-zero transformation. The global coalition provides a good platform where financial actors can share best practices.

Plans were also announced for making the UK the world's first net zero aligned financial centre. Initially, this will require asset managers, regulated asset owners and list companies to publish transition plans that consider the government's net zero commitment. A Transition Plan Taskforce will be set up to develop a gold standard for transition plans.

Conclusion

Climate crisis is imminent. Ambitious climate actions are urgently needed, and the investment community faces unprecedented risks, as well as opportunities, and can play a critical role.

COP26 is a big deal for the industry, and corporates and financiers responded positively and helped drive the deal forward. Some may even credit the industry with providing more solutions and moving faster than governments.

Climate change has also become a prominent public concern. To respond to public expectations and fulfil obligations under the international treaty, national governments will have to set more ambitious emissions targets and translate them to actions, policies and laws. These rules, as well as the physical climate risks, will inevitably have implications for businesses and the investment community.

For example, a new law requiring large UK-registered companies to disclose climate-related financial information will come into force from April 2022. If companies and industries fail to adapt to the transition to a low-carbon economy, they will fail to exist, said Mark Carney, Co-Chair of GFANZ and the UN Special Envoy for Climate Action and Finance.

On the other hand, business opportunities will certainly arise from the global decarbonisation where there is inevitably demand for low carbon technology, goods and services. It is evident from the GFANZ that capitals are available for low carbon assets and projects. Firms across the entire financial spectrum - asset owners, asset managers, insurers and institutional investors - are serious about decarbonising their portfolios as climate risks impact the value of the investments. They are committed to aligning their investment portfolios with the Paris Agreement and shifting capitals from brown to green which, in turn, presents more promising long-term returns and prosperity.

As Alok Sharma, COP26 President, said: "1.5°C has been kept alive. But its pulse is weak and it will only survive if we keep our promises and translate commitments into rapid action. We must now move forward together and deliver on the expectations set out in the Glasgow Climate Pact, and close the vast gap which remains. Because as Prime Minister Mia Mottley told us that for Barbados and other small islands states, 'two degrees is a death sentence.'"

Ogier's approach to environmental sustainability

Ogier is committed to making contributions to the global transition to net zero. We are committed to reducing our Scope 1 and 2 emissions by 2030 and setting net zero targets according to Science Based Targets Initiative's methodology. The climate strategy forms part of our three pronged approach to sustainability and ESG. We have a team of lawyers across service-lines and jurisdictions who are equipped to advise on legal and regulatory matters related to sustainable investment and ESG, as well as Ogier Global's Sustainable Investment Consulting, a dedicated consultancy offering bespoke design, integration, management and reporting solutions to our clients.

[1] https://unfccc.int/news/cop26-update-to-the-ndc-synthesis-report

[2] https://climateactiontracker.org/publications/glasgows-2030-credibility-gap-net-zeros-lip-service-to-climate-action/

[3] https://climateactiontracker.org/publications/glasgows-2030-credibility-gap-net-zeros-lip-service-to-climate-action/

[4] *There are readily available targeted measure to achieve 30% reduction. With another 15% more emissions reduction, nearly 0.3oC of global warming can be avoided:*

https://wedocs.unep.org/bitstream/handle/20.500.11822/35917/GMA_ES.pdf

https://www.unep.org/resources/emissions-gap-report-2021

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