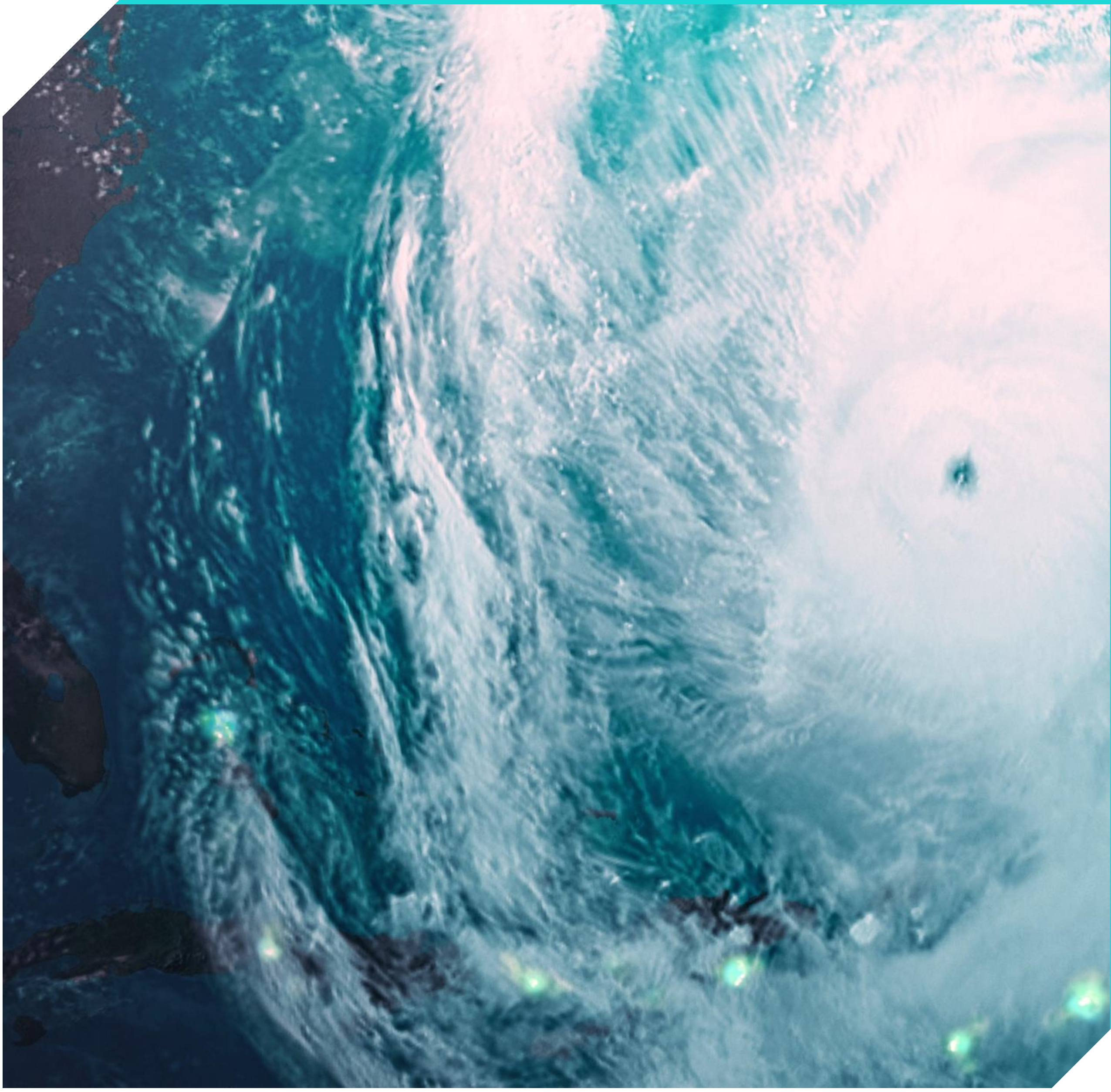

COP26: What success looks like and what it means for business

BRUNSWICK

The 26th Conference of the Parties (COP26) of the UN Framework Convention on Climate Change (UNFCCC) is the most significant milestone in tackling climate change since the Paris Agreement was signed in 2015.

The Questions Being Asked at COP26

At COP21 in Paris in 2015, nearly 200 countries agreed on the need to limit global warming to well below 2°C above pre-industrial levels, and to pursue efforts to limit it to 1.5°C above pre-industrial levels. COP26 is seen by many as a moment of truth on how seriously governments intend to honour their Paris commitments, and how serious businesses – a central part of the COP agenda for the first time – are about living up to their pledges to tackle climate change.

A disproportionate focus will be on the actions and words from a few high-emitting countries and their leaders – such as the US, China, and India. They will play an outsized role, for many, in determining whether the Conference has been a success.

The issues, rules, and mechanisms being discussed at COP26 are hugely complicated and span 10 days of negotiations from 1st to 11th November. They involve more than 190 countries, and many more businesses, NGOs, faith groups, and non-state actors. Yet many observers (more than 2,000 accredited journalists are set to attend COP26) are likely to ask versions of the same question to all involved: How serious are you about tackling climate change – and why should we believe you?

The First 'Real Economy' COP with a Strong Focus on Business

In a departure from previous COPs, the UK COP26 Presidency has focused on the role of the 'real economy', particularly financial institutions and businesses. This elevates business from the margins to a more formal role at the heart of the agenda. In fact, the COP26 Presidency Programme – and therefore entire days of Conference – are structured around real economy themes, with finance as a central focus.

A Shift for Business: Long-Term Ambitions to Near-Term Commitments

There is increasing pressure from regulators, investors, customers, civil society, and employees to put in place targets and plans that align with the goals of the Paris Agreement. This is reflected by media coverage of 'climate change' and 'net zero', which has doubled in the past year across US, UK, and Asian news sources[1].

Increasingly, a clear ambition is emerging: halve emissions in the next nine years. For business, the expectation is to show how you align with that goal – what credible near-term commitments put you on the path to a 1.5°C world. That's why business plans are increasingly focussed on:

1. Net zero emissions targets covering the entire value chain (known as scopes 1, 2, and 3);
2. Interim 2030 targets; and
3. Commitments to transparent reporting and accounting.

[1] Brunswick analysis of Factiva

More than 1,000 businesses are working with the Science Based Targets initiative, which provides companies with a clearly defined path to reduce emissions in line with achieving a 1.5°C temperature rise – while also offering them the opportunity to validate their climate commitments and benchmark against peers.

Why 1.5°C, Rather than 2°C?

Since the Paris Agreement was signed in 2015, international focus has shifted from limiting global warming from 2°C to 1.5°C above pre-industrial levels. This reflects developing science and concerns about the impact of 2°C, particularly on the most vulnerable countries. According to an International Panel on Climate Change (IPCC) Special Report, *Global Warming at 1.5°C*, that .5°C difference means:

- 420 million fewer people frequently exposed to extreme heatwaves
- 50% reduction in global population experiencing water scarcity
- 50% reduction in species losing half their geographic range
- 2 million kilometres of permafrost saved over the centuries
- 10 million fewer people losing their homes due to rising sea levels

Yet despite countries representing 80% of global GDP having made net zero commitments, a report from the IPCC in August concluded the world is on a trajectory to reach 1.5°C warming by the mid-2030s – and could see a rise between 2.1°C and 3.5°C by the end of the century.

Being Part of a Sectoral Solution

For sectors of the economy that are hardest to decarbonise – like heavy industry and heavy-duty transport, for instance – the run up to COP26 has seen increasing recognition of the need to take a 'sectoral approach'.

The Race to Zero Breakthroughs initiative, which sets out specific near-term tipping points for more than 20 sectors, represents an increasing focus on what specific sectors need to do, and by when, to deliver a resilient zero carbon future by 2050 at the latest.

Seven Areas Business Can Demonstrate Leadership

Ahead of COP26 and during the Conference itself, expect businesses to come forward with new plans and demonstrations of how they are meeting existing commitments even faster. Companies that participate at COP26 and make announcements will invite scrutiny – the media and NGOs will be sceptical of long-term targets not backed by a clear plan, and very likely will call out greenwashing when they see it.

A huge focus of COP26 will be on governments and their long-term strategies, yet there are seven areas where businesses are uniquely positioned to stand out:

1. Mobilising climate change finance, with a focus on public private investment and aligning international finance with net zero. (*This will be a focus of Finance Day, Wednesday 3rd November)*

2. In harder to decarbonise sectors, including heavy industry and heavy-duty transport, businesses will be expected to demonstrate their contributions to UN-defined sector breakthroughs, announce partnerships with others to accelerate system change, and advocate for the enabling conditions that would speed up progress. Much of this will be coordinated through the World Economic Forum's Mission Possible Partnership. (*This will be a focus of Science and Innovation Day, Tuesday 9th November*)

3. Increased investment in renewables, including a focus on power (supporting increased electrification), reducing the cost of emerging technologies such as green hydrogen, and increasing investment in green tech innovation. (*This will be a focus of Energy Day, Thursday 4th November*)

4. A strong push to end new coal and accelerate the phase-out of existing plants, with a focus on the Powering Past Coal Alliance. Expect this to be supported by announcements by major financial institutions. (*This will also be a focus of Energy Day, Thursday 4th November)*

5. A focus on accelerating electric mobility and demonstrating that the era of the internal combustion engine is over for road transport. There will also be a focus on developments in shipping and aviation, building on the World Economic Forum's Clean Skies for Tomorrow Coalition. (*This will be a focus of Transport Day, Wednesday 10th November*)

6. Initiatives to curb methane emissions, fast becoming the next major focus of the climate debate, with recent UN and IPCC reports sounding the alarm and international scrutiny beginning to translate into regulations.

7. The role of nature, with an emphasis on ending deforestation and efforts to accelerate a nature-positive, carbon-neutral economy. (*This will be a focus of Nature Day, Saturday 6th November*)

The Presidency Programme for COP26

Week One

Sunday October 31st	Monday November 1st	Tuesday November 2nd	Wednesday November 3rd	Thursday November 4th	Friday November 5th	Saturday November 6th
Procedural opening of negotiations	**World Leader Summit** Welcoming world leaders to COP26 to put forward high level ambition and action towards securing global net zero and keeping 1.5°C within reach; adapting to protect communities and natural habitats; and mobilising finance.		**Finance** Mobilising public and private finance flows at scale for mitigation and adaptation.	**Energy** Accelerating the global transition to clean energy.	**Youth and Public Empowerment** Elevating the voice of young people and demonstrating the critical role of public empowerment and education in climate action.	**Nature** Ensuring the importance of nature and sustainable land use are part of global action on climate change and a clean, green recovery.

Week Two

Sunday November 7th	Monday November 8th	Tuesday November 9th	Wednesday November 10th	Thursday November 11th	Friday November 12th	Saturday November 13th
Rest day ahead of the second week of negotiations	**Adaptation, Loss and Damage** Delivering the practical solutions needed to adapt to climate impacts and address loss and damage.	**Gender** Progressing gender equality and the full and meaningful participation of women and girls in climate action. **Science and Innovation** Demonstrating that science and innovation can deliver climate solutions to meet, and accelerate, increased ambition.	**Transport** Driving the global transition to zero emission transport.	**Cities, Regions & Built Environment** Advancing action in the places we live, from communities, through to cities and regions.	**Closure of Negotiations**	

Graphic source

Assessing Success at COP26

COP26 will not result in a single outcome or agreement in the way that COP21 in Paris did. This is partly why the UK Presidency has set four overarching goals that it believes would help keep the world on track with the Paris Agreement.

1. Securing global net zero and putting 1.5°C within reach

The central question for COP26 will be whether the 1.5°C target remains within reach. A UNFCCC Advanced Report for COP26 on Nationally Determined Contributions (NDCs), released in September, estimated that the emissions of all 191 parties were on a path to increase 16.3% by 2030 (from 2010). This would put the world on a path to reach warming of 2.7°C by the end of the century. To be on track for 1.5°C, countries – especially the highest emitters – will need to come forward with more ambitious 2030 emissions-reduction targets.

What success could look like

For governments

- NDCs are aligned with halving emissions by 2030 and limiting global temperature increase to 1.5°C – with a focus on the US, China, and India
- Government Long-Term Strategies (LTSs) are aligned with net zero emissions by 2050 and underpinned by robust policy roadmaps and interim targets

For business

- Businesses announce credible decarbonisation targets, aligned with a 50% reduction in emissions by 2030 and net zero by 2050, in line with the Race to Zero campaign.

For joint action

- Governments, businesses, and financial institutions commit to phase out existing unabated coal power generation (combined with funding and reskilling to support a just transition) and to a moratorium on new coal power stations without operational carbon capture and storage, in line with the Powering Past Coal Alliance Declaration.
- Governments, sub-national governments, and business commit to policy plans and invest in low-carbon modes of transport, electrification, and investment in charging infrastructure to support the phaseout of internal combustion vehicles.
- Governments and businesses commit to driving ‘breakthrough actions’ in heavy industries such as steel and cement and heavy-duty transport (including shipping and aviation), and lowering the cost of green hydrogen, in line with ‘tipping points’ identified across 20 sectors of the global economy by the Race to Zero Breakthroughs initiative.
- Commitments by governments, businesses (supply chains), and financial portfolio managers to eliminate deforestation and promote restoration of degraded lands.

2. Adapting to protect communities and natural habitats

A key question at COP26 will be: Can the international community unite to support the four billion people most vulnerable to the impacts of a changing climate? This is the focus of Adaptation, Loss and Damage Day (Monday, 8th November). Success will be judged on whether plans and new finance have been put in place to both improve early warning systems and flood defences, and build resilient infrastructure and agriculture. Particular focus will be on protecting and restoring natural habitats.

What success could look like

For governments

- Cross-government collaboration to increase international financing for adaptation

- Robust national adaptation plans and investment to create resilient cities and infrastructure by scaling natural disaster defences and risk transfer solutions, including climate-resilient food production and water supply

For businesses

- One measure of success will be the support businesses show for the Race to Resilience campaign launched by the COP26 President at the start of the year. So far 24 initiatives have joined the Race. Signatories must pledge to translate new and existing targets into action, share a clear plan by COP26, take immediate actions, and report back on progress annually.

For joint action

- Public-private partnerships to enhance the resilience of the four billion most vulnerable people, like the Race to Resilience.

3. Mobilising finance

Given the scale and speed of changes required to meet the goals of the Paris Agreement, the UK COP26 Presidency has emphasised the roles of both public and private finance to mobilise the capital needed and 'turn billions in public money into trillions of total climate change investment'. Finance Day (Wednesday 3rd November) will focus on the COP26 Finance Agenda.

Paying for Climate Mitigation in Low-Income Countries

At COP15 in 2009, low-income countries were promised $100 billion in financing for mitigation and adaptation every year by 2020. The OECD estimates that $78.9 billion of climate finance was mobilized in 2018 and, given the impact of COVID-19, there are likely to be questions as to whether even $100 billion would be adequate. At a minimum, and to avoid undermining the mitigation and adaptation goals of COP26, middle- and high-income countries will have to make good on their commitment.

The UK COP26 Presidency has created a Taskforce on Access to Climate Finance to develop and trial new approaches to climate finance in five pioneer countries. However, while several new ideas have been put forward, including multilateral financing guarantees to absorb the first losses on private lending, there is still no clear path to meet the $100 billion annual commitment.

The Role of Private Sector Finance

These challenges have increased the focus on international financial institutions and the role they can play to unleash the trillions of dollars in private and public sector finance required to secure global net zero. Expect a major push by investors and banks to show how they are helping mobilise capital for vulnerable, developing, and emerging market transitions.

Already, institutions representing $43 trillion of assets under management have committed to achieving net zero globally, according to the Net Zero Asset Managers initiative.

The UK COP26 Presidency has called for all financial decisions to take climate into account and for banks, insurers, investors, and other financial firms to commit to ensuring their investments and lending are aligned with net zero. The Glasgow Financial Alliance for Net Zero (GFANZ), chaired by Mark Carney, UN Special Envoy on Climate Action and Finance, brings together over 250 firms responsible for assets in excess of $88 trillion from the leading net zero initiatives across the financial system to accelerate the transition to net zero emissions by 2050 at the latest. All GFANZ member alliances will use science-based guidelines to reach net zero emissions, cover all emission scopes, set 2030 interim targets, and commit to transparent reporting and accounting. Likewise, the Net Zero Service Providers' Alliance saw major global financial services providers pledge to achieve net zero emissions by 2050 at the latest.

Important Questions on Regulation and Disclosure

Reflecting growing calls for greater transparency about the risks and opportunities that climate change – and the shift to a net zero economy – pose to businesses, COP26 could catalyse moves to harmonise and mandate emissions disclosures principles developed by the Task Force on Climate-related Financial Disclosure (TCFD). Already over 1,000 companies have shown support for TCFD, and in July the G7 endorsed the principles but left open whether to harmonize differing national regulations. More recently, the US Securities and Exchange Commission has committed to provide US investors with 'consistent, comparable, and decision-useful disclosures.' There is potential for finance ministers or financial regulators to endorse a shift to comparable standards, but consensus and harmonization will be difficult to achieve within the timeframe of COP26, so expect the momentum to continue to build after Glasgow.

What success could look like

For governments

- Developed countries meet and exceed their $100 billion commitment to support developing countries' efforts to mitigate and adapt to climate change.
- Boost green finance through fiscal and/or monetary policy.

For business

- International alignment to harmonise and mandate emissions disclosures principles developed by the TCFD.

- Launch of a new international sustainability standards board to create global standards on sustainability and replace voluntary standards.

- Major development finance institutions commit to science-based guidelines across their lending portfolios.

For joint action

- Public and private sector commitments mobilise the required trillions of dollars of finance for mitigation and adaptation.

4. Working together to deliver the COP26 goals

The ability of parties and non-state actors to collaborate will be critical to achieving mitigation, adaptation, and financing goals. It will also determine whether countries can agree and finalise the rules needed to implement the 'Paris Rulebook'. A good outcome would be an agreement that drives ambition to keep 1.5°C alive and establishes a system of transparency that encourages all countries to keep to their commitments.

A sticking point in previous negotiations on the Rulebook has been agreement on the rules for establishing international carbon markets. The core issue is whether and how carbon offsets can count against NDCs. If allowed, this could encourage flows of capital to projects in lower-income countries in a market some have estimated could grow from £320 million ($439 million) to as much as £36.4 billion ($50 billion). Detractors argue it could make decarbonization more expensive in low-income countries, make their exports less competitive, and take pressure off high-emitting industries.

What success could look like

For governments

- Finalising the Paris Rulebook, including the rules for international carbon markets.
- Support for a 2023/25 'ratchet' on 2030 ambitions and future 'ratchets' to keep 1.5°C in range.
- International agreement on a universal system of transparency on progress towards NDCs.

Preparing for COP26—and Beyond

Our experience and research at Brunswick point in the same direction: The established expectation for corporate ambition on climate are committing to a 1.5°C aligned science-based target and joining the Race to Zero. Yet the expectation is for companies to act beyond their own operations to reduce emissions. In practice, that translates to:

- Aligning their core business with climate outcomes;
- Taking action on climate across the value chain; and
- Advocating for governments to implement supportive policies.

Companies can expect renewed focus on their action—or inaction—in the run up to COP26, and long

Brunswick's Climate Hub brings together senior expertise from across the connected worlds of finance, policy, and society, to help companies engage meaningfully with the full range of stakeholders on climate change. Our ambition is to help clients play a successful role in the transition to a resilient, zero-carbon world.

https://www.brunswickgroup.com/climate-hub/

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