# Investment Insight

December 2021

Border to Coast Pensions Partnership

Coatham, Teesside

# An insight to COP26

In 1992 the United Nations (UN) held a conference on the environment and development, also known as the Rio de Janeiro Earth Summit, where the first global agreement on climate change was signed. The following year the first Conference of the Parties – "COP" was held in Berlin and for nearly three decades the UN has continued to bring the world together for climate summits.

The COP that most people are familiar with is COP21, held in Paris. This is where the 'Paris Agreement' was signed, with countries committing to work together to limit global warming to well below 2 degrees above pre-industrial levels and aiming for 1.5 degrees, to adapt to the impacts of a changing climate, and to make money available to deliver on these aims.

This year's COP26, in Glasgow, was the largest climate summit ever, with the focus moving from negotiation to implementation and had four main objectives:

- **Secure global net zero by 2050:** Keeping 1.5 degrees within reach with increased action from countries by increasing emissions reductions targets.
- **Ecosystem Protection:** To restore and protect ecosystems, and building resilient infrastructure to withstand the impacts of climate change.
- **Mobilise finance**: Make good on promises to mobilise at least $100 billion per year for developing nations to tackle climate change.
- **Collaboration:** To finalise the Paris Rulebook (the detailed rules that make the Paris Agreement operational) and accelerate action to tackle the climate crisis through collaboration between governments, businesses and civil society.

> ***"I am sure that the decisions taken in Glasgow will safeguard the future of generations to come and give them a safe and prosperous life"***
> ***India's Prime Minister,***
> ***Narendra Modi***

**<u>What was achieved?</u>**

- **Net zero:** New net zero commitments were made, including interim targets. However, it was acknowledged that further progress is needed and the agreement from this COP was for countries to revisit their plans next year.
- **Global Methane Pledge**: More than 100 countries committed to cut 30% of methane emissions by 2030. However some of the current largest emitters such as China, Russia, and India, did not join.
- **Deforestation**: More than 100 countries, home to some 85% of the world's forests, pledged to eliminate deforestation by 2030. This was a key factor given trees absorb a significant amount of $CO_2$ from the atmosphere.
- **Developing nations:** Agreement to increase funding to help developing nations transition to a low-carbon economy. However, some nations felt the pledge to be insufficient.
- **The Paris rulebook:** After six years of negotiating, global Governments have finally agreed on the rulebook for implementing the Paris Agreement. For the first time fossil fuels are explicitly included in the text of the agreement with reference to the "phasing down" of coal. Importantly however, this reflects a change from the proposal to "phase out" coal, following objection by some developing nations such as China.

Additionally, the following developments were seen as positive steps:

- **US & China agreement**: In a marked step forward in relations between them, both the US and China pledged to increase cooperation on the climate, however in what form this cooperation will take remains to be seen.
- **Disclosure standards:** The establishment of the International Sustainability Standards Board (ISSB) was seen as major step to creating a single set of global ESG reporting standards for companies.
- **Glasgow Finance Alliance for Net Zero:** Bringing together 450 companies in banking, insurance, asset management, and consulting, the alliance represents $130trn of private capital. The signatories will be expected to meet net zero by 2050 and deliver their fair share of 50% emissions reductions this decade, reviewing their targets every five years and reporting on progress within the next year.

**Our verdict**

It is a fact that climate change remains a systemic risk for investors. Asset owners and managers cannot isolate themselves from what is happening in the world – and they have a critical role to play in supporting a transition to a net zero future. Importantly, what COP26 made clear is that there is a wide global consensus on the need to combat climate change, with the Paris rulebook finally setting out the road to implementation, providing clarity to investors on how climate targets will be met.

*"The people alive now, and the generation to come, will look at this conference and consider one thing – did the number stop rising and start to drop as a result of commitments made here?*

*"There's every reason to believe that the answer can be yes. If working apart we are forces powerful enough to destabilise our planet, surely working together we are powerful enough to save it."*

*Sir David Attenborough*

The Glasgow Finance Alliance for Net Zero has been welcomed as the first forum of its kind to set out a clear roadmap of support for global finance to accelerate the transition to a greener, cleaner economy. With its aim of raising ambitions, helping all subsectors set net zero targets and coordinating action, it should help fund innovation in the private sector, boosting capital spend on climate solutions from billions to trillions.

Equally, a long-time headache for investors— the lack of a single ESG reporting standard — looks set to be addressed with the creation of the ISSB. The current lack of standard reporting measures is a major roadblock in investors' ability to accurately assess and compare ESG performance across companies. The hope now is that the ISSB can establish a standard set of reporting measures that can be used worldwide and offer investors a consistent and robust framework to work from.

If successful, standardised reporting and disclosures could help ensure that investors can undertake a thorough assessment of a company's ESG performance and long-term outlook, making comparisons on ESG performance between companies more effective.

Ultimately this could improve our ability as investors to make a real difference by highlighting the areas that need development and further engagement.

So, was COP26 a success? If all the commitments made during the conference are seen through and the world limits the damaging potential of global warming, then yes, we could look back in the coming decades and decide it was a success. For investors there were certainly strong takeaways, but overall significant policy gaps do remain. With some $4trn – roughly 5% of current global GDP - needed every year up until 2050 to achieve global climate ambitions, the opportunity and need for investors to play a key role in the global energy transition is significant.

The decisions made today will shape the world of tomorrow, and we believe future financial and investment success is closely tied with the future for the environment. There will likely be significant opportunities and rewards for making the right investment decisions now, and having investors support the green energy transition with funding and strong company engagement programmes will form a vital part in the final determination of this COP's success.

**Jane Firth**
**Head of Responsible Investment**

## Important information



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