

Developments at and during COP26: The First Week

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2021

The 12-day UN Climate Change Conference of the Parties (COP) is underway in Glasgow, after a yearlong delay caused by the COVID-19 pandemic. For over 25 years, the UN has been bringing together world leaders and other interested parties to discuss global climate matters. This year's summit is the 26th annual meeting, thus the name COP26.

As context for COP26, a predecessor event – COP21 – took place in Paris in 2015. That event resulted in the Paris Agreement, in which most countries across the world agreed to work together to limit global warming to well below 2 degrees Celsius and aim for 1.5 degrees C compared to pre-industrial levels. More importantly, the agreement called for the participating countries to make financing available to deliver on these goals. This commitment is important given the assertion that every fraction of a degree of warming has a significant impact on lives and livelihoods – an assertion that is not unreasonable given the past decade was one of the warmest on record. Average world land temperatures have risen approximately 1.5 degrees C over the past 250 years, and about 0.9 degrees C in the past 50 years¹; sea surface temperature has been consistently higher during the past three decades more than at any other similar time period since reliable observations began in 1880²; and most governments agree urgent collective action is needed.

Under the Paris Agreement, the participating countries committed to bring forward national plans setting out how much they would reduce their greenhouse gas (GHG) emissions. Further, the participating countries agreed that every five years they would come back with an updated plan that would reflect their highest possible ambition at that time. Thus, COP26 is the first five-year update since the Paris Agreement was signed.

Another key contextual point: The commitments made pursuant to the Paris Agreement did not come close to limiting global warming to 1.5 degrees C, thus raising the stakes for the Glasgow summit if the global community of nations fails to step up and take decisive action. As climate change has developed into a global imperative, a sense of urgency

¹ “Summary of Findings,” Berkeley Earth, available at <http://berkeleyearth.org/archive/summary-of-findings/>.

² “Climate Change Indicators: Sea Surface Temperature,” United States Environmental Protection Agency, Website Updated April 2021, available at www.epa.gov/climate-indicators/climate-change-indicators-sea-surface-temperature.

underpins COP26 as countries must reach further than they did even five years ago if the worldwide community is to realize the aim of reducing GHG emissions as soon as possible to achieve a climate-neutral world by mid-century.

The COP26 agenda

Some 25,000 delegates from all over the world are in attendance and have been engaged in discussions and negotiations amid protests conducted by businesses and other lobbyists. The COP26 agenda is focused on securing a recommitment to net zero emissions by 2050 with the expectation of significant progress in terms of reductions over the next decade. It seeks specific pledges that extend beyond aspirational rhetoric, e.g., explicit commitments that address deforestation and methane emissions. Also on the agenda is the topic of packaging significant public and private financing over the next five years to assist developing countries in their efforts to adapt to the disproportionate impact of rising temperatures on their economies and people. Finally, there will be discussions around the available and emerging technologies that hold considerable promise as well as the potential obstacles in their implementation to scale.

Progress as of the summit midpoint

In response to the above agenda, several developments have taken place the first week of the summit. We outline several below.

Commitment to reduce methane emissions. With the EU and United States leading the way, more than 100 countries have signed a global pledge to reduce methane emissions by 2030 by 30% compared with 2020 levels with the hope of reducing warming by 0.2 degrees C by 2050. Methane is a powerful greenhouse gas responsible for a third of the current warming emanating from human activities. The idea is to focus on methane as a way of buying extra time in the quest to tackle climate change by slowing down global warming. Because individual methane molecules are several times more powerful in terms of their warming effect on the atmosphere than single carbon dioxide molecules and because methane emission reductions are easier to achieve than carbon dioxide emission reductions, methane is viewed as a priority opportunity. Thus far, 15 of the world's top 30 methane emitters have signed this pledge. Major emitters like Russia, China and India are not part of the pledge.³

³ "COP26: US and EU Announce Global Pledge to Slash Methane," BBC News, November 2, 2021, www.bbc.com/news/world-59137828.

A voluntary initiative such as this global pledge could transition into a regulatory initiative. For example, in the United States, the Environmental Protection Agency proposed new regulations targeting methane emissions the very day the global pledge was signed.⁴ The implications are that methane emissions could soon be tracked down to their sources using satellites, aircraft, and ground-based instruments and actions taken to require immediate remediation.

Emphasis on restricting and reversing deforestation. In another development, more than 100 world leaders – representatives of countries in which reside more than 85% of the world's forests, including Canada, Brazil, Russia, China, Indonesia, the Democratic Republic of the Congo, the U.S. and the UK – have committed to halt and reverse deforestation and land degradation by 2030. Forests absorb vast amounts of carbon dioxide and must be preserved. To that end, governments of 28 countries also committed to remove deforestation from the global trade of food and other agricultural products. And more than 30 of the world's largest financial institutions promised to end investment in activities linked to deforestation.⁵

Sustainable finance and curtailment of fossil fuels use. Fossil fuels were also directly targeted. More than 40 countries committed to ending all investment in new coal power generation domestically and internationally, agreeing to phase out coal-fired power generation and cease building new coal-fired plants in the 2030s for major economies, and the 2040s for poorer nations. However, some of the world's biggest coal-dependent countries – including China and the United States – did not sign up.⁶ Australia, India and Russia are expected to push back on any COP26 summit language around banning the use of coal.

In addition, the United States and 20 other countries announced that, starting next year, they would cease investing tax dollars to support international fossil fuel projects. This

⁴ “EPA Proposes New Source Performance Standards Updates, Emissions Guidelines to Reduce Methane and Other Harmful Pollution from the Oil and Natural Gas Industry,” United States Environmental Protection Agency, November 2, 2021, www.epa.gov/controlling-air-pollution-oil-and-natural-gas-industry/epa-proposes-new-source-performance.

⁵ “COP26: World leaders promise to end deforestation by 2030,” Georgina Rannard and Francesca Gillett, BBC News, November 3, 2021, available at www.bbc.com/news/science-environment-59088498.

⁶ “COP26: More than 40 countries pledge to quit coal,” BBC News, November 5, available at www.bbc.com/news/science-environment-59159018.

action would divert US\$18 billion a year toward clean energy. The commitment to restrict public money for foreign fossil fuel projects doesn't affect what countries do domestically.⁷

Observers have pointed out that there may be some loopholes in the commitment to restrict public money for international fossil fuel projects. Interestingly, three countries generating nearly half of international public funding for fossil fuel projects – China, Japan and South Korea – did not join the COP26 pledge at all, leaving proponents hoping for a “domino effect,” much like what occurred with coal finance.⁸

Money pledged by the private sector. The Glasgow Financial Alliance for Net Zero – a group of private-sector investors, launched in April with US\$5 trillion committed to "achieving net zero emissions by 2050 at the latest" – has now secured over US\$130 trillion of private capital committed for this purpose. These commitments have been obtained from over 450 firms across 45 countries. They deliver the estimated US\$100 trillion of finance needed to help achieve net zero carbon over the next three decades.⁹

Augmentation of private financing by the public sector. After several years of promises made and not honored, in October preceding COP26 several industrialized nations put forward a plan to provide at least US\$100 billion annually in climate aid to developing countries beginning in 2023. Presented by representatives of Canada and Germany, the plan was intended to defuse one of the biggest sources of tension at COP26 – the failure of industrialized nations to follow through on their prior financial commitments.¹⁰

New sustainability reporting standards board. During the first week of COP26, the IFRS Foundation Trustees (Trustees) announced three significant developments to provide global financial markets with high-quality disclosures on climate and other sustainability issues. First, the Trustees formed a new International Sustainability Standards Board (ISSB) to develop “a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors’ information needs.”

⁷ “More than 20 countries at COP26 Promise to End Financing for International Fossil Fuel Projects,” Michael Birnbaum, Steven Mufson and Sarah Kaplan, Washington Post, November 4, 2021, available at www.washingtonpost.com/world/2021/11/04/cop26-glasgow-climate-energy-fossil/.

⁸ Ibid.

⁹ “Amount of finance committed to achieving 1.5°C now at scale needed to deliver the transition,” Glasgow Financial Alliance for Net Zero, November 3, 2021, available at www.gfanzero.com/press/amount-of-finance-committed-to-achieving-1-5c-now-at-scale-needed-to-deliver-the-transition/.

¹⁰ “Developed Countries Reveal \$100 Billion Climate Finance Plan Ahead of COP26,” Andrew Freedman, Axios, October 25, 2021, available at www.axios.com/developed-countries-climate-finance-plan-ofa2f12b-e032-4ec1-9e7a-a65263c20963.html.

Second, the Trustees announced a commitment by two leading investor-focused sustainability disclosure organizations to consolidate into the new board. The IFRS Foundation will complete consolidation of the Climate Disclosure Standards Board (CDSB – an initiative of CDP) and the Value Reporting Foundation (VRF – which houses the Integrated Reporting Framework and the SASB Standards) by June 2022. Finally, a prototype of climate and general disclosure requirements developed by a group formed by the Trustees to undertake preparatory work for the ISSB was announced.¹¹

Together, these developments lay down the governance framework and foundation necessary for a global sustainability disclosure standard-setter for the financial markets. Consistency and transparency have long been demanded by institutional investors and asset management using ESG-screening criteria in managing their portfolios. Thus, this is a positive and long-awaited development.

Commitment to the Paris Agreement by central banks. The Central Banks and Supervisors Network for Greening the Financial Systems (NGFS) released a declaration on November 3 reiterating the readiness of its members (100 central banks and 16 financial regulators and observers) to participate in meeting the objectives of the Paris Agreement through efforts that include adopting reporting standards for central banks aligned with recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), helping to bridge data gaps, and continuing to assess climate-related risks to financial systems.¹² Many central banks and regulators made announcements of their own. For example, the Federal Reserve, Office of the Comptroller of the Currency (OCC) and New York State Department of Financial Services (NYDFS) in the United States – all of which are members of the NGFS – each issued statements of intent concurrently with the NGFS declaration as well as announced related initiatives of their own.

These are the major developments to date at and during the first week of COP26.

Issues and uncertainties

Numbers, targets and pledges – what does it all really mean? Will the promises and commitments made translate into actionable programs? Will the cash be available to the

¹¹ “IFRS Foundation Announces International Sustainability Standards Board, Consolidation with CDSB and VRF, and Publication of Prototype Disclosure Requirements,” IFRS, November 3, available at www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/.

¹² “NGFS Glasgow Declaration: Committed to Action,” Central Banks and Supervisors Network for Greening the Financial System, November 3, 2011, available at www.ngfs.net/sites/default/files/ngfsglasgowdeclaration.pdf.

nations that need it to procure necessary technical assistance? Will the collective effort have the desired impact without the active engagement and support of major polluters? In democratic nations, will the governed give their consent to their leaders to pay the price required to make the transition from fossil fuels as rapidly as required to meet the Paris Agreement objectives as well as accept the consequences? Regarding the leaders and diplomats who agree to aspirational goals – as well as the plans to achieve those goals – on behalf of their respective countries, are they empowered with the requisite political will to execute the agreed plans? Do they possess the necessary means to execute? How will private and public funding get allocated to where it is really needed to maximize the impact on warming and adaptation? Or is this all just for show and political expediency?

These and myriad other questions are being raised by skeptics, environmental advocates and undeveloped nations. They have seen promises, loopholes and abstentions before. They want a truly concerted global effort. Are COP26 and the activities in its aftermath going to deliver? For example, issues around deforestation have been discussed for years. Observers point out that a previous deal in 2014 – the year of the so-called “Zero Deforestation Commitment”¹³ – was unsuccessful in slowing deforestation. So, is last week’s commitment any different? Already, one signee to the commitment has questioned its terms and asserted that development must not be halted.¹⁴ That sounds like continuing business as usual.

Then there is the chatter around whether it’s too late to achieve the 1.5 degrees C goal regardless of the progress at COP26. Skeptics notwithstanding, there appears to be a sense of urgency at COP26. And the sidebar activities around long-overdue uniform sustainability reporting standards and commitments by central banks punctuate that urgency. Uniform global reporting standards are key because they will force much-needed transparency.

Bottom line: The commitments, promises and pledges made, and ambitions expressed, thus far at COP26 are political in nature and non-binding. The proof is in the pudding and lies in the actual actions taken, the timetable in which those actions occur, transparency in reporting the results, and the evidence reflected in resulting change.

¹³ “2014: The Year in Rainforests,” Rhett A. Butler, Mongabay, December 30, 2014, available at <https://news.mongabay.com/2014/12/2014-the-year-in-rainforests/>.

¹⁴ “Indonesia Says Cop26 Zero-Deforestation Pledge It Signed ‘Unfair,’” Hannah Ellis-Peterson, The Guardian, November 5, 2021, available at www.theguardian.com/world/2021/nov/05/indonesia-says-cop26-zero-deforestation-pledge-it-signed-unfair.

Concluding comments

With many thousands present, COP26 has presented a logistical challenge as capacity in the main venue is limited to 10,000 people because of COVID-19 restrictions. With the departure of the high-profile leaders, the second week of the summit is about completing plans to reduce GHG emissions consistent with the above commitments.

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