

# A quick guide to COP26

As we approach the United Nations' November climate conference, known as COP26, here is a guide to its aims and significance, as well as some basic definitions of the terminology and complex issues at stake.

We are encouraged by the progress we have seen so far, but hope for deeper overall commitments at the upcoming meeting held in Glasgow and hosted by the British and Italian governments.

For many years now, CCLA has been a pioneer in the creation and implementation of investor initiatives to drive companies towards concrete, measurable climate change goals. With over 50 years of investing responsibly and ethically, CCLA has been a trailblazer in the investment industry for leading collective action. Through our approach to environmental, social and governance (ESG) factors and sustainability, we invest in assets we believe have long-term value. And by acting collectively, we deliver positive change.

## What is COP26?

The Conference of Parties (COP) meets annually to agree on ways to tackle the dangers of an overheating planet. According to its hosts, this year's summit is 'an event many believe to be the world's last best chance to get runaway climate change under control'.

The COP is the supreme decision-making body of the United Nations Framework Convention on Climate Change (UNFCCC). All 197 signatory member states review its implementation, as well as any other agreements adopted.

## THE KYOTO PROTOCOL & THE PARIS AGREEMENT

**The Kyoto Protocol** committed industrialised countries and economies in transition to limit and reduce their GHG emissions in step with agreed individual targets. It is only binding for developed countries, placing a heavier burden on them because they are largely responsible for the current high levels of GHG emissions in the atmosphere. Britain is one of 37 countries that have binding targets within the Kyoto Protocol.

**The Paris Agreement** is an international treaty that seeks increasingly strenuous action on climate change. Its goal is to limit global warming to well below 2 degrees, and preferably 1.5 degrees Celsius below, pre-industrial levels.

The COP's key function is to oversee national carbon dioxide emission inventories submitted by member countries. These Nationally Determined Contributions (NDCs), outline each country's climate actions.

The summit assesses the effects of measures taken and progress made in reaching its goal - to tackle climate change, partly via the stabilisation of greenhouse gas (GHG) concentrated in the atmosphere.

In the past, the COP has led to international treaties such as the Kyoto Protocol and the Paris Agreement, to support and implement the UNFCCC goals.

## Why is COP26 important?

Since the last COP meeting in 2015, global emissions have risen on an absolute basis. Earlier this year, a UN climate action report said that nations were 'nowhere close' to the level of action needed to fight global warming.

November's meeting is the first formal opportunity for world leaders to discuss how to address this and enhance the concrete goals set at the landmark 2015 Paris Agreement. It is also a psychological reset after the halt in global activity caused by Covid, which led some businesses to reappraise their approach to climate and stoked public debate.

At COP26, governments are due to agree to the emissions targets set in Paris. They are expected to set a more ambitious set of targets for 2030, to try and bridge the gap between pledges of carbon dioxide reduction and delivery.

Broadly speaking, the COP provides a framework recognised by international law and adopted to a near universal extent, homing in on addressing the systemic risk posed by climate change.

For context, a 2018 special report produced by the Intergovernmental Panel on Climate Change, a UN body for assessing the science related to climate change, found that human activities have been responsible for a worldwide average temperature

increase of between 0.8 and 1.2 °C of global warming since pre-industrial times.

The report said that most of the warming observed over the second half of the 20th century could be attributed to human activities. It predicted that the global mean surface temperature would increase between 3 and 4 °C by 2100 relative to the 1986–2005 average, should carbon emissions continue at their current rate.

It committed all 197 members of the United Nations Framework Convention on Climate Change (UNFCCC) to undertake ambitious efforts to combat climate change. The agreement works by increasing the climate action taken by countries every five years.

COP26 comes six years after the landmark Paris Agreement at COP21 in 2015 and is the first time the measures agreed there will have taken effect.

### **The mechanics – what happens at COP26?**

The event unites UNFCCC member countries and over 30,000 people. Attendees are not only those inside the negotiating hall, but many at accompanying events on the fringes. Inside the negotiations are key players such as:

- The COP president (UK and Italy).
- UNFCCC members (all UN members, plus the EU as a 'supranational' who negotiates on behalf of all member states of the EU).
- Official observers from organisations such as the World Health Organisation and the UN Development Programme. Also, international governmental agencies such as the International Energy Agency and non-governmental agencies.

## **THE 1994 UNFCCC – WHAT DID THE TREATY DO?**

Most importantly, it recognised climate change as a real threat. It set out to:

- stabilise greenhouse gas concentrations to a level that would prevent dangerous human interference with the climate system
- put the onus on developed countries to lead the way
- find ways to direct capital flows to address climate change in developing markets
- monitor progress on addressing the problem
- help poorer countries limit emissions in ways that would not hinder their economic progress.

- Many countries negotiate in groups to lobby for their common interests. These represent groups such as:
  - G77 + China: developing and middle-income countries
  - Africa Group: African continent countries
  - Least developed countries
  - CVF: Climate Vulnerable Forum
  - AOSIS: Alliance of Small Island States
  - AILAC Independent: Alliance of Latin America and Caribbean
  - BASIC: Brazil, South Africa, India and China
  - Arab Group: Emirates and Arabic Countries
  - ad-hoc groups form around common interests in issues such as human rights.

#### Ahead of the conference

- Countries are required to submit updated pledges on carbon emissions (NDCs) before the conference, setting tougher emissions targets for 2030.
- The UNFCCC is to publish a [synthesis report](#) and [accompanying update](#) on progress to date

#### Conference negotiations – what to watch

Whilst the main negotiations revolve around ratcheting up NDCs as per the Paris Agreement, there are other more granular debates and negotiations on climate issues that will take place during the conference between ministers, heads of state and other delegates.

Below is a short summary of some of the politically difficult discussion points carried over from the previous COP.

##### • **Carbon market mechanisms.**

The formal system for trading carbon credits (a permit allowing a country or organization to produce a certain volume of carbon emissions and which can be traded if the full allowance is not

used) for both emitters and absorption. The structure, rules and scope for these markets will remain a divisive issue, in particular how these will remain focused on real world, absolute reductions over 'netting out' rising emissions levels.

##### • **Funding for loss and damage.**

Losses and physical damage due to the effects of climate change is a tenet of the Paris Agreement, however, there is no mechanism to fund responses to loss events for vulnerable countries. Whilst this may be a key tool in unlocking negotiations, there is opposition from developed countries who are likely to be net contributors under any scheme.

##### • **The \$100 billion finance target.**

The Paris Agreement contains a target for climate related financing by developed countries who agreed to mobilise \$100 billion a year for climate change mitigation and adaptation in developing countries, from 2020 onwards. This, much like the damage funding, will be a key issue for developing countries and their delegates to ensure the commitment can be met.

##### • **Nature-based solutions.**

The vast majority of proposed action is likely to focus on absolute emissions reductions. However, once this goal has been achieved, there will be a level of unavoidable emissions that will have to be sequestered or 'netted' off using carbon processing and carbon sinks. Nature based solutions relate to how forests, agriculture and ecosystems can provide such remedies.

##### • **The Paris rulebook.**

This is related to countries negotiation on their NDCs and whether the timeframes for those should be five or ten years. Shorter timeframes lead to more frequent revisions with potentially greater, and more appropriate, levels of ambition based on progress made.

### Exhibitions and supporting events

Many of the COP attendees will not be official parties to the discussions themselves but are stakeholders who attend, creating a side conference. This is where many investors, non-governmental organisations and other interested groups meet to discuss their own action in the context of the COP negotiations.

### Coalitions and alliances

In addition to the formal negotiations, there are numerous coalitions and alliances that will be expected to be established as part of the COP26 process. These will explicitly relate to achieving the goals of the Paris Agreement, or can often home in on solving a particular issue.

For instance, at COP24, CCLA was instrumental in setting up the Powering Past Coal Alliance that works to eliminate coal from nation's energy mix.

These coalitions can be formed amongst wider stakeholders such as investors or governments, or a mix of both. The UK is a member of the High Ambition Coalition, a governmental coalition relating to countries who have set legally binding target to reach net-zero by 2050.

Much of the groundwork for these coalitions takes place in the weeks and months leading up to the coalition, where the UK is expected to leverage its diplomatic power and influence to underpin success.

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Success can mainly be measured by whether countries negotiate CO2 emissions targets which are tough enough to limit global warming to 1.5 degrees C, hand-in-hand with concrete action to reach those goals.

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### What would a successful COP26 look like?

Although no single event can be expected to fully 'solve' the issues and threats presented by climate change, COP26 represents an important opportunity. The conference allows governments and international agencies to negotiate, agree and codify specific actions and ambitions that will spur the systemic action needed to address the risks of climate change.

The main measure of success is whether countries negotiate NDCs that appropriately reflect the ambition and level of action required to limit global warming to 1.5 degrees and agree specific actions and commitments to implement those NDCs.

Given the range of stakeholder groups present at the event, success can take many different forms and we could expect to see positive milestones such as:

- further tightening of the climate 'goals' within the Paris Agreement for 2025
- progressive alliances and coalitions emerging to implement the Paris goals among all stakeholder groups.

The UK presidency is characterised by its pre-stated COP ambitions. Progress on these key priority areas will be critical to a successful event:

- **Adaptation and resilience:** 'Helping people, economies and the environment adapt and prepare for the impacts of climate change.'
- **Nature:** 'Safeguarding ecosystems, protecting natural habitats and keeping carbon out of the atmosphere.'
- **Energy transition:** 'Seizing the massive opportunities of cheaper renewables and storage.'
- **Accelerating the move to zero-carbon road transport:** 'By 2040, over half of new car sales worldwide are projected to be electric.'

- **Finance:** ‘We need to unleash the finance which will make all of this possible and power the shift to a zero-carbon economy.’ (See below on the role investors will play.)

It will also be interesting to track how many countries submit NDCs on time – this is a good indicator of how seriously countries are taking their commitments.

Finally, a successful COP26 will include maintaining momentum throughout 2022 until COP27 when the COP Presidency will be handed over to an African nation.

### What is the role of investors at COP26?

Investors have no formal role at the COP negotiations but will be active within the wider stakeholder activity and side events at the conference.

Pre-COP, global investor networks have come together as the Investor Agenda to issue a statement to governments urging for ambitious policy action:

1. Near-term emissions targets to align with 1.5 degrees or less of warming.
2. Commit to net-zero emissions by 2050 or sooner.
3. Implement effective domestic emissions reduction policies and just transition plans for affected workers and communities.
4. Invest in complementary Covid-19 economic recovery stimulus measures.
5. Implement mandatory climate risk disclosure in line with the Task Force on Climate-related Financial Disclosure.

There are several investor networks and initiatives holding events in Glasgow aimed at discussing and encouraging their respective stakeholders to act and collaborate within their own spheres of influence.

This will include those summarised below.\*

**Climate Action 100+**, the longest established investor climate group. It was founded in 2017 from a CCLA seed organisation to align investor engagement and encourage the world’s largest emitting companies to take action on climate change. It is backed by 545 institutional investors with \$52 trillion under management. It also interconnects with the Transition Pathway Initiative.\*

### The UNFCCC-convened Race to Zero:

a global campaign to rally leadership and support from businesses, cities, regions, and investors for a healthy, resilient, zero-carbon recovery that prevents future threats, creates decent jobs and unlocks inclusive, sustainable growth. It brings together a coalition of leading net-zero initiatives, representing 454 cities, 23 regions, 1,397 businesses, 74 of the biggest investors, and 569 universities.\*

### The Net-Zero Asset Owner Alliance,

launched by the United Nations Environment Programme Finance Initiative and the Principles of Responsible Investment, requires signatories to commit to net-zero portfolios by 2050. Thirty-three investors, with \$5.1 trillion in assets, had joined the initiative as of the end of 2020. The UN Secretary-General António Guterres has described The Net-Zero Asset Owner Alliance as the ‘gold standard’ of net-zero commitments. It is an official partner of Race to Zero.\*

### The newest platform, the Net Zero

**Asset Managers** initiative brings together 30 investment managers that commit to help their asset owner clients decarbonise by 2050. It is an official partner of Race to Zero.\*

CCLA is a participant of all of the above initiatives, the first three have been formally endorsed by the UN. We look forward with interest to seeing the outcome of COP26 and the progress made through these initiatives.

\*Principles of Responsible Investment (PRI) and London Stock Exchange Group (2021), The Investor Guide to Climate Collaboration: From COP26 to Net Zero. Online at <https://www.unpri.org/download?ac=12724>.

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