



## Nandita Sahgal-Tully *Fund Manager* 'Government pledges fall short'

FOR NEARLY THREE DECADES, THE UN has been bringing together almost every country on earth for global climate summits - called COPs - which stands for 'Conference of the Parties'. In that time, climate change has gone from being a fringe issue to a global priority. This year, the UK hosted the 26th summit in Glasgow, perceived by many as one of the world's last chances to agree on measures to get runaway climate change under control.

For all the headlines generated throughout the summit, evaluating its success at the end is all that really matters and should remain the focal point for all participants and observers. But first remains the not so simple task of defining and agreeing on what success looks like.

There are officially two targets: to limit warming 'well below' 2°C, and to 'pursue efforts' to limit at 1.5°C. Without any action, we had been heading for a world 4°C warmer, or more. But given the policies we have already put in place, we are predicted to be heading for just under 3°C, perhaps a little lower. Under the official pledges updated before last month - if successfully translated into effective policies - we would limit warming to around 2.5°C.

Some could see in these numbers a sign of progress and the number of countries announcing pledges to achieve net-zero emissions over the coming decades is expected to grow. But the pledges by governments to date - even if

36bn

The world's total emissions of CO<sub>2</sub> for 2019 in tons

\$7.9trn

Amount required by five countries in Asia by 2040

fully achieved - fall well short of what is required to bring global energy-related carbon dioxide emissions to net zero by 2050 and give the world an even chance of limiting the global temperature rise to 1.5°C. Furthermore, how can we assess the value and impact of domestic pledges against a global issue?

### The carbon cost of economic growth

In 2019, the world's total emissions of CO<sub>2</sub> amounted to just over 36 billion tons. If we look at where these emissions come from, China is the biggest contributor with just over 10 billion tons, then it is the US and India with 5.3 billion and 2.6 billion tons respectively. Adding up the whole of the Asia region gives 16.6 billion tons - almost exactly one half of the global total. But what do these numbers tell us in terms of prioritisation of our action?

We believe these emissions should be looked at from a GDP perspective. This is why we have developed a concept called the 'Carbon Cost of GDP' aiming to measure the CO<sub>2</sub> emissions per unit of economic output. Specifically, we look at how much CO<sub>2</sub> is produced for every trillion dollars of GDP.

Our assessments estimate India has the largest carbon cost with 880 million tons, with China the second highest at 707 million tons. Looking at ten of the largest economies in Asia, their carbon cost of GDP ranges from 880 million tons in India to 338 million tons in Bangladesh. The regional average of 566 million tons

is more than four times the average of the four largest countries in Europe. In other words, if we really want to shift the dial on CO<sub>2</sub> emissions, we must act in Asia.

### The role of blended finance

The G20 estimates in just five countries in Asia - those where we intend to expand our activities - some \$7.9trn is required by 2040 or around \$340bn per year. Addressing this issue will therefore require investment and with public finances impacted by the Covid-19 pandemic in the past couple of years, much of this is going to have to be a combination of private and public sector capital.

A concrete example of the type of public and private partnerships that can be developed to address this is the UK Government's MOBILIST (Mobilising Institutional Capital Through Listed Product Structures) programme, which ThomasLloyds' Energy Impact Trust, alongside InfraCo - Helios CLEAR and the Green Guarantee Company was selected for.

At COP26, the UK Government announced its programme received a £66m funding boost - with the money being channelled to support new products designed to help developing countries better access international capital markets to fund the infrastructure, technology, and businesses they need to tackle climate change and boost sustainable growth. A programme we hope to see replicated by other governments around the world to help close a funding gap currently in the way of achieving net-zero goals.

Was COP26 a success? It depends on who you ask. However, no one can doubt the urgent need for action and not just words. One thing most of us will agree with, however, is veteran British broadcaster and documentary maker David Attenborough's assessment: "We are the greatest problem solvers to have ever existed on Earth. If working apart, we are a force powerful enough to destabilise our planet. Surely working together, we are powerful enough to save it."

Nandita Sahgal-Tully is managing director at ThomasLloyd Group



## Maria Municchi *Multi Asset* 'Actions put in writing'

AFTER TWO WEEKS OF INTENSE negotiations the Glasgow Climate Pact has put in writing some of the key actions needed to aim towards a 1.5°C increase in temperature. Financing for emerging market countries, phasing down of unabated coal, ending deforestation and better national targets are all key topics that nearly 200 countries have agreed upon. As countries find a common language and ambition on how to tackle climate change, corporations are increasingly examining their own role in mitigating climate change.

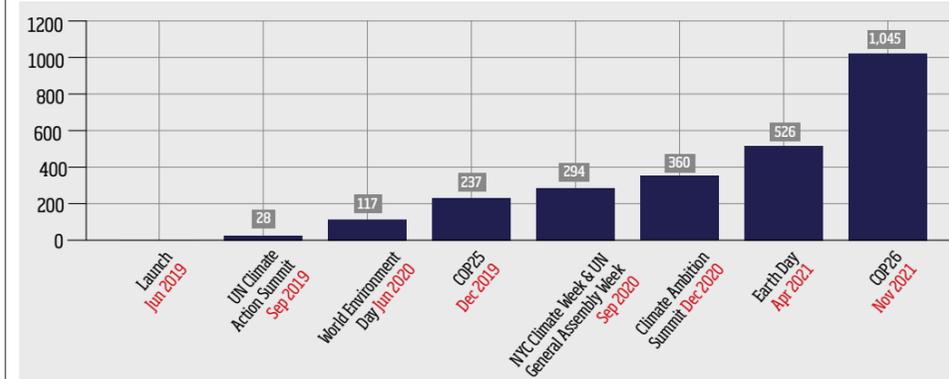
This is particularly important for the sectors and industries globally producing the highest volume of CO<sub>2</sub> emissions: electricity and heat generation (25%), land use such as agriculture and forestry (24%), and industry (21%). However, due to the interconnected nature of our global economy and how sectors, countries and industries interact with each other, every company, irrespective of its sector, should aim to understand and manage its impact on climate change.

What action can be taken from a company's perspective to reduce emissions, and how can they - and third parties - determine how successful they have been in doing so? In addressing the various sources of CO<sub>2</sub> emissions there are a number of concrete actions corporates can take, and metrics by which they can be measured.

The first step is corporate disclosure. Corporates' carbon emissions are classified as Scope 1, 2 and 3, whereby a company can respectively measure its direct and indirect emissions, as well as those in its value chain. Scope 3 is usually the largest emissions category for firms, often accounting for around 70% of their carbon footprint. As well as being the most difficult to quantify, these are also the emissions a company will have the lowest amount of control over.

According to CDP (Carbon Disclosure Project) more than 13,000 companies worth over 64% of global market capitalisation, disclosed data through CDP on climate change, water security and deforestation in 2021, an increase of 37% since 2020. Standardised disclosure

## 1.5°C and net zero are now becoming the SBI standard



70%

Scope 3 is generally the largest emissions category for firms, making up around 70% of their overall carbon footprint

37%

Increase in the global market capitalisation of companies disclosing data through the Carbon Disclosure Project since 2020

enables corporates to identify risks and opportunities linked to climate transition risks relative to their peers and to act accordingly in managing and potentially reducing greenhouse gas emissions.

In managing its own carbon emissions, a company can decide to set carbon reduction targets. Ideally, a company's target should be science based, meaning aligned with the latest climate science needed to meet the Paris Agreement goals. The Science-Based Targets initiative (SBTi), a partnership between a number of global climate organisations, helps companies to commit, communicate and disclose their science-based carbon emission targets. Currently more than 2,000 companies worldwide have signed up to SBTi and approximately 1,000 corporates have a commitment to 1.5°C, representing \$23tn across 60 countries.

One of the first companies to join SBTi back in 2015 was Italian electricity and gas firm Enel. Enel's most recent targets are a commitment to an 80% reduction in its direct greenhouse gas (GHG) emissions per kWh by 2030, from a 2017 base-year, and full decarbonisation by 2050. More recently in 2021, technology hardware and equipment company Xerox committed to reducing Scope 1 and 2 emissions by 60% and Scope 3 emission by 35% by 2030, from a 2016 base-year.

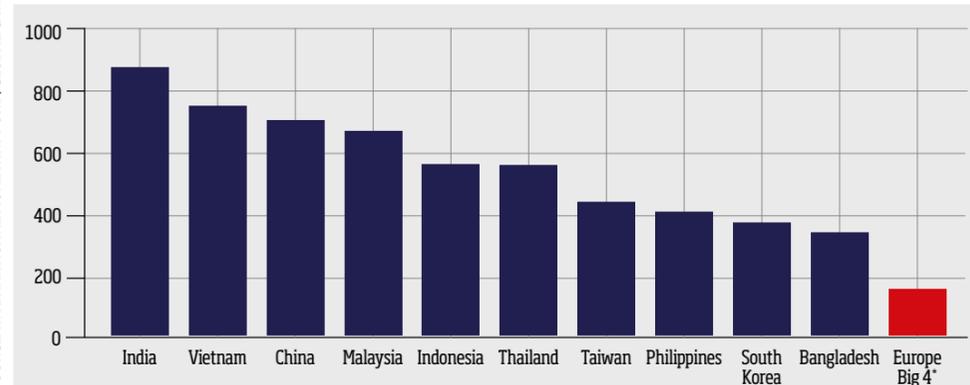
Together with the reporting and evidencing of carbon emission reduction in line with stated targets, climate governance and accountability within the firm is crucial. As climate change is considered to be a potential strategic risk for a company, the board of directors should be accountable for it. The Climate Governance Initiative mobilises boards of directors around the world to address climate change in their business, and today can count more than 100,000 members.

From an investor's perspective, disclosure is essential. Although data can be adjusted to identify carbon intensity and relative performance to peers, it has the limitation of being backward-looking. For this reason, forward-looking management and target-setting is a hugely important part of the picture. Obviously, the success of this approach relies on targets being credible and climate governance robust. This allows investors to check firms' progress and enhance their approach via company engagement.

With extreme weather events and climate transition such as regulation, increasing costs and technological competition becoming ever more evident, setting measurable targets better prepares corporates for the future and can generate longer-term financial benefits.

Maria Municchi is a fund manager at M&G

## Carbon cost of GDP: Asia vs Europe



\*Average of four largest European countries, Germany, UK, France and Italy