

Can COP26 keep 1.5°C in sight?

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All eyes will be on Glasgow in November to see whether hopes of limiting warming to 1.5°C can be kept alive. **Peter Cripps** reports



The upcoming climate summit, COP26, in Glasgow is seen by many investors as a final opportunity to catalyse action to keep alive hopes of restricting global warming to 1.5°C.

The landmark Paris climate agreement six years earlier was the first time that nearly every country in the world signed an accord to tackle climate change. Signatories collectively agreed to "hold the increase in the global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels".

Countries were invited to set their own decarbonisation targets, called nationally determined contributions (NDCs), with the intention that these would be tightened every five years. COP26, which has been delayed a year by the coronavirus pandemic, is the fifth conference since Paris, making it an important meeting.

According to the COP's website, around 70% of the world's economy is now committed to reaching net zero emissions and more than 80 countries have formally updated their NDCs. Accounting for around half the global economy, all the countries that make up the G7 have updated their 2030 targets to put them on a pathway to net zero by 2050.

Investors are hoping for a general raising of ambition from countries, particularly when it comes to short-term targets.

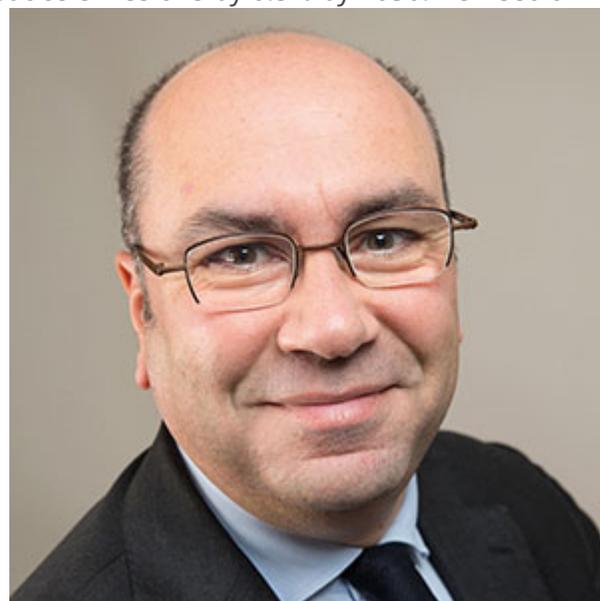
"The big issue is policy action by 2030 – that needs to be beefed up," says Lucian Peppelenbos, climate strategist at Dutch asset manager Robeco.

"The latest stocktake by the UNFCCC counts national policies to reduce emissions by 0.5% by 2030. We need a 50% reduction by 2030, so the policy action gap is 100- fold."

Frederic Samama, chief responsible investment officer at CPR Asset Management, the €55 billion (\$65 billion) thematic equity specialist owned by Amundi, agrees: "The NDCs from governments are far from being aligned with 1.5oC, so we need to see more ambition."

Alberto Carrillo Pineda, managing director at the Science Based Targets initiative (SBTi), says: "Our expectation is that we are going to see increased ambition at country level in the short term.

"We are pleased with rising ambition in the longer term and the focus on net zero. But only short-term ambition will send a strong signal – that's our highest expectation."



Frederic Samama

"Policy intervention is needed," he continues. "The outcomes of COP need to be strong enough to keep 1.5°C alive, which is why country-level ambition remains critical for 2030. I don't believe 1.5°C is gone yet. But we're running out of time."

While an increased focus on reducing emissions by 2030 would be welcome, such pledges alone will not be enough to galvanise action. Countries need to follow up their net-zero pledges with domestic policies that will stimulate action and investment, argues Chris Dodwell, formerly a climate negotiator for the UK government and currently head of policy and advocacy at Impax Asset Management.

"Credible sectoral roadmaps are the key to unlocking the private sector investment needed to get to net zero," he argues. "Governments need to think carefully about what policies they need, to increase investor confidence and mobilise private capital.

Parsons Nick

"It is the real economy policies that will make the difference. The commitments have to be reinforced at a national level by designing policies and instruments to support them."

While he does not expect these to be included in whatever text is agreed at COP, he believes such roadmaps can be showcased at the summit in the hope of stimulating laggards to take action.

"If COP26 is to be considered a success, we want to come out with a renewed sense of confidence about what's needed to get national economies on track to hit net zero, an agreed set of areas where private and public sector can work together."

One of the official aims of COP26 is to mobilise private finance to help fund the transition to net zero, points out Nick Parsons, head of ESG and research at ThomasLloyd Group, a \$4.1 billion investor specialising in real assets. Given the UK's historic strength in the finance sector, it is thought this is an aspect where the UK- hosted COP can make progress, led by Mark Carney, finance advisor to the UK prime minister.



"By developing real assets in sustainable infrastructure, we can make a positive contribution to mitigating climate change", Nick Parsons, Thomas Lloyd Group

The COP needs to finally make good on an unfulfilled commitment to provide \$100 billion of climate finance a year by 2020 as well as to help find the trillions of dollars needed for the broader transition to a net-zero economy.

Parsons argues that finance has a "transformative" role to play in helping to fill the political "leadership vacuum" that has allowed climate change to spiral out of control.

"By developing real assets in sustainable infrastructure, we can make a positive contribution to mitigating climate change. If developed nations can step up and make funds available in cooperation [with developing countries], we will have had a successful COP."

Impax's Dodwell says there is now an appetite among private sector investors to make such investments – they just need to be unlocked by the right policy signals.

"There's a hungry private sector audience waiting for these signals. We need [the] policy framework to help put an engine into the mobilisation of finance. It won't happen in the absence of clarity of roadmaps."

Dodwell Chris

He expects to see nature-based solutions play a prominent part in the outcome of COP26 and countries' policies.

CPR's Samama points out that other policy actions countries could take include making it mandatory to disclose Scope 3 emissions. "This would be very complementary to complex taxonomies of green activities," he adds.

Another area in which COP26 needs to deliver is finalising the Paris rule book, which includes firming up the role of carbon markets in the transition to a net zero economy. However, market players are sceptical that politicians will move quickly enough to restrict warming to 1.5°C.

Overall, the main impact of COP26 is expected to be in the momentum it generates from all kinds of actors, rather than in the strength of whatever text is agreed upon by politicians. For example, numerous commitments are expected to be made, and initiatives launched, by members of the financial sector.

The UK has said it will issue its first green gilts ahead of the event, in a move that could spur more green bonds from other issuers in the country.

In February, the IFRS announced plans to launch the International Sustainability Standards Board (ISSB) ahead of COP26.

The Partnership for Carbon Accounting Financials (PCAF), an initiative to develop a greenhouse gas accounting and reporting standard for the financial sector, is planning to relaunch its standard ahead of COP26, as previously revealed by *Environmental Finance*.

The SBTi will launch a net zero standard ahead of COP to help "bring transparency to corporate's pledges", says Pineda.

And numerous investors are expected to make net zero commitments. Investors with more than \$70 trillion of assets have already made net zero commitments and Carney's Glasgow Financial Alliance for Net Zero (GFANZ) is actively asking more investors to make commitments in the run-up to the conference.

"The Principles for Responsible Investment expects a number of the founding members of Net Zero Asset Managers (NZAM), those who joined the initiative at its inception in December 2020, to set targets prior to COP26," says Jack Balsdon, senior associate for climate change at the Principles for Responsible Investment.

Robeco, which was a founding signatory of the NZAM initiative, is one such investor, adds Peppelenbos.

"Current action is inadequate, yet there is proof of historic change and promising seeds which will later bear fruit, so Glasgow must be a moment where we can be transparent and specific about what still needs to change, who, when, and how," concludes Iskander Erzini Vernoit, policy advisor at thinktank E3G.



Lucian Peppelenbos

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