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COP26 MEETING ON CLIMATE CHANGE: THE STATE OF THE PARTIES

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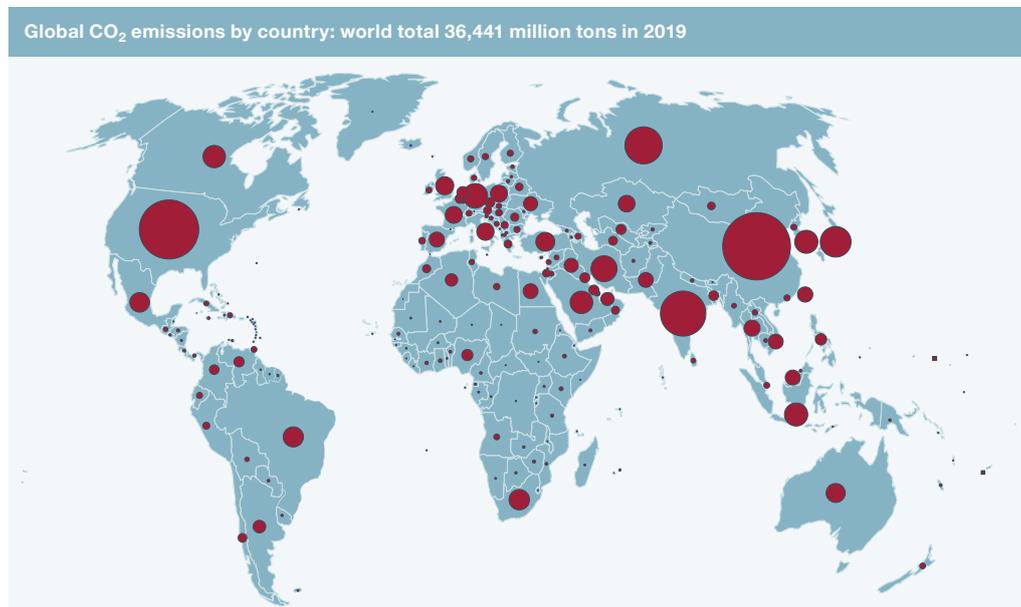
- Carbon emissions continue to rise despite Paris Agreement
- Countries are accelerating pledges to reduce CO₂ emissions
- Reducing carbon emissions in Asian countries will make the difference

Background

The Conference of the Parties (COP) is the name of the governing body of the UN Framework Convention on Climate Change (UNFCCC), the supreme decision-making body of the convention. It is also the name of the annual meetings of the countries which are parties to the convention. These meetings are numbered, dating from the time of the first convention in Berlin, Germany in March, 1995. The COP meets in Bonn, the seat of the secretariat, unless a Party offers to host the session.¹ The United Kingdom will host the next meeting, COP26, in Glasgow from 1 – 12 November 2021.

COP meetings are different from most other international meetings in that outcomes can only be adopted through consensus. There is no mechanism for either simple or qualified majority voting. Whilst this may frequently be seen as a weakness, it does represent a source of strength on those occasions when all nations – with often diverging interests – can actually agree on specific proposals.

For all its history and good intentions, there are arguably only two COP meetings which have had a major impact on the international community; COP3 in Kyoto, Japan in 1997 and COP21 in Paris, France in November 2015. Essentially, the Kyoto Agreement set emissions targets on the six main greenhouse gases – Carbon dioxide (CO₂) Methane (CH₄) Nitrous oxide (N₂O) Hydrofluorocarbons (HFCs) Perfluorocarbons (PFCs) and Sulphur hexafluoride (SF₆) – which were then applied to a range of developed countries.



Source: Global Carbon Atlas²

¹ <https://unfccc.int/process/bodies/supreme-bodies/conference-of-the-parties-cop#>

² <http://www.globalcarbonatlas.org/en/CO2-emissions>

1997: The Kyoto protocol – hope followed by disappointment

The Kyoto Protocol was only applied to 38 countries, two of whom – the United States and Canada – subsequently either withdrew or refused to ratify it. Its language mirrored the Convention in recognising the specific needs and concerns of developing countries, especially the most vulnerable among them, and they were therefore excluded from these new obligations. Parties to the protocol had to provide information on how they were striving to meet their emissions targets while minimising adverse impacts on developing countries.³

It is a harsh but fair judgement to note the next 18 annual COP meetings were characterised mostly by argument and disagreement on how to apportion the emissions targets and how to make them applicable to a broader group of countries. China, India, and other developing countries were exempt from the requirements of the Kyoto Protocol because they were not the main contributors to the greenhouse gas emissions during the industrialization period that was understood to be causing today's climate change. Yet, even in 2000, China was the world's 6th largest economy and India the 13th.

2015: The Paris Agreement – a real breakthrough in climate negotiations

The COP21 meeting in Paris 2015, marked a key breakthrough in the difficult post-Kyoto period. It ended the stalemate over how to share responsibility for cutting emissions and resolved the problem that the Kyoto protocol of 1997 had set targets only for the developed world. By the time of the Paris meeting, China was the second largest economy globally and India had grown to be the 7th.

The radical but simple solution to burden-sharing agreed at the COP21 meeting in Paris in 2015 was that countries should define their own targets, communicate them transparently and seek to strengthen their commitments every five years to keep the world on track to the agreed limits on global warming. To achieve the necessary consensus amongst all participating nations, developing countries received a pledge from richer nations to provide USD100 billion a year of public and private money to help them adapt to climate change and pursue strategies for low-carbon economic growth.

As the UN describes it, "At COP 21 in Paris, on 12 December 2015, Parties to the UNFCCC reached a landmark agreement to combat climate change and to accelerate and intensify the actions and investments needed for a sustainable low carbon future. The Paris Agreement builds upon the Convention and – for the first time – brings all nations into a common cause to undertake ambitious efforts to combat climate change and adapt to its effects, with enhanced support to assist developing countries to do so. As such, it charts a new course in the global climate effort".⁴

3 <https://unfccc.int/process-and-meetings/the-kyoto-protocol/what-is-the-kyoto-protocol/kyoto-protocol-targets-for-the-first-commitment-period>

4 <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement/key-aspects-of-the-paris-agreement>

The five main areas of agreement at COP21 Paris

The Paris agreement was set out as a series of 29 articles, which for simplicity can be grouped under the following main headings:

Long-term temperature goals

The Paris Agreement's central aim was to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. This second "aspirational" target was included to secure the agreement of countries that are highly vulnerable to a rise in the sea-level which could result from only a small increase in the global average temperature. A "global stocktake" will take place every five years, starting in 2023, to assess the collective progress towards achieving the purpose of the agreement and to inform further individual actions by Parties.

Adapting to climate change

Articles 7 and 8 of the agreement implicitly acknowledge that some consequences of climate change, such as frequent extreme weather, are now unavoidable and therefore countries must adapt to minimise the suffering and damage. They establish a global goal on adaptation – of enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change in the context of the temperature goal of the Agreement.

The UN says adaptation is "a global challenge faced by all" but acknowledges the "urgent and immediate needs of those developing countries that are particularly vulnerable to the adverse effects of climate change". Article 8 recognises the importance of averting, minimising and addressing loss and damage associated with the adverse effects of climate change, including extreme weather events and slow onset events, and the role of sustainable development in reducing the risk of loss and damage.

Nationally determined contributions

The principle that each country decides its own target was the key to breaking the post-Kyoto deadlock. It was by respecting national sovereignty that consensus was achieved and the signatures of 197 countries were secured.

The Paris Agreement established binding commitments by all countries to prepare, communicate and maintain a nationally determined contribution (NDC) and to pursue domestic measures to achieve them. It also prescribed that, "Parties shall communicate their NDCs every 5 years and provide information necessary for clarity and transparency. To set a firm foundation for higher ambition, each successive NDC will represent a progression beyond the previous one and reflect the highest possible ambition".

Developed countries are to continue to take the lead by undertaking absolute economy-wide reduction targets, while developing countries should continue enhancing their mitigation efforts, and are encouraged to move toward economy-wide targets over time in the light of different national circumstances.

Climate finance

Articles 9,10 and 11 set out the commitments by developed countries to help poorer ones reduce emissions and adapt to climate change. The agreement reaffirms the obligations of developed countries to support the efforts of developing countries to build clean, climate-resilient futures, while for the first time encouraging voluntary contributions by other Parties.

In addition to reporting on finance already provided, developed country Parties committed to submit indicative information on future support every two years, including projected levels of public finance. The agreement also provided that the Financial Mechanism of the Convention, including the Green Climate Fund (GCF), should serve the Agreement.

Developed countries had agreed in 2010 to “mobilise” USD100 billion a year of public and private finance by 2020. A report from the UN’s Independent Expert Group on Climate Finance published in December 2020 said the USD100 billion target should be “seen as a floor and not as a ceiling” and that the sum should be exceeded this year “to sustain trust between developed and developing countries [and] maintain momentum in the run-up to COP26”.⁵

Carbon trading

The Paris agreement acknowledged that countries may want to meet a proportion of their climate targets by offsetting their emissions via payments for emissions reductions that can be achieved more cost-effectively elsewhere. In very obscure language, Article 6 “recognises the possibility of voluntary cooperation among Parties to allow for higher ambition and sets out principles – including environmental integrity, transparency and robust accounting – for any cooperation that involves internationally [sic] transferal of mitigation outcomes”.

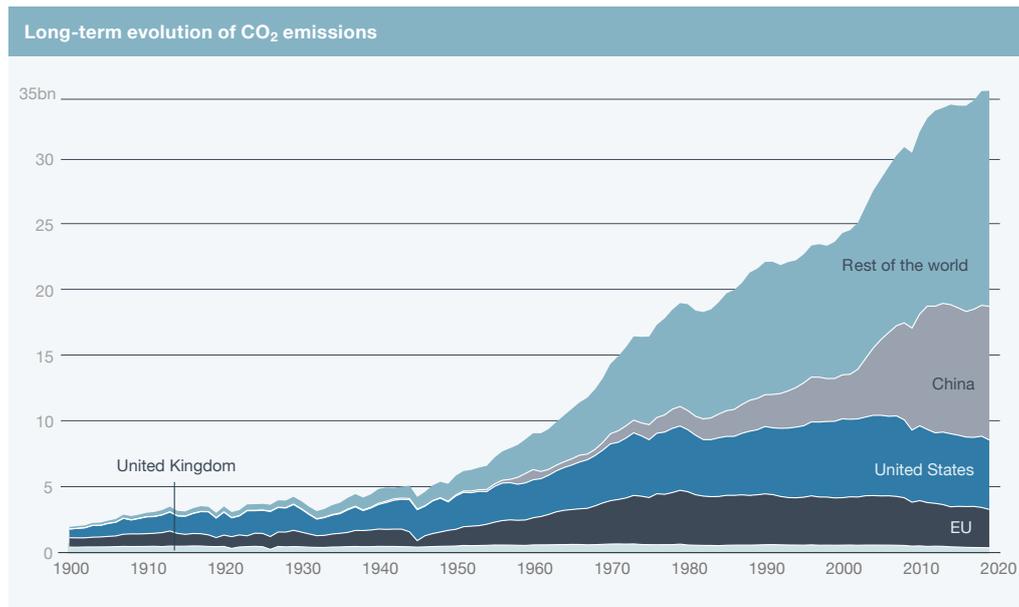
This is perhaps the most controversial element of the Paris Agreement as it envisaged the creation of an international carbon market for trading carbon credits generated anywhere by public or private organisations. There are understandable fears that offsets do not offer the claimed benefits and that the emissions reductions may be fraudulent. In the absence of a high minimum price for carbon, moreover, buying credits may not reflect the full external costs of pollution. The only reliable way to reduce carbon emissions is to do so at source and not produce them.

After the widely acclaimed COP21 meetings in Paris 2015, and the agreement’s subsequent ratification by all but six of the participation nations – Iran, Iraq, Turkey, Libya, Eritrea and Yemen – there have been four more annual COP meetings in Marrakech, Bonn, Katowice and Madrid, although none of these have left much of impression on the memory. The United Kingdom offered to host the COP26 meeting in Glasgow, Scotland in 2020 but the COVID pandemic meant its’ forced rescheduling to November 2021.

⁵ https://www.un.org/sites/un2.un.org/files/100_billion_climate_finance_report.pdf

Carbon emissions continue to rise despite Paris Agreement

The Paris Agreement marked a key stage in international co-operation to slow the pace of climate change but the simple fact remains that CO₂ emissions have continued to grow and by 2019 totalled 36,441bn tons⁶. According to recently published research⁷, global CO₂ emissions fell around 7% in 2020, whilst the International Energy Association puts the drop in energy-related CO₂ emissions at -5.8%⁸. The decrease in emissions appears more pronounced in the USA, EU27, and India, partly due to pre-existing trends, but much less evident in China where restriction measures associated with COVID-19 occurred early in the year and lockdown measures were more time-limited.



Source: The Times and The Sunday Times

Whatever the popular perception, the fact is that CO₂ emissions in Europe and the United States have been on a gradual downward trend for over a decade, whilst in China and the Rest of the World – led by India – they have continued to increase. This should come as no surprise – the Asian economies are growing rapidly and with big increases in population. Their economies are in the transformative stage of economic development which made Europe so powerful in the 20th century. Think of Germany's Rhine and Ruhr regions or the infamous London fog of the 1950's. The economic strength we enjoy today was founded on production and pollution over many decades and a large fraction of CO₂ remains in the atmosphere for hundreds of years once emitted⁹.

⁶ Ibid

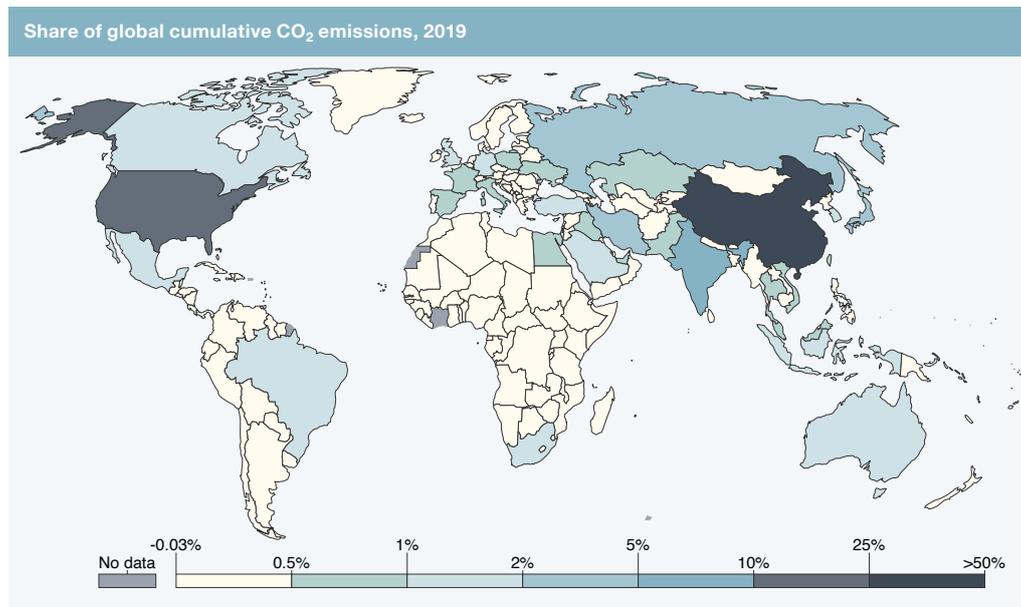
⁷ Global Carbon Budget 2020 <https://essd.copernicus.org/articles/12/3269/2020/>

⁸ IEA (2021), Global Energy Review: CO₂ Emissions in 2020, IEA, Paris <https://www.iea.org/articles/global-energy-review-co2-emissions-in-2020>

⁹ IPCC Climate Change 2013, <https://www.ipcc.ch/report/ar5/wg1/>

Historic versus current CO₂ emissions

An arguably fairer method of measuring emissions over time rather than a static snapshot of emissions at a given point, is to look at cumulative data over a very long horizon – in this case back to the Industrial Revolution of the mid-18th century. Using data from the Global Carbon Project, we see the US has emitted most to date: more than a quarter of all historical CO₂; twice that of China which is the second largest contributor. In contrast, most countries across Africa have been responsible for less than 0.01% of all emissions over the last 266 years.¹⁰



Source: Global Carbon Project

What becomes clear looking at emissions across the world today is that the countries with the highest emissions over history are not always the biggest emitters today. The UK, for example, was responsible for only 1% of global emissions in 2017. Reductions here will have a relatively small impact on emissions at the global level – or at least fall far short of the scale of change that is needed to have any significant climate impact.¹¹

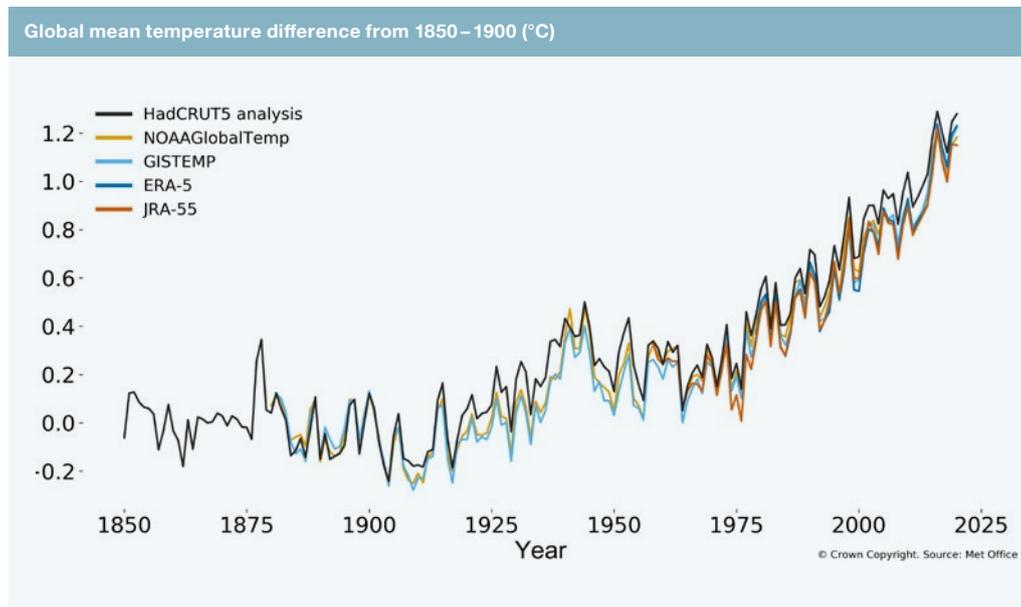
This one example of the problems of which starting point to choose, upon whom the burden of adjustment should fall, and whether historic or current emissions are the most appropriate metric illustrates clearly the difficulty of deciding what is certain to be a very costly future transition. It would be tough to get half a dozen people to agree, let alone for a consensus to emerge amongst 197 nations. International agreement remains a major challenge.

¹⁰ <https://ourworldindata.org/co2-emissions?country=>

¹¹ *Ibid*

World average temperature continues to rise

Citing the World Meteorological Association's findings in its State of the Global Climate Report¹² that the global average temperature in 2020 was about 1.2-degree Celsius above pre-industrial level, and that the six years since 2015 have been the warmest on record, the UN has called for a number of "concrete advances" ahead of COP26. "Countries need to submit ambitious new nationally determined contributions (NDCs) that were designed by the Paris Agreement. Their climate plans for the next 10 years must be much more efficient."¹³



Source: MetOffice¹⁴

The newly-released European State of the Climate Report 2020¹⁵, compiled by the Copernicus Climate Change Service (C3S) of the European Union notes that globally, last year was one of the three warmest on record, together with 2016 and 2019. The decade ending 2020 was the warmest on record, with the Arctic and Northern Siberia reaching an annual temperature deviation over 6 degrees above average.

As UN Secretary General António Guterres wrote in his foreword to the WMO Report, "We know that to avert the worst impacts of climate change, we must keep global temperatures to within 1.5 degree Celsius of the pre-industrial baseline. That means reducing global greenhouse gas emissions by 45 per cent from 2010 levels by 2030 and reaching net zero emissions by 2050. This year is pivotal. At the United Nations climate conference, COP26, in November, we need to demonstrate that we are taking and planning bold action on mitigation and adaptation. This entails scaled-up financial flows from developed to developing countries. And it means radical changes in all financial institutions, public and private, to ensure that they fund sustainable and resilient development for all and move away from a grey and inequitable economy."¹⁶

¹² <https://public.wmo.int/en/our-mandate/climate/wmo-statement-state-of-global-climate>

¹³ <https://news.un.org/en/story/2021/04/1090072>

¹⁴ <https://www.metoffice.gov.uk/hadobs/monitoring/dashfigs/gmt.png>

¹⁵ <https://climate.copernicus.eu/esotc/2020/globe-in-2020>

¹⁶ <https://public.wmo.int/en/our-mandate/climate/wmo-statement-state-of-global-climate>

Countries are accelerating pledges to reduce CO₂ emissions

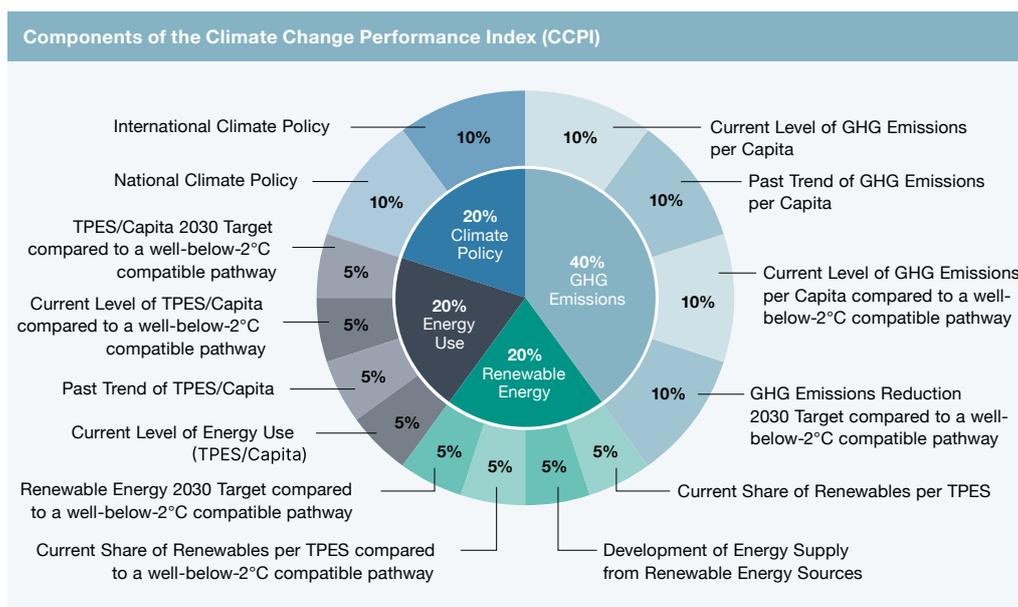
Having established the principle of self-determined emissions targets at the Paris COP21 meeting, there appears to be little appetite for a return to the previous ‘top down approach’. Instead, countries are likely to spend the pre-COP26 period jostling for position to burnish their own environmental credentials. As host of November’s Glasgow meeting, for example, the UK has recently ratcheted up its commitments to cut CO₂ emissions. The UK has already reduced its emissions by 45 per cent since 1990 and last year announced a target of a 68 per cent cut by 2030, compared to a 1990 baseline. In April 2021, it promised an acceleration to a 78% reduction by 2035 and was the first large industrialised country to set a legally binding target to cut its greenhouse gas emissions to net zero by 2050.

Only six major countries have legislation committing them to net zero emissions – Sweden by 2045, the UK, France, Denmark, New Zealand and Hungary by 2050. Other countries such as Japan and South Korea have made pledges to reach the target by 2050, whilst China’s publicly stated ambition is currently to become carbon neutral by 2060 and to peak its emissions before 2030. At a virtual summit that was held to coincide with Earth Day on April 22nd, President Biden committed the US to cut carbon emissions by 50-52% below 2005 levels by the year 2030, saying there was a moral and economic imperative to immediately act on climate change.

As 40 world leaders on the Earth Day Summit call sought to proclaim their green credentials, the Editor of Bloomberg New Energy Finance noted in his blog that the phrase ‘net zero’ appeared only 81 times in Bloomberg news articles during 2016 – the year after the Paris climate change conference. So far in 2021, in just three and a half months, it has appeared 1,400 times.¹⁷

Comparing progress thus far achieved

To make international comparisons on climate change progress, the Climate Change Performance Index (CCPI) published annually by Germanwatch, NewClimateInstitute and the Climate Action Network, measures the climate mitigation efforts of 57 countries plus the EU which together account for 90% of global greenhouse gas emissions. It aggregates performance based on broad range of metrics and ranks countries by outcomes. Using standardised criteria, the CCPI looks at four categories, with 14 indicators: Greenhouse Gas Emissions (40% of the overall score), Renewable Energy (20%), Energy Use (20%), and Climate Policy (20%).¹⁸



Source: CCPI.org

¹⁷ <https://about.bnef.com/blog/mccrone-someone-just-pressed-fast-forward-on-energy-transition/>

¹⁸ <https://ccpi.org/>

With scores ranked out of 100, even the best performing country, Sweden, does not qualify for CCPI's 'very high rating', although thirteen qualify as 'high' and a further fourteen count as 'medium'. Clearly, there is much progress still to be made.

Top ranking countries in the Climate Change Performance Index (CCPI)

Sweden	74.42	Switzerland	60.85
United Kingdom	69.66	Lithuania	58.03
Denmark	69.42	European Union (28)	57.29
Morocco	67.59	Portugal	56.80
Norway	65.45	Croatia	56.69
Chile	64.05	Germany	56.39
India	63.98	Ukraine	55.48
Finland	62.63	Luxembourg	55.23
Malta	62.21	Egypt	54.33
Latvia	61.88	France	53.72

Source: CCPI.org

Hopeful signs of a thaw in international relations

The major diplomatic challenge for the COP26 meeting will be for the United Kingdom as hosts to persuade the newly-elected US Administration and President Xi of China that climate change can be addressed in a spirit of global co-operation, notwithstanding their significant differences on economic and foreign policy. President Biden rejoined the Paris climate accord after entering the White House earlier this year, whilst Chinese climate envoy Xie Zhenhua and his US counterpart John Kerry met in Shanghai in mid-April.

The joint statement issued after their meeting noted, "The United States and China are committed to cooperating with each other and with other countries to tackle the climate crisis, which must be addressed with the seriousness and urgency that it demands. This includes both enhancing their respective actions and cooperating in multilateral processes, including the United Nations Framework Convention on Climate Change and the Paris Agreement. Both countries recall their historic contribution to the development, adoption, signature, and entry into force of the Paris Agreement through their leadership and collaboration".¹⁹

The notably upbeat statement concluded that, "The two sides will cooperate to promote a successful COP 26 in Glasgow, aiming to complete the implementation arrangements for the Paris Agreement (e.g., under Article 6 and Article 13) and to significantly advance global climate ambition on mitigation, adaptation, and support."

¹⁹ <https://www.state.gov/u-s-china-joint-statement-addressing-the-climate-crisis/>

Ambitious targets and high expectations for the COP26 meeting

Many political and business leaders, activists and scientists have high hopes for this year's conference.

COP26 is being viewed as the successor to COP21 where the Paris Accord was signed, arguably the greatest success from the UNFCCC in recent years. It is seen as the summit to both address what has and hasn't been achieved since 2015, while also setting concrete plans to reach the Paris Agreement targets.

COVID-19 has refocused priorities and triggered individuals and governments alike to pay closer attention to the natural environment. As many countries look to rebuild their economies in the wake of the pandemic, there has been a major emphasis on 'building back better' through a green recovery.

In April 2021, UK Prime Minister Boris Johnson set out Britain's main ambitions for the COP26 meeting, to be held in Glasgow from November 1 to 12. He makes a call to action to the world: "We want all nations to commit to reaching net-zero carbon emissions by the middle of the century, with as many as possible pledging to meet the target by 2050, and to make ambitious commitments to reduce emissions by 2030 to get us there, as the UK has done."

As Alok Sharma, the former UK government business secretary, who is now President of COP26, has written, "This is a global effort - the climate doesn't care whether emissions come from Britain, Bahrain or Brazil. So, when the countries of the world meet in Glasgow for COP26, we've got to get a grip and, together, sort this crisis out once and for all."²⁰

The critical role of sustainable infrastructure in achieving net zero

The pandemic has sharpened the understanding that climate change, like the COVID-19 pandemic, could upend the financial system. Energy transition is a huge opportunity for public and private market investors and financiers. As Mark Carney, UN Special Envoy for Climate Action and Finance and the Prime Minister's Finance Adviser for COP26 outlines, 'every company, bank, insurer and investor will have to adjust their business models, develop credible plans for the transition and implement them'²¹.

Conclusion

This paper was developed in order to de-mystify the issues, and to summarise the progress made both at and subsequent to the historic Paris COP21 meeting. Investing in sustainable infrastructure is critical for tackling climate change, furthering economic progress and making a positive difference to lives and communities. Realising sustainable value requires solutions to a global issue which affects us all, now and in the future.

At ThomasLloyd, we define impact as investing into real assets in high growth and emerging markets with the deliberate intention to create positive and measurable outcomes on the environment and society. We have been doing this for more than 10 years. In the lead up to COP26, we will be sharing our views on the role of sustainable infrastructure in the green transition, why new capital should be allocated to emerging markets and the outcomes we hope to see post COP26.

²⁰ <https://www.express.co.uk/comment/expresscomment/1424421/uk-green-industrial-revolution-alok-sharma-comment>

²¹ https://ukcop26.org/wp-content/uploads/2020/11/COP26-Private-Finance-Hub-Strategy_Nov-2020v4.1.pdf

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