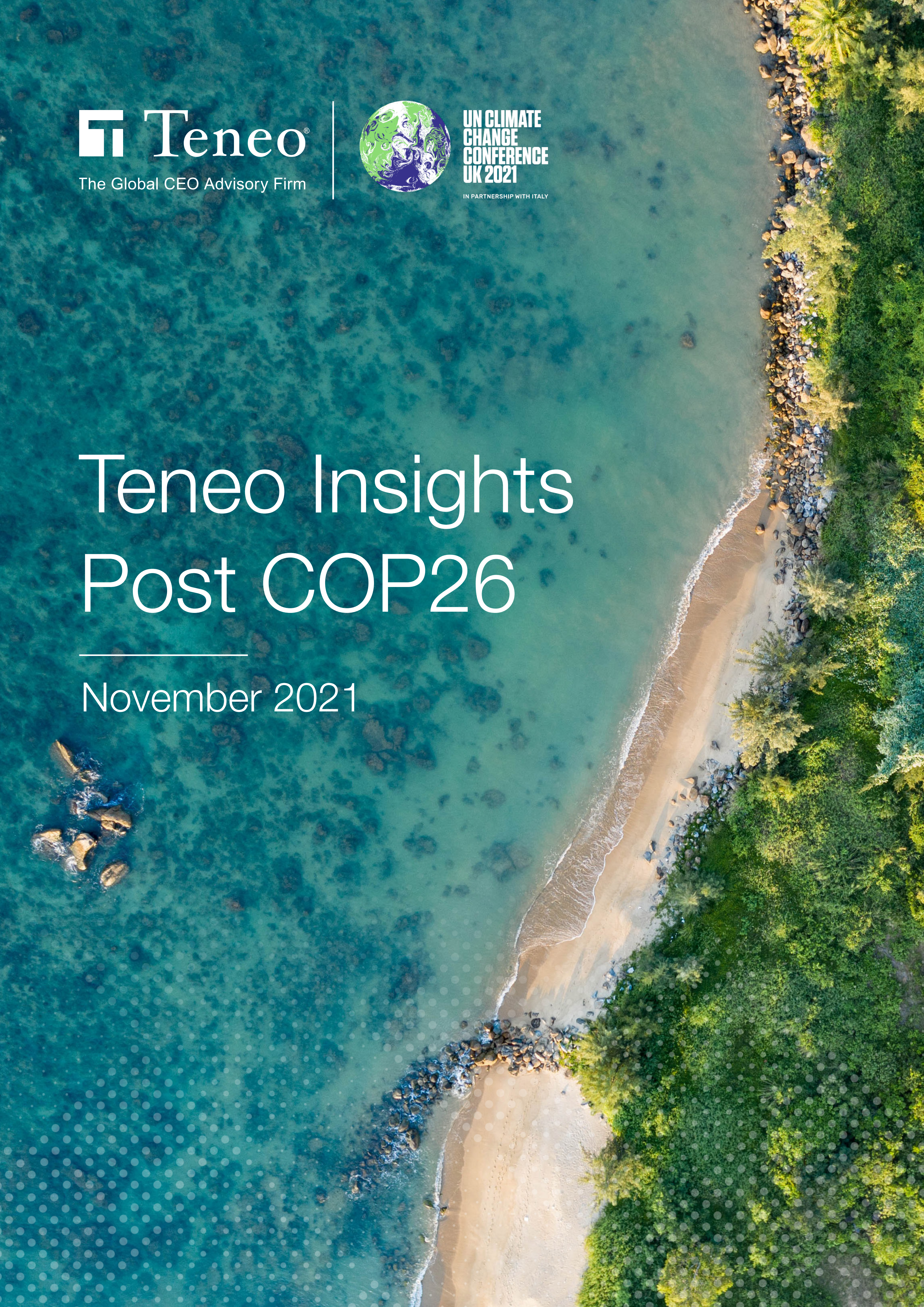


Teneo

The Global CEO Advisory Firm

UN CLIMATE CHANGE CONFERENCE UK 2021

IN PARTNERSHIP WITH ITALY

Teneo Insights Post COP26

November 2021

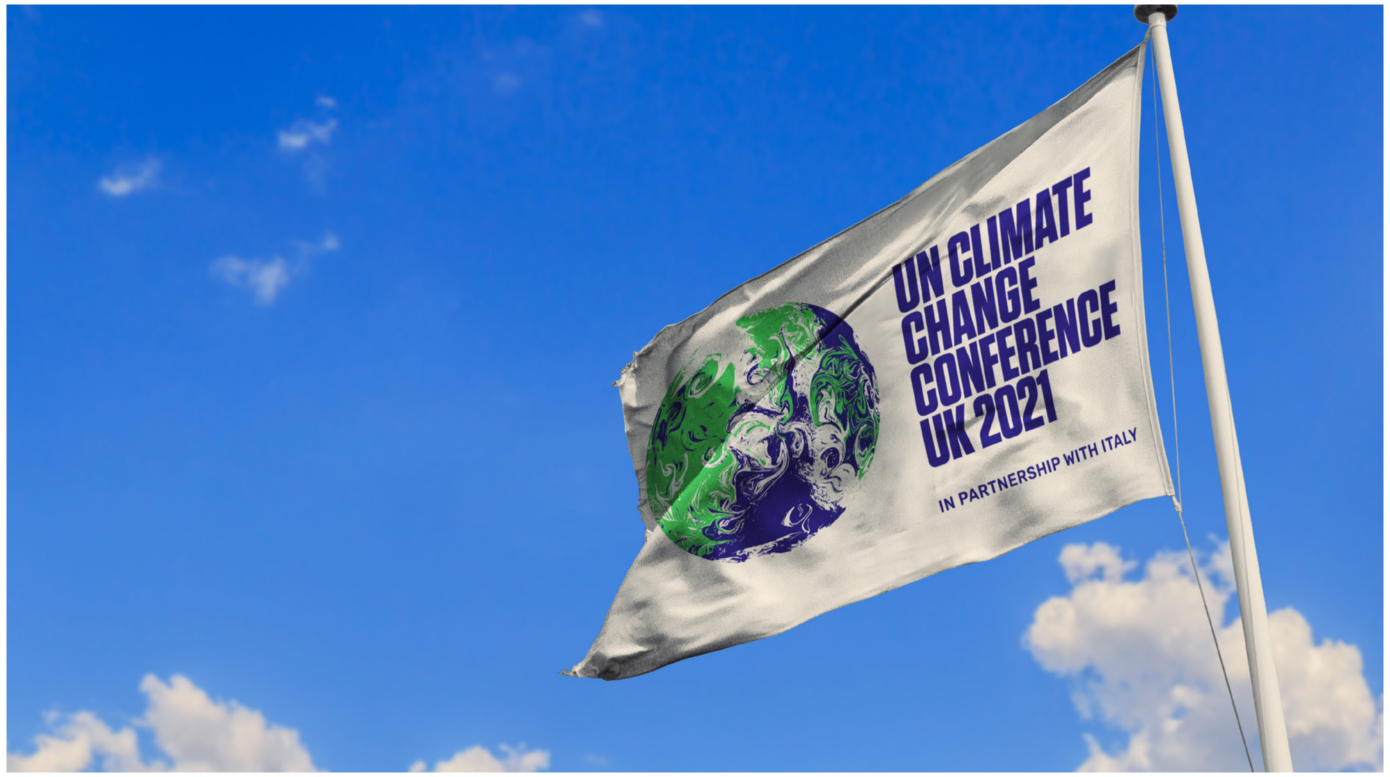
Where does COP26 leave us?

Following overtime negotiations, the gavel fell on the two-week summit with a new global agreement, The Glasgow Climate Pact, reached with an ambition to reduce the worst impacts of climate change.

Seasoned attendees observed this conference, where civil society, indigenous communities and business made their voices heard by political leaders, felt like the COP the world should have had 20 years ago. One of the COP26 goals was to set a course that keeps the Earth's temperature rise within 1.5°C above pre-industrial levels. We left Glasgow heading for around 2.4°C global warming, according to early analyst estimates, and a warning from scientists that this would lead to catastrophic impacts on human and natural systems. UNCCC Secretary General António Guterres concluded, "Our fragile planet is hanging by a thread. We are still knocking on the door of climate catastrophe."

But this doesn't mean COP26 was a failure. Progress was made. Consensus was reached around the 1.5°C limit, the need to achieve net zero by mid-century and halve global emissions by 2030 to achieve it. The call was made for countries to return to COP27 in Sharm El Sheikh, Egypt, next year with more ambitious carbon reduction plans for this pivotal decade – four years earlier than the timetable agreed in Paris. Fossil fuels, coal and methane all made their first appearance in a COP final text. And the world's superpowers and largest emitters, the US and China, committed to work together to address the climate crisis this decade in areas including methane emissions and the switch to clean energy. Wider deals to cut methane, stop deforestation, transition to cleaner transport and raise finance gave further cause for hope.

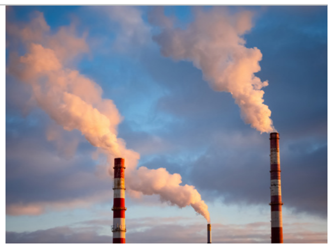
Whether you emerged from COP26 feeling despair or optimism, there is one overriding message emerging from every participant and observer at the summit. The time for kicking the can down the road is over. Governments and business will be judged by their actions, not their ambitions. The time for action, on all fronts, is now.



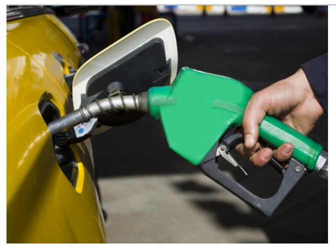
What does the Glasgow Climate Pact contain?

The Glasgow Climate Pact sets the global agenda on climate change for the coming decade and, while not legally binding, reaches agreement on a number of important fronts.

Greenhouse gas emissions



One of the key aims of COP26 was to create a timetable for agreeing more ambitious National Determined Contributions (NDCs) to limit temperature rises to 1.5°C. World leaders acknowledge the need to meet next year, at COP27 in Egypt, to pledge further emissions cuts. By the end of next year, countries are asked to return with more ambitious 2030 emissions reduction targets.



Fossil fuels

For the first time, explicit references to coal, fossil fuels and methane are included in a COP deal. The ambition for unabated coal power was compromised from "phase out" to "phase down" following China and India's last minute joint intervention. Phasing out inefficient subsidies for fossil fuels was agreed, though no firm date was set. The deal acknowledges the need for a "just transition" for developing countries, and nations are "invited" to reduce methane emissions this decade.

Climate finance and adaption

The Pact urges developed countries to "fully deliver" the $100bn to help poorer countries cope with the effects of climate change, with the prospect of a trillion dollar per year fund from 2025. It also agrees to double the proportion of climate finance going towards adaptation, following pressure from developing nations.

Carbon markets

The Pact also resolves some key issues pertaining to carbon markets and how emissions reductions under NDCs should be accounted for. Carbon offsetting should rely on "real, verified and additional" emissions removal taking place from 2021 onward. There is a requirement for co-benefits in terms of adaptation and the economy, and for nations to put at least 5% of the proceeds into adaptation.

Reaffirming the Paris Agreement

The final deal reiterated the importance of retaining the 1.5°C global temperature increase limit, with repeated references to the "best available science" since the Paris Agreement, which shows that 1.5°C is significantly safer than 2°C temperature rise.

Other agreements announced in Glasgow

Net zero and emissions reductions

India's commitment to reach net zero by 2070 and source half its energy from renewables by 2030 means over 90% of the world's economy is now covered by a net zero commitment. However, major emitters including India and China set goals beyond 2050. Faster action is needed to achieve the 1.5°C limit. The joint declaration from the US and China to work together to reduce carbon emissions this decade was an encouraging signal.

Clean technology

More than 40 world leaders, including the EU, US, India and China, agreed to a UK-led plan, the Breakthrough Agenda, to speed up affordable and clean technology by 2030. The plan's five goals cover more than 50% of global emissions and include clean power, zero emissions vehicles, near zero emissions steel, low carbon hydrogen and climate resilient, sustainable agriculture. The plan will include public-private collaboration and the mobilisation of finance at-scale to make the "global transition to a clean economy faster, lower cost and easier for all."

Twenty three governments will collaborate through Mission Innovation, a global initiative to catalyse investment and action in clean technologies for hard to abate sectors. The Missions cover urban transitions, industrial sectors, CO2 removal and integrated biorefineries, and will aim to provide a platform for governments and the private sector to work together to develop clean technologies across multiple sectors.

Coal and methane

In Glasgow, fossil fuels were more of a target than ever before with coalitions forged to end the use and financing of coal, oil and gas. Efforts to "turn the page on coal" achieved mixed results. China, Australia and the US failed to sign a pact amongst over 40 countries, including Poland and Chile, committing to shift away from domestic coal. However, more than 20 countries, including the US and Canada, pledged to stop funding foreign fossil fuel projects despite China and Japan's absence.

The Global Methane Pledge secured commitment from more than 100 countries, pledging to cut methane emissions by 30% by the end of the decade from 2020 levels. Initiated by the US and the EU, the initiative covers 70% of the global economy. China, Russia and India remain outside the deal for now.

Climate finance

COP26 brought forward a plethora of financing commitments. A coalition of 450 international banks, insurers and asset managers, led by ex-Bank of England Governor Mark Carney, agreed to commit up to $100tn of financing to help the net zero transition. Under the Glasgow Financial Alliance for Net Zero, the announcement covered 40% of the world's existing financial assets. The scale drew criticism from many for being overheated.

The European Investment Bank and the European Commission are to join the €1bn EU Catalyst Programme, launched by the Bill Gates Breakthrough Energy Initiative, which will finance new technologies and breakthrough climate innovation, facilitating and enabling their use in Europe.

UK Chancellor, Rishi Sunak pledged to make the UK the world's first "net zero financial centre," mandating all financial institutions and listed companies in the UK to publish net zero plans by 2023.

And a group of countries and global charities, including the UK and US, pledged $1.7bn to support indigenous communities, helping them to conserve forests and strengthen land rights.

Transport

Deals to accelerate the road to zero emissions transport were underwhelming. An agreement to end the sale of fossil fuel vehicles by 2040 at the latest was signed by 24 countries and only six car manufacturers. Notable absentees included VW, Toyota and Hyundai and three of the world's biggest car markets; Germany, China and the US. This was despite the backing of several large states and cities including California, New York, Washington, Dallas and Seattle.

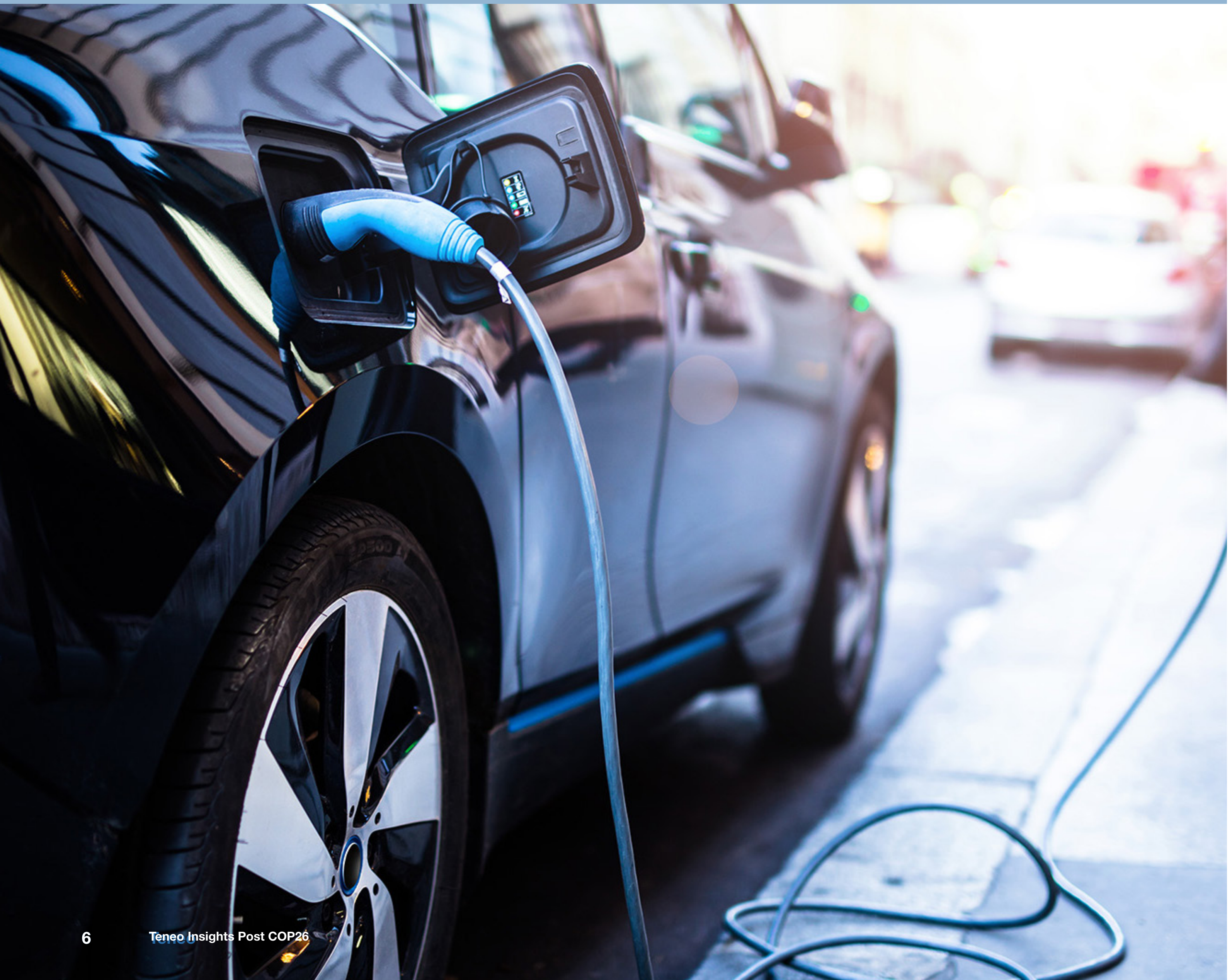
Deforestation and farming

Leaders from more than 130 countries representing approximately 90% of the world's forests promised to stop and reverse deforestation by 2030. Previous efforts have failed, but this pledge is backed by almost £14bn of private and public funds. Brazil, Canada, Russia, China, Indonesia, the US and UK were among signatories.

What does COP mean for business?

In conversations amongst business executives and partners in Glasgow, the message was clear. Climate change is a systemic problem, requiring urgent action from all stakeholders if we are to avoid climate catastrophe and limit global temperature rises to 1.5°C. In the face of slow political progress, business – which presides over much of the greenhouse gas emissions causing climate change – must act. Net zero by mid-century is now the unifying global goal. In order to thrive this decade, businesses need to not only organise around an ambitious decarbonisation target, but to set a clear near-term plan, aligned to 1.5°C.

We identify five key principles for business as we enter a decade of accelerated action on climate.



A net zero goal is imperative. 2050 is just the floor.

Unless operating in a hard to decarbonise sector such as steel or oil and gas, businesses are now expected to set a net zero goal for 2050 or earlier that includes Scopes 1, 2 and 3. Over 200 global businesses, many with complex supply chains, have signed up to Amazon's Climate Pledge to meet net zero emissions across all scopes by 2040. A clear 1.5°C aligned plan with key milestones that include near term mitigation targets to be delivered within the current leadership's term of office shows credibility. Offsetting should only be used as a last resort and with reference to the latest criteria set out in the Glasgow Climate Pact.

The lack of standardised reporting has hindered measurement of progress. The creation of an International Sustainability Standards Board (ISSB), designed to develop comprehensive sustainability reporting standards, will provide investors with globally comparable sustainability disclosures. The ISSB is expected to start work on these in early 2022.

Adopt sustainability as strategy, not an add-on to strategy.

For a business to survive for the long term and serve the needs of its multiple stakeholders, it needs to pursue a strategy that is sustainable in a broad sense. COP makes increasingly clear that the debate about whether to serve financial or non-financial stakeholders is a false one. To deliver for investors, businesses also need to meet the expectations of multiple other stakeholders. Sustainability needs to be embedded operationally and in products and services for businesses to be able to maintain their licence to operate. For many businesses with a global footprint, this poses challenge and risk, especially given gaps in the Glasgow Climate Pact around oil and gas other than methane, and regional differences in regulation, for example.

Align strategy with investment that is being redirected towards sustainable business models.

The emphasis on innovation and new business models driven by advancing technologies, rising regulatory risks for high emission assets, the falling cost of capital for green investments and the increasing price of carbon emissions are all driving business to re-organise. The wall of finance announced at COP will be directed towards companies with a clear sustainability strategy, leaving high emissions business models exposed.

Meet rising consumer and customer expectation for sustainable products and partnerships.

Enlightened businesses that tap into public appetite for sustainable consumption are creating value. Not only do more sustainable products initially offer opportunity for premium pricing and to get ahead of new net zero related regulation, but they also protect against the risks of stranded business models. In B2B contracting, public organisations and private companies are increasingly demanding net zero aligned environmental standards from suppliers in order to reach their own Scope 3 targets.

Leverage environmental commitments in the battle for talent.

Sustainability commitments and demonstrable action to tackle environmental concerns are increasingly becoming key levers in the battle for attracting and retaining talent. Business leaders who can credibly align their company purpose and strategy with environmental goals, including net zero, are starting to report a more engaged workforce.

How should business communicate on climate?

The eyes of the world have been on COP26 in Glasgow, putting climate right at the top of the agenda for government, regulators, investors, employees and the public. Where world leaders have failed to take the necessary action to put us on track for 1.5°C, stakeholders are looking to business to lead. But communicating on climate can feel like a minefield. Accusations of greenwash can deter otherwise confident communicators from any public engagement. And yet to succeed, we need powerful and engaging communications. To show progress. To ignite hope. And ultimately, to mobilise billions of people towards greener behaviours.

In developing strategic communications plans for 2022 and beyond, consider the following insights.

Stop talking about commitments. Start demonstrating business action.

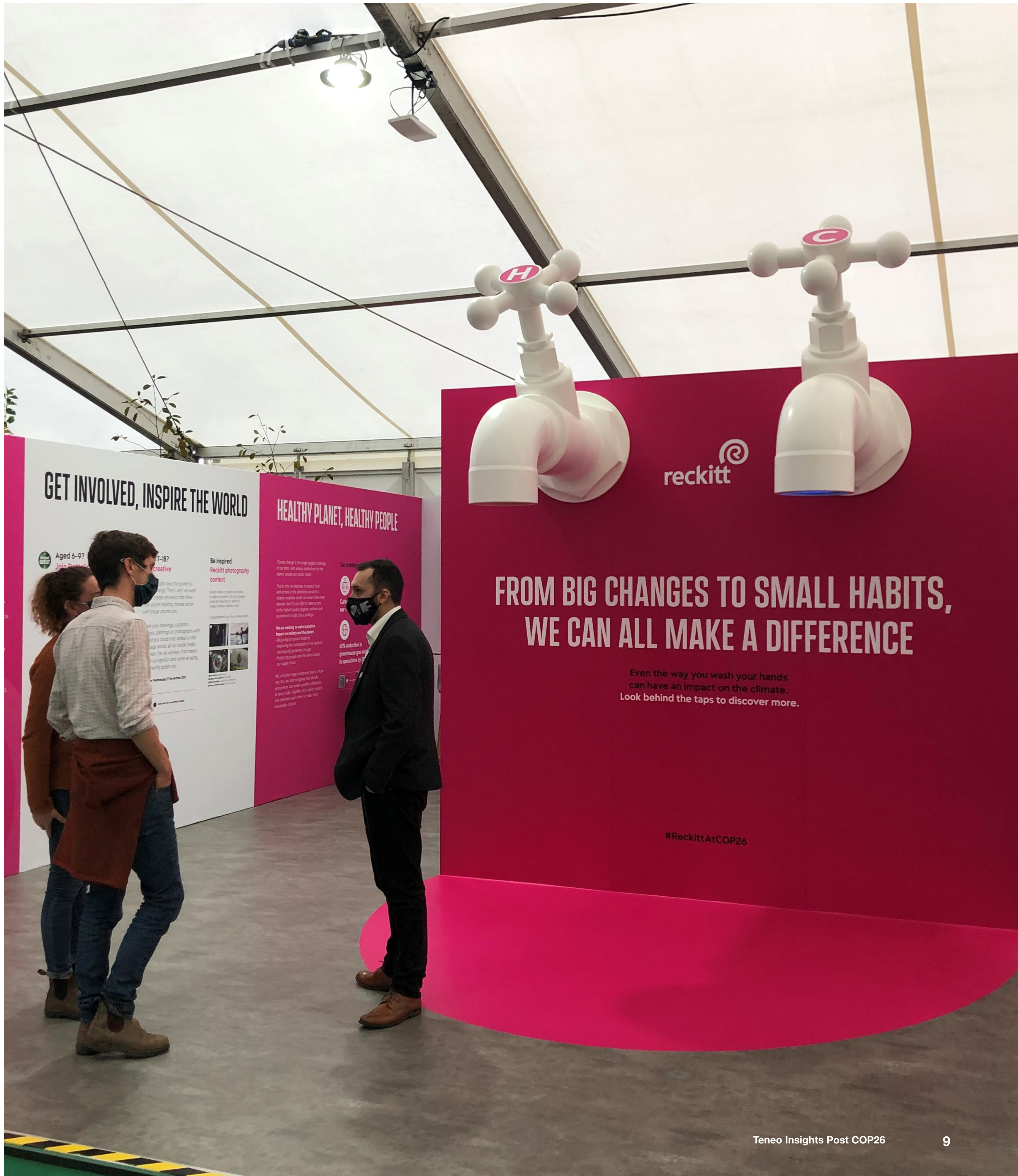
COP felt like too much of a talking shop. As hopes of a landmark deal waned, the mood turned against what Greta Thunberg called “blah blah blah.” Audiences were frustrated by the lack of clear roadmaps showing how targets will be met, and what businesses are doing right now. Long-dated commitments sounded meaningless without action. That way lies greenwash. Focus communications around what you are doing to reduce emissions in 2022. What will you have achieved by 2023?

Use business action to fuel optimism and mobilise behaviour change.

Ecoanxiety isn’t just a feeling, it’s a threat. A growing sense of fatalism amongst young people and pictures of environmental devastation can lead to paralysis. To unlock action, business and brands must act first and communicate positive and meaningful change second to fuel hope. Only then can we mobilise the public to take action themselves. Start small. Show how individual steps can make a big difference when they happen at scale. But don’t rely on saving the planet to be the only motivating message. To drive action outside the ‘climate conscious’ bubble, engage around personal benefits and cultural themes that people care about most, from football to entertainment. Test what works, gather data to assess impact, hone the message and scale up. Keep asks simple, and demonstrate the impact from everyone acting together.

Show leadership from top to bottom.

The gap between 1.5°C and where we are headed for today brings the message home that there can be no free-riders. No business and no individuals are exempt from their role in bending the emissions curve. Research published by Oxfam during COP showed the richest generate the highest emissions, and business leaders fall into that category. So before asking the public to make changes to their lives, be clear on how senior executives are taking credible steps to green their own. And remember leadership on climate is not the preserve of CEOs or people in head office. Innovative thinking to reduce business emissions can come from any geography or corner of the business. Empower employees from all backgrounds to be innovators by building understanding of the causes and providing a platform to develop and test ideas.



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