

COP26: Issues to Watch, Questions to Ask

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Background: COP's difficult history

The United Nations Framework Convention on Climate Change (UNFCCC) was ratified in 1992 at the “Earth Summit” in Rio de Janeiro. The Conference of Parties (COP) framework came into force in 1994 as an effort of the Convention to promote international cooperation on an ongoing basis. All major international climate agreements have been announced at COPs, the most high-profile efforts being the 1997 Kyoto Protocol (a failure) and the 2015 Paris Agreement.

Since the UNFCCC's conception, the treaty has acknowledged climate change as an anthropogenic phenomenon; yet, only this year, UN researchers labeled the linkage between global warming and the combustion of fossil fuels as “virtually certain.” This delay reveals the immense burden of proof the body requires before making announcements.

Despite the UNFCCC's global importance, COP agreements have consistently failed to deliver meaningful results. Environmental economists have a simple explanation, stemming from game theory—it is impossible for all major parties to perceive that they will benefit. To make matters worse, the agreements are not materially enforceable.

There are signs this conundrum may be easing, with increasing business opportunities in clean energy and resiliency efforts. Still, deep decarbonization is inherently fragile—at any time, a party can cheat and reap economic rewards. This challenge is illustrated by the persistent deforestation of the Amazon.

Perspective: The Montreal Protocol

In the 1970s, two American chemists found that chlorofluorocarbons (CFCs), a once-common ingredient in consumer aerosols, can destroy atmospheric ozone. The ozone layer acts as a naturally occurring shield that protects Earth's terrestrial ecosystems from high-energy solar radiation. The US, Norway, Sweden, and Canada acted quickly, banning aerosols containing CFCs in 1978.

In 1985, the British Antarctic Survey found a hole in the ozone shield, which led rapidly to the Vienna Convention for the Protection of Ozone Layer. This convention set into motion a series of international treaties culminating with the Montreal Protocol. The protocol was adopted in 1987 and has since been amended to phase out CFCs and many other ozone-depleting chemicals across the world.

The protocol is a shining example of *common but differentiated responsibilities*: Compliance requirements depended on a given state's capacity to make rapid changes. Implementation was relatively straightforward, as the number of countries and firms producing CFCs was rather small. Targeted agreements were achieved through quick international consensus and the commitment from the developed world to take on the financial burden. It is worth noting that many at-risk nations were wealthy countries located nearer to the poles (Australia, Canada, and the Nordics). ►

The World Meteorological Organization believes in a full recovery in the ozone layer will occur by 2065.

Ozone-depleting chemicals differ from carbon dioxide (and other greenhouse gasses) in their ubiquitous generation through human activity—for example, the reliance on the internal combustion engine for transport. But, based on UNFCCC projections, global mobilization is needed to achieve deep decarbonization in a reasonable timeframe. Otherwise, both wealthy and less advantaged nations both will face apocalyptic scenarios for large segments of their populations and economies.

In this analyst's view, this kind of arrangement is impossible for GHG mitigation. With CFCs, a mix of economic incentives, *common but differential responsibilities*, and the visceral fear of global human irradiation all came together to bring change. Getting skin cancer from going outside is a far more motivating outcome, if you are wealthy, than having to move inland—and that's exactly the perceived stakes for the world's most privileged. Why then should the elite be bothered to make sacrifices?

The latest climate assessments

A critical resource leading up to COP26 was the UN Environmental Program's Emissions Gap Report. Now in its twelfth edition, the report's purpose is to both summarize and contextualize Nationally Determined Contribution (NDC) pledges for climate action provided to COP by member states. Essentially, the report stress-tests pledges and announced policies against climate science to assess progress on slowing the warming trend. With this information, the report estimates potential climate scenarios.

The UNEP report finds a “promising development” in the “announcement of long-term net zero emissions pledges by 50 parties, covering more than half of global emissions.” But the 2021 report was dire: few countries have defined a “clear path” to reach their goals.

- G20 members “**Do not have policies in place to achieve even [their own] NDCs**, much less net zero.” Moreover, pledged policies of many developed nations rely on international market mechanisms (carbon border taxes, etc.) that have yet to be tested—even domestically. In the US, for example, a carbon border tax will require consent from all branches of the government. Presently, appears to be impossible given the state of gridlock and polarization in Washington. Indeed, even the historically moderate International Energy Agency reported, in their 2021 World Energy Outlook: “The direction of travel is a long way from alignment with...net zero emissions by 2050.”
- The IEA's World Energy Outlook highlights another ambiguity: **the critical technologies needed to halve emissions from 2030 through 2050 simply don't exist today**. To this appoint, a recent WEF/Oliver Wyman study concludes that many solutions required to decarbonization heavy industries involve risky early-stage technologies—so-called ‘blue’ ammonia, small-scale hydrogen fuel cells, and (most notoriously) carbon capture. While a significant amount of capital is flowing into renewable energy, investment in future technologies to solve deep decarbonization is lacking. Individual stakeholder action will not solve this market failure.

The Emissions Gap report provides several critical benchmarks:

- Limiting warming to 2°C by 2100 requires a further 30 percent reduction from stated policies that guide investment and development decisions. ►

- Limiting warming to 1.5°C (the goal of the Paris Agreement) demands a staggering 55 percent reduction beyond the already ambitious but vague NDC plans.
- If all pledges to attain GHG emissions reductions by 2030 are fully implemented, global warming is expected to reach +2.7°C by the end of the century. Climate scientists believe such a future will, at a minimum, decimate coastal cities and ecosystems classed today as vulnerable.

Furthermore, UNEP called COVID recovery plans a “missed” opportunity. In early June, Tearfund, an influential UK-based charity, condemned G7 countries for failing to integrate climate objectives into COVID-era fiscal policy. They found that 80% of stimulus packages provided to fossil fuel companies ignored common targets and failed to mandate spending guidelines. Tearfund reports only 10% of spending was channeled to clean investments. In total, only four G20 member states developed policies that expected to cause “more good than harm,” but these states’ contribution to global emissions are not significant.

Nations to watch

- **China reiterated its previously stated goal of peak emissions by 2030 and net zero by 2060, but its commitment remains vague.** Beijing aims to raise clean energy’s share of power generation to 25% by 2030, but coal will still be king. China joined Saudi Arabia and Australia in affirming continued fossil fuel development. It is thought that President Xi is staying away from Rome and Glasgow to avoid facing international criticism.
- **Australia promised less than China, mitigating only 28% of their emissions by 2030.** Australia also does not plan to limit future fossil fuel use or production. The country’s NDC seems to strike an impossible balance between a rapid decline in emissions reductions and a bolstering of oil and gas production. Virtually all of the technologies upon which the plan relies are infeasible in the near term and questionable in the long term. CNN called Australia “the rich world’s weakest link at COP26.”
- **The United States has long been perceived as a laggard. However, President Biden has set a strong domestic climate agenda,** positioning the US as a leader to drive international agreement. That is, if Congress backs his proposals with legislative action. Biden’s predeparture remarks focused on how the new spending bill begins to amend the US’s slow decline in early childhood education, college readiness, care for seniors, and climate action—resorting to the only language still shared across party lines: American exceptionalism. Biden underscored new tax credits for “green” supply chains across the US, investments unlocking future clean tech exports, and efforts to improve natural disaster resilience. He paused frequently to share utopic visions of what’s to come—how driving across all 50 states in an electric vehicle will soon be possible, thanks to “the right amount” of federal intervention.
- **The United Kingdom pledged to achieve their net-zero target quicker than outlined in past NDCs, strengthening Prime Minister Johnson’s central role in the summit.** It is unlikely, however, that he will provide anything material beyond hosting the conference. Johnson himself routinely undermines its potential impact, designating COP successes as “touch and go.” ▶

- **India has long been outspoken about climate action as an inherently a developed-world priority.** Their officials argue net-zero isn't a solution for India, citing how the country has contributed to roughly 4% of total emissions throughout its history. Expect India's dependence on coal to continue. Indian delegates will fight on behalf of poorer nations to assure they have access to clean technologies and do not suffer taxation on exports headed to Western markets.
- **Japan promised to end support for overseas coal development.** Domestically, officials are betting on "clean coal" technologies to justify continued reliance. Outside observers believe Japan has the capacity to make transformative changes.
- **Brazil committed to eliminating illegal deforestation by 2030 and reaching carbon neutrality by 2050,** but both legal and illegal deforestation have surged under the Bolsonaro administration.
- **Saudi Arabia pledged to attain Scope 1 net zero by 2060.** It has also joined the Global Methane Pledge to cut methane emissions 30% by 2030. The country did not commit to slowing petroleum development as it intends to remain the world's lowest-cost producer and supplier of last resort.

Issues to watch

- **Methane emissions have moved up on the agenda.** The US and EU led Global Methane Pledge, a groundbreaking effort to curb methane emissions 30% by 2030 has been signed by over 100 nations. Australia, again, is undermining climate diplomacy. As of Tuesday, November 2nd, Australian officials have doubled down, rejecting the pact even as it nears widespread ratification.
- **Reforestation efforts have gained traction as a channel for climate finance.** Historically, such projects have been sidelined in favor of clean energy developments. Reforestation is viewed as a cost-effective mitigation strategy to aid developing nations meet their NDCs.
- **Asian nations have been collaborating on efforts to end business-as-usual for coal-fired power and manufacturing.** India and Bangladesh have resisted such a phase out. Japan may make a major announcement.
- **Environmental justice will be more prominent than in previous years; in part, due to global social unrest.** India and African nations have drawn attention to injustices implicit in net-zero focused NDCs. Economic and health injustices embodied in the supply chains of rare earth materials for batteries and 'clean' tech has been a focus of watchdog groups. New climate deals will include side agreements involving supply chain transparency.
- Expect high-profile announcements about new climate finance for low-income countries. In the past, creditor nations have categorically failed to deliver. According to the IEA, \$4 trillion in energy transition financing alone is needed by 2030—70% for developing countries. The Paris Agreement has failed in part because rich countries and the markets have not delivered adequate green investment. The UN general secretary, Antonio Guterres, had some harsh words for G20 leaders at their meeting prior to COP26: "The time has passed for diplomatic niceties. If governments, especially G20 governments, do not stand up and lead this effort, we are headed for terrible human suffering." ►

- **Innovation has long been touted as a solution for deep decarbonization. Unfortunately, key technologies are still in early development.** At COP26, expect officials to be wary of innovation-based approaches for near-term mitigation, tabling risky geoengineering ideas until after 2030. As wealthy countries vie for leadership in emerging clean technologies, developing countries demand the unlocking of intellectual property rights and tech transfers so they aren't left with heavily polluting infrastructure. The disparity in COVID vaccine access has highlighted this issue.
- **The groundwork for carbon border adjustments will be discussed in Glasgow.** We can reasonably expect strides towards a US-EU treaty, but efforts will likely stop short of involving Asian trading partners. On the sidelines of the G20, the EU and US agreed to collaborate on a new global, sustainable steel arrangement—steel production is one of the largest industrial carbon emission sources. The program also aims to curb dependence on “dirty” products from China, said President Biden. In this light, expect climate goals (much like data and national security) to become a new protectionist lever in global trade.

Corporate positioning issues

Glasgow offers a unique opportunity for private interests which will be attending in force.

Johnson's climate team is comprised of free-market hawks skeptical of COP's efficacy. In the months leading up to the summit, these leaders have clashed with the mostly young, progressive, civil servants doing the groundwork for the meeting.

This asymmetry has frustrated business leaders, mostly in the power sector, who were promised insider access to a “green zone” where they could promote clean energy solutions to officials representing all major markets. Moreover, 10 out of the 11 major corporate sponsors—many of them UK based—signed a letter of grievances sent to the organizers two weeks prior to the opening saying the event was “mismanaged” and “very last minute.” This is representative of the larger tension between public and private climate action.

Government officials generally dismiss the proliferation of voluntary climate targets in the corporate world as a marketing ploy, while business leaders gawk at how paralyzed public efforts seem. History has shown, however, that regulation must underly voluntary commitments. As states implement policies to achieve their NDCs, firms that take the initiative will have a competitive advantage. But what happens if COP26 fails to deliver meaningful results?

If states fail to follow through, corporate voluntary commitments will become even more central to success as consumers will be the principal motivators of change. For example, Brazilian businesses could be a key driver of local change as they face pressure from global trade and investment partners over sustainable forestry. ■