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Developments at and during COP26: the second week

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Last week, we issued a Flash Report summarizing the COP26[1] agenda and the developments that took place during the first week of the summit.[2] The proceedings in the 12-day UN Climate Change Conference of the Parties (COP) in Glasgow have now concluded. This Flash Report summarizes developments during the second week and the agreements reached, and offers suggestions for companies to consider in the aftermath of the COP26 summit.

Several takeaways from the first week, as summarized in last week's Flash Report, illustrate the lack of consensus going into the all-important second week. For example:

- Over 100 countries pledged to reduce methane emissions by 2030 by 30% compared with 2020 levels, without support of major emitters like Russia, China and India.
- Over 40 countries agreed to end new coal power generation investments and phase out coal-fired power generation; however, some of the biggest coal-dependent countries (China, United States and others) did not sign up.
- The United States and 20 other countries agreed to cease funding international fossil fuel projects; however, three countries providing nearly half of such funding did not.

Refer to the aforementioned Flash for more specific commentary on other important developments during the first week of COP26.

The second week's developments

The second week of the summit was about finalizing the document – the Glasgow Climate Pact – to be issued at its conclusion. Negotiators worked tirelessly through the week to turn

[1] Note: For over 25 years, the UN has been bringing together world leaders and other interested parties to discuss global climate matters. This year's summit is the 26th annual meeting, thus the name COP26.

[2] "Developments at and during COP26: The First Week," Protiviti, November 8, 2021, available at www.protiviti.com/US-en/insights/flash-report-110821-developments-during-cop26-first-week.

the momentum and ambition of week one into an agreement that supports meaningful action across "cash, coal, cars, and trees to keep the world to 1.5 degrees."[3]

History will reflect that in the early hours of the morning on November 13, 2021, almost 200 countries put their names to the pact. Boris Johnson, the UK Prime Minister, hailed the agreement as "game changing."[4] At a post summit press conference, Johnson shared his view that the agreement marks a "decisive shift in the world's approach to tackling climate emissions," setting a clear roadmap to limiting this century's rise in global temperatures to 1.5 degrees Celsius. Johnson argues that the agreement sounds "the death knell for coal," with a commitment to "phase down" the use of unabated coal, one of the largest contributors to greenhouse gases.[5]

Those who celebrate the Glasgow agreement assert that this is the first time fossil fuels have been directly mentioned in a global climate agreement and that wider progress has also been made to end fossil fuel subsidies. However, many others have been highly critical of the lack of ambition in the final agreement, and especially the role of China and India in watering down commitments around coal. Still others have gone further, calling the agreement a "failure" and a "betrayal of the realities of the climate's impact on people's lives." These critics point to the "wrangling over words and phrases" as equivalent to "arguing how best to rearrange the deck chairs on the Titanic."[6]

With everything about COP26 said and done, execution of the commitments made in the final agreement results in a predicted rise in global temperatures to 2.4 degrees C above pre-industrial levels, which leaves to future COP summits the task of closing the gap to the 1.5 degrees C target. As noted by COP26 summit president, Alok Sharma, "I think today we can say with credibility that we've kept 1.5 within reach, but the pulse is weak."[7]

[3] "Cash, Coal, Cars, Trees…and Choreography: How Britain Kept COP26 Alive," Fiona Harvey, The guardian, November 13, 2021, available at www.theguardian.com/environment/2021/nov/14/cash-coal-cars-trees-and-choreography-how-britain-kept-cop26-alive.

[4] "COP26: PM Hails 'Game Changing Agreement' But Says Countries Need to 'Stand By' Decisions Made," Amy Coles, Sky News, November 14, 2021, available at https://news.sky.com/story/cop26-pm-hails-game-changing-agreement-but-says-countries-need-to-stand-by-decisions-made-12468634.

[5] "UK says COP26 Climate Pact 'Historic' But 'Tinged with Disappointment," Euronews, November 14, 2021, available at www.euronews.com/2021/11/14/uk-says-cop26-climate-pact-historic-but-tinged-with-disappointment.

[6] "COP26's Final Agreement is a Failure and a Betrayal of Those Most Vulnerable to Climate Change," James Dyke, iNews, November 14, 2021, available at https://inews.co.uk/opinion/cop26-final-agreement-climate-failure-betrayal-1300152.

[7] "Was Glasgow Pact a Win for Climate? Time Will Tell," Kate Abnett and Valerie Volcovici, U.S. News and World Report, November 14, 2021, available at www.reuters.com/business/cop/was-glasgow-pact-win-climate-time-will-tell-2021-11-14/.

Conflicting headlines and message points aside, the document, in its current form:

- Addresses the scientific imperative to keep global warming within 1.5 degrees C of pre-industrial levels and the importance of leveraging the best available science for effective climate action and policymaking. Acknowledges that human activities have caused around 1.1 degrees C of warming to date.
- Recognizes that limiting global warming to 1.5 degrees C requires rapid, deep and sustained reductions in global greenhouse gas emissions, including cutting emissions by 45% by 2030 relative to the 2010 level and to net zero carbon by mid-century. The parties at the summit are encouraged to communicate "new or updated nationally determined contributions" (NDCs) to the fulfillment of the Paris Agreement goals as well as aligned with "long-term low-emission development strategies that demonstrate progress."
- Acknowledges that implementation of all submitted NDCs is estimated to fall far short of the effort required to hit the Paris Agreement targets. Accordingly, there is an urgent need for the parties to accelerate and increase their efforts to collectively reduce emissions. Parties that have not submitted NDCs are requested to do so as soon as possible.
- Establishes a "work program" – which in "United Nations-speak" is a permanent agenda item – to urgently scale up emissions mitigation efforts.
- Calls upon the parties to accelerate the development, deployment and dissemination of technologies and adoption of policies for the transition toward low-emission energy systems, including by rapidly scaling up clean power generation and accelerating the phaseout of unabated coal power and inefficient fossil fuel subsidies.
- Emphasizes the importance of protecting, conserving and restoring nature and ecosystems, including through forests and other terrestrial and marine ecosystems, and by protecting biodiversity.
- Empowers the Secretary-General of the United Nations to convene world leaders in 2023 to take stock of the then-current status of the global effort in making progress to realizing the 2030 goals.
- Reaffirms the need for wealthy nations to assist developing country parties in enhancing their "adaptive capacity" and reduce vulnerability to climate change by providing "climate finance" beyond $100 billion per year. Parties are urged to integrate adaptation into local, national and regional planning.

During the second week, the United States and China also announced they would work together on cutting greenhouse gas emissions over the next decade – a decade that COP26 has targeted as a decisive period in combatting the effects of climate change. While many regarded the agreement as a surprise in view of geopolitical tensions between the two countries and the verbal sparring between their leaders during the first week, the announcement in fact acknowledged the proverbial elephant in the room – the gap between the parties' current global efforts and the goals set by the 2015 Paris Agreement. The agreement was welcomed, but some observers were skeptical, citing the need for strengthening the language to build and reinforce trust between developed and developing nations as the latter sees the former as the primary source of global warming. The two officials negotiating the agreement are longstanding friends; therefore, the question arises as to whether this agreement will stand once other parties representing the two countries get involved to hammer out the specifics.[8]

With formidable goals set forth in the Paris Agreement, questions abound around how the global community is going to close the gap between current commitments and the real effort required to achieve success by 2030. According to Climate Action Tracker,[9] the current NDCs submitted at COP26 are inadequate and, as noted earlier, would lead to global warming of 2.4 degrees C by 2100.[10] Accordingly, as COP26 ends, much work remains to be done. The "work program" provision in the text is significant as it presents an opportunity for an annual bout of peer pressure among the participating parties. Note that the use of the term, "unabated," in referring to coal power leaves open the possibility of using carbon capture and storage technology to cut emissions from coal-fired power plants.

What now for individual companies and organizations?

Regardless of one's view regarding the proceedings of and output from COP26, one thing is clear. The volume keeps getting turned up on climate change and its effects on and threats to the human existence. For individual for-profit companies – particularly those that are public or are private with IPO aspirations – as well as not-for-profit organizations, a stance of waiting to see what happens can mean getting caught flat footed in the face of sweeping change. John Kerry, U.S. Special Presidential Envoy for Climate, stated that it was unrealistic to expect that the

[8] "China and the US Announce Plan to Work Together on Cutting Emissions," Fiona Harvey, The Guardian, November 10, 2021, available at www.theguardian.com/environment/2021/nov/10/china-and-the-us-announce-plan-to-work-together-on-cutting-emissions.

[9] Climate Action Tracker is an independent research organization which tracks governments commitments and calls out those who are not doing enough to achieve the Paris Agreement Targets.

[10] See analysis on https://climateactiontracker.org/global/temperatures/.

Glasgow summit would “somehow … end the crisis,” but he added that the “starting pistol” has been fired.[11] The quotable Mr. Kerry also said, “Paris built the arena, Glasgow starts the race.”[12]

The prospects of countries watching each other’s progress and engaging in contentious dialogue holding each other to account to carry out agreements and pledge to do more is not difficult to foresee at the macro level. On the micro level, corporate inaction (as well as unauthentic action) is also likely to be met with increased scrutiny by many stakeholders with different agendas.

Up to now, the drivers for increased corporate attention to climate and other sustainability matters have been unmistakably clear – accelerated emphasis on sustainability investing by institutional investors and asset managers; emerging disclosure requirements; and a proliferation of reporting and disclosure frameworks. Now we can add two more drivers – the formation of the International Sustainability Standards Board (ISSB), which will drive uniform reporting worldwide, and an evolving framework, albeit slowly developing, for nations to rely on each other for cooperation and to establish accountability for results.

How individual nations will act in formulating and executing strategies to accomplish their respective NDCs remains to be seen. But individual companies and organizations can act now to stay ahead of the change curve. Bottom line, the current environment presents an opportunity for them to share what they are doing to sustain the long-term interests of shareholders while also addressing the interests of other stakeholders: customers, employees, suppliers and the communities in which they operate. Organizations choosing to ignore market developments around climate change risk being outflanked by competitors; a bleed of customers, suppliers and channel partners; desertion by investors and lenders; and being cast as a pariah in social media venues. Timing is everything, as this environment does not have the appearance of one that will reward slow movers.

While each sector is obviously different, following are a few thoughts for companies and organizations to consider now:

(1) ***Assess whether the sustainability strategy is sufficiently robust.*** Targets and goals for the future should be set to enable management to convey a convincing sustainability commitment to the marketplace. Be mindful of competitors. If they are

[11] COP26: New Global Climate Deal Struck in Glasgow,” Paul Rincon, BBC News, November 14, 2021, available at www.bbc.com/news/world-59277788.

[12] “COP26: “Paris Built the Arena, Glasgow Starts the Race – Kerry,” BBC News, November 13, 2021, available at www.bbc.com/news/av/world-59278509.

setting a net-zero carbon goal by a specified date, should the company do likewise? With COP26's emphasis on demonstrable progress by 2030, is a goal set only for 2050 sufficient? Should targets be set for 2030 to be credible?

(2) ***Set the tone from the top.*** Are the board of directors and CEO setting the standard in terms of bold messaging and personal behaviors and lifestyles? Are investments being made in executive leadership and high performance teams to drive the sustainability agenda? Are all leaders who are engaged, either directly or indirectly, in driving the organization's sustainability initiatives and in formulating related corporate policy aligned with the tone set by the CEO and board? Are sufficient governance structures in place to drive the agenda?

(3) **Be authentic.** Authenticity is all about embedding sustainability goals, priorities and initiatives into the strategy, business model and corporate DNA. It is about living the strategy and expecting that the organization's actions and inactions will be scrutinized by stakeholders. It is about being an example in the marketplace, being transparent and working collaboratively both within the organization and with third parties. Authenticity is about the big picture, e.g., is the company thinking about the sustainability of the entire value chain, from upstream suppliers to the product lifecycle to the impact of its products and services on its customers' sustainability objectives? But little things matter, too, and will be seen by many as a litmus test for authenticity, e.g., are corporate travel and return-to-office policies aligned with corporate climate ambitions?

(4) ***Evaluate the narrative being shared with the street.*** Is the company's sustainability storyline resonating in the market and impacting the company's valuation? How does it stack up with peers, leaders and key competitors?

(5) ***Ensure there are sufficient teeth in implementing the strategy.*** As companies formulate plans to achieve long-term goals, those plans should be time-phased with near- and intermediate-term targets that directionally lead the company down the path toward the long-term goals. Performance expectations and metrics should be linked to incentive compensation plans to drive progress and establish accountability for performance results. When people are assigned ownership of specific tasks and targets, this process makes the expectations for execution real.

(6) ***Align sustainability reporting with the needs of the investment community and other stakeholders.*** Pay attention to the expectations of institutional investors and asset managers which have a stake in the company. For example, what portfolio screening criteria are they using in following the industry? Monitor the company's ESG ratings and understand what makes them change. Have a plan for generating and sharing the data you will need for reporting.

(7) ***Pay attention to ISSB developments.*** The ISSB is an independent private sector standards-setting body with global representation.[13] The mission is to develop disclosure requirements that address companies' impacts on sustainability matters relevant to assessing enterprise value and making investment decisions, so that the global financial markets receive comprehensive, comparable information. Standards will be developed to facilitate compatibility with jurisdiction-specific requirements.[14]

Obviously, those companies dependent on market acceptance of fossil fuels have a different challenge than those companies that are not. But all companies need to be thinking about how climate and other sustainability issues have a bearing on their strategy, processes, products and services, and ultimately on the business model itself.

Concluding comments

As we noted in our Flash Report on the first week of COP26, the commitments, promises and pledges made, and ambitions expressed are political in nature and non-binding. So is the text of the Glasgow Summit Pact. What matters now is the respective NDCs of each country and the effectiveness of the action plans supporting them. NDCs and action plans will inevitably reflect the political will of each country, making the collective endeavor a difficult one for the human race.

As for individual companies and organizations, they had best plan for change – however it will manifest itself – by taking proactive steps now to position themselves for success in what promises to be a disruptive decade ahead. Clinging to the status quo is most certainly not a recipe for facing the future confidently.

[13] See www.iasplus.com/en/resources/ifrsf/issb for information about the International Sustainability Standards Board.

[14] "IFRS Foundation Announces International Sustainability Standards Board, Consolidation with CDSB and VRF, and Publication of Prototype Disclosure Requirements," IFRC, November 3, 2021, available at www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/.

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