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Five Takeaways from the UN Climate Change Conference (COP26)

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At previous COPs business was present, yet its impact on the holistic outcomes were secondary. Historically, government negotiations over official decisions and specific nuances in the text dominated the energy and interest of businesses and civil society, who served as "observers" to the UNFCCC process. Certainly, COP26 had its opportunities for diplomacy and single words do matter—e.g., phase **out** vs. phase **down** in relation to coal power—but in Glasgow, business played an outsized role inside the official "Blue Zone," as well as across Scotland at privately sponsored forums, roundtables and parties. There was a sense, despite the protests, that the business and environmental communities are working more in concert with governments toward common goals. Private sector driven climate action took on a life of its own with an incredible momentum irrespective of the technical outcomes that reflect clearer plans of action and a greater potential long-term success to meet the aspirations of the Paris Agreement.

In our COP26 preview alert, we expected methane, money, markets, partnerships and nature to dominate the agenda. COP26 delivered in each of these areas, with several notable surprises. We present a snapshot of five important high-level takeaways below, and look forward to diving deeper into these issues in the weeks to come.

Five Takeaways

Climate finance, including accountability and "loss and damage," prominently figured into the negotiations

Despite increased finance pledges just prior to COP26,[1] developed countries fell short of their decade-old commitment to jointly provide $100 billion annually in climate finance to developing countries by 2020. As such, there was a heightened emphasis at COP26 on how and when developed countries will deliver on this commitment. This emphasis is reflected in the primary COP26 decision document, the Glasgow Climate Pact, which reaffirms developed countries' commitment to "fully deliver" on the "100 billion goal through to 2025," while also calling for governments to provide greater clarity on the implementation of their finance commitments.

Climate finance was also a focal point of new pledges and commitments that occurred outside the context of formal negotiations. As we prognosticated, governments pledged new limitations on fossil fuel finance. The United States and 38 other countries, for example, issued a joint statement committing to end new direct public support for the international "unabated" (i.e., without carbon capture and storage) fossil fuel energy sector by the end of 2022, "except in limited and clearly defined circumstances that are consistent with a 1.5°C warming limit." New pledges and commitments on domestic and international coal financing were also announced, which we assessed here and here. Further, the Glasgow Climate Pact "calls upon" parties to accelerate actions toward the "phase-out" of "inefficient fossil fuel subsidies." While this new and caveated language elicited equal parts criticism and optimism, we note that eliminating even a small percentage of the estimated $6 trillion in global fossil fuel subsidies by 2025 would represent a major step toward achieving the 1.5°C limit.

COP26 also saw unexpected finance commitments directed to climate adaptation, a historically underfunded slice of the climate finance pie. For example, the Adaptation Fund—which finances projects and programs to help vulnerable communities in developing countries adapt to climate change—received a "record-shattering" $356 million in new government support, including a first-time $50 million contribution from the United States. Elsewhere on adaptation finance, 12 governments pledged $413 million in new climate resilience funding for the 46 Least Developed Countries, and the U.S. Agency for International Development launched a Green Recovery Investment Platform that will invest up to $250 million to mobilize $2.5 billion of private finance for adaptation and mitigation by 2027.

Finally, as expected, the debate around funding for "loss and damage" resumed with heightened intensity at COP26. While a group of 46 Least Developed Countries most vulnerable to climate change advocated for a new "Loss and Damage Facility" to be included among the conference's final decisions, parties to the Glasgow Climate Pact agreed instead to establish a new "Glasgow Dialogue" to discuss potential "arrangements for the funding of activities."

Parties agree to rules for market and non-market mechanisms under Article 6 of the Paris Agreement

After years of complex negotiations, parties managed to agree on a "rulebook" for implementing the market-based cooperative approaches referred to in Article 6 of the Paris Agreement. The rulebook is reflected in two decisions: (i) Article 6.2 guidance on bottom-up, bilateral or regional approaches involving the use of "internationally transferred mitigation outcomes;" and (ii) Article 6.4 rules, modalities and procedures, governing a new centralized United Nations (UN) market mechanism akin to the Kyoto Protocol's Clean Development Mechanism (CDM).[2]

The Article 6 rulebook provides a platform for the scaling-up of carbon markets across the globe—e.g., by enabling greater linkages between countries' emissions trading systems, or by creating demand for a new category of high-quality "Article 6-compliant" carbon credits for trading in the voluntary carbon markets. For a deeper dive into key elements of the rulebook and implications for carbon markets in Singapore, see our colleagues' analysis here.

Transportation, including aviation and shipping, remains a key area of emphasis for mitigating emissions

COP26's "Transport Day" centered on emission reductions from motor vehicles, including cars, vans, trucks and public transport. In the lead-up to "Transport Day," 154 signatories—including national and local governments, automotive manufacturers, fleet owners and operators, investors and financial institutions—issued a Declaration on Accelerating the Transition to 100% Zero Emission Cars and Vans. This Declaration sets a nonbinding goal to ensure that all new cars and vans sold by 2035 (in "leading markets") or 2040 (throughout the rest of the world) are zero-emission vehicles (ZEVs). The next day, the Zero Emission Vehicles Transition Council, a forum of governments with large automotive markets, announced its 2022 priorities intended to meet the Paris Agreement's climate goals and accelerate the growth of the zero-emission automobile market. The Council's four priorities are to:

- Spur greater investment in ZEV charging infrastructure in collaboration with the private sector and in such a way that allows electricity grids to support increased charging demands.

- Support the deployment of light- and heavy-duty ZEVs through carbon dioxide or fuel efficiency standards and regulations.
- Reach a stronger consensus on the pace of the transition and technology choices for zero-emission heavy-duty vehicles.
- Ensure a "truly global" ZEV transition that includes engagement with developing countries, development assistance, and evidence-based, action-focused recommendations for strengthening international programs.

Notwithstanding the attention given to motor vehicles, which account for over 10 percent of global greenhouse gas emissions, COP26 also ended with commitments in the transportation sector's next two largest emitting categories: aviation and shipping. With respect to aviation, a group of 23 countries across all continents committed to strengthening the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), a global market-based framework intended to keep carbon dioxide emissions from international aviation at their 2020 levels. Importantly, these countries also committed to promoting the development and deployment of (1) sustainable aviation fuels (SAF) that reduce lifecycle greenhouse gas emissions while avoiding competition with food production; and (2) innovative low- and zero-carbon aircraft technologies that reduce aviation emissions. During the COP, the United States released its Aviation Climate Action Plan, applying the Biden-Harris administration's whole-of-government approach to "put the sector on a path toward achieving net-zero emissions by 2050," emphasizing SAF and innovative technologies.

As for shipping, a group of 22 countries supported a goal of establishing so-called "green shipping corridors," defined as zero-emission maritime routes between two or more ports. These countries aim to establish at least six such corridors by the "middle of this decade" through partnerships with ports and operators to accelerate decarbonization of the shipping sector. COP26's aviation and shipping commitments included a number of African, Asian, European and South and North American countries, but did not include key players like China, India, Indonesia, Pakistan, Brazil, Russia and Mexico.

Nature and biodiversity garnish significant attention, but operative provisions ultimately omitted in Glasgow Climate Pact

The Glasgow Climate Pact omitted any significant nature- or biodiversity-based obligations, instead merely emphasizing the importance of ecosystem protection, conservation and restoration. Still, the convention featured a number of high-level initiatives likely to push capital and financing toward efforts to protect natural capital and biodiversity without compromising climate progress, including:

- The United States' Global Forests Conservation Plan, which focuses on halting deforestation and nature degradation in critical ecosystems like the Amazon, Congo and Southeast Asian forests.
- A commitment from over 30 private financial institutions to eliminate agricultural commodity-driven deforestation risks in their portfolios by 2025.
- The Forest, Agriculture and Commodity Trade (FACT) Dialogue Roadmap for Action, a framework intended to encourage supply chain sustainability, support smallholder farmers' participation in markets, and improve supply chain transparency and technological innovation.
- A $1.7 billion pledge from countries and philanthropy organizations to advance indigenous peoples and local communities' forest tenure rights and recognize and reward their roles as guardians of forests and nature.
- A Joint Statement on Climate Change and Biodiversity Crises through which over 25 land management organizations—including key agencies within the U.S. Departments of Interior, Agriculture and Commerce—agreed to champion the role of protected and conserved areas in addressing the dual crises of climate change and biodiversity loss.

Private sector organizations also made noteworthy nature-focused commitments, such as Burberry's three-pronged biodiversity strategy and Botanic Gardens Conservation International's new "global biodiversity standard" that seeks to recognize and promote projects that actively protect existing habitats and enhance biodiversity while halting the spread of invasive species.

Although COP26 similarly lacked any formal obligations to protect oceans, the Glasgow Climate Pact formally welcomed oceans into the convention and invited further global discussion on incorporating strong, ocean-based actions into climate commitments. To push this process along, the United Kingdom continued to urge countries to support a global pledge to protect at least 30 percent of the world's oceans by 2030 and committed millions of dollars to ocean-related initiatives, including development of the "blue economy," financing to Fiji through its first sovereign "blue bond," and financial contributions to the Global Fund for Coral Reefs and the Ocean Risk and Resilience Action Alliance. COP26 also seemed to further solidify the growing nexus between the UNFCCC and the Convention on Biological Diversity, in recognition of their complementary symbiotic relationship.

Notable new partnerships coming out of COP26 will drive climate action going forward

Expanding the tradition of past COPs, governments, businesses, investors, philanthropy organizations and nonprofits announced or formally launched numerous new partnerships "on the sidelines" of COP26. In the United States alone, we counted over 15 new public-private or government-to-government partnerships announced by the administration during COP26. This includes, for example, the following public-private partnerships that might be of interest to the business and investor communities:

- The First Movers Coalition, which will serve as a platform for companies to harness their purchasing power and supply chains to create early markets for innovative clean energy technologies in eight sectors: steel, trucking, shipping, aviation, cement, aluminum, chemicals and direct air capture.
- The USAID Business Case for Collective Landscape Action, which will convene the private sector, governments and local landscape actors to reduce commodity-driven deforestation, increase restoration, conserve biodiversity and improve livelihoods in tropical ecosystems, while aiming to mobilize $30 million in private finance.
- A Global Clean Technology Incubator Network of national renewable energy labs, technical institutions, investors, corporations, governments and philanthropies working to scale-up the development, financing and adoption of low- to zero-emission energy innovations in emerging and developed markets.

Meanwhile, perhaps the biggest surprise emerging from COP26 is the renewed collaboration between the United States and China on climate, memorialized in the U.S.-China Joint Glasgow Declaration on Enhancing Climate Action in the 2020s ("Joint Declaration") issued November 10. The Joint Declaration reaffirms the two countries' commitment to work together to keep the Paris Agreement's 1.5℃ target "within reach." This announcement was particularly surprising because the United States and China have repeatedly clashed on issues ranging from national security and economic policy, to the COVID-19 pandemic and human rights concerns, to Taiwan and tariffs. The Joint Declaration at COP26—and a subsequent virtual meeting between the two countries' presidents on November 15—may indicate that a longer term partnership is possible.

However, during their public statements prior to that meeting, both President Biden and President Xi alluded to complaints each side has raised in recent years, indicating that areas of "competition" and "conflict" between the United States and China—to reference the terms often used by the Biden-Harris administration—may complicate any cooperation on climate. Further, China insisted on watering down language on the elimination of coal in the Glasgow Climate Pact, indicating that there may be significant limits to China's willingness to commit to certain key climate goals. China's involvement is critical for any successful efforts to address climate concerns, and yet President Biden faces significant pressure to remain "strong" on areas of competition and conflict with China. Any discussions or negotiations between the United States and China will undoubtedly require the two sides to balance these concerns, as we previously discussed here. This is a topic to watch, as it reflects a potentially significant barrier to one of President Biden's key policy initiatives.

Conclusion and Next Steps

Now for the hard part: turning government and private sector commitments into concrete actions that are transparent, verifiable and measurable. And this year more than ever, attention was paid to the risk attendant to a failure to parlay commitments into action. COP26 elevated allegations of "greenwashing" to the global stage. So much so that UN Secretary General Antonio Guterres—citing a "deficit of credibility" and "surplus of confusion" over private sector climate commitments—announced he will establish a "Group of Experts to propose clear standards to measure and analyze net-zero commitments from non-state actors," with recommendations expected next year.[3] Expect regulators and the public to scrutinize post-COP26 climate commitments to an even greater degree.

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[1] See generally COP26 Presidency Compilation of 2021-2025 Climate Finance Commitments (2021), https://ukcop26.org/wp-content/uploads/2021/11/Table-of-climate-finance-commitments-November-2021.pdf.

[2] COP26 also delivered a decision on the work program for nonmarket approaches under Article 6.8.

[3] COP26: Promises 'ring hollow' when fossil fuels still receive trillions in subsidies; UN chief calls on negotiators to pick up the pace, UN News (Nov. 11, 2021), https://news.un.org/en/story/2021/11/1105562.

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