

ASG Analysis: COP26 was Half-full, Half-empty

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Key takeaways

- The 26th Conference of the Parties of the United Nations Framework Convention on Climate Change (COP26) was a diplomatic win, yielding significant commitments to minimize climate change and its adverse effects:
 - COP26 concluded with the release of the [Glasgow Climate Pact](#), which reaffirms the goal of keeping global temperature rise below 1.5C by the end of the century and the global “phase down” of [unabated coal power](#).
 - This COP was the first time ever that [fossil fuel subsidies and phaseouts](#) were openly discussed.
 - Six years after the Paris Agreement, delegates agreed to important implementation rules, opening the door to critical international [trading of carbon credits](#).
 - More than 100 countries joined a U.S.- and U.K.-led [effort to limit methane emissions](#).
 - The [Glasgow Financial Alliance for Net Zero](#) bound more than 450 major financial institutions to delivering net zero emissions by 2050.
 - Over 100 countries, representing 85 percent of the world’s forests, [pledged](#) to halt and reverse deforestation by 2030.
 - There was also progress made in accelerating the [electric vehicle \(EV\) transition](#), ending [international financing of coal](#), and prioritizing low-carbon buying in [supply chains](#).
- However, COP26 saw few plans for concrete action and governmental goals remain far behind those of industry. Businesses have an opportunity to help bring governments up to speed and fill the gap between ambition and action:
 - Financial services companies had a [strong presence](#) at the conference, and investors and asset managers were eager to make their voices heard as the public sector debated regulatory standards. Rather than opposing government involvement, industry [advocated](#) for more stringent regulations to create an even playing field.
 - While COP26 saw greater engagement from corporate stakeholders than any previous COP, civil society participation was kept to a [minimum](#), leaving civil society frustrated and likely more determined than ever to hold businesses and governments accountable for their actions and inactions alike.
 - Dislocations in labor markets and rising prices for basic necessities are poised to be [exacerbated](#) by well-intentioned climate policy. Policymakers have yet to arrive at solutions to limit these impacts, and backlash to that shortcoming could endanger the energy transition.

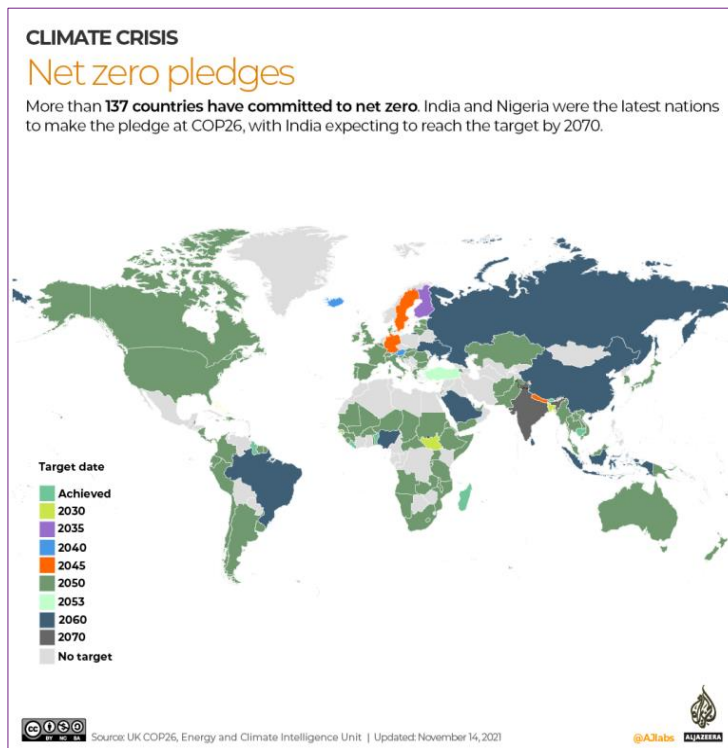
- As the final agreements request that countries revisit and strengthen their current climate targets by 2022, we predict significant public-sector movement in the next 12 months.

Three themes not included in COP26 headlines

1. Calling out unsubstantiated commitments

Lofty commitments with little follow-through have long been a theme of COPs; this year's announcements were even more numerous and ambitious than usual, and also largely unsubstantiated. With existing net-zero goals from the [U.S.](#) (which aims to hit the target by 2050), [China](#) (by 2060), and newly committed [India](#) (by 2070), as well as the enormous new net-zero pledge in the finance sector, the global transition to net-zero is in full swing. Still, though a new [U.K. law](#) will have businesses publishing their net-zero plans by 2023, we are yet to see widespread examples of industry or governments backing up commitments with action plans. Companies must focus on net-zero implementation to meet the climate need, account for increased regulation in the near term, and anticipate the ratcheting up of government climate commitments in the coming year.

Committing to the net-zero transition and adding environmental considerations to core business practices is now foundational for business success. As one executive in Glasgow stated, "It used to be that you could focus on being sustainable or being profitable. In the near future, only companies which are sustainable will be profitable."



<https://www.aljazeera.com/news/2021/11/14/infographic-what-has-your-country-pledged-at-cop26>

Net-zero implementation means a departure from business as usual. It requires involvement from all stakeholders – including employees, customers, community members, investors, suppliers, and regulators – to boost legitimacy and action. The transition also requires establishing clear metrics on environmental impact, factoring climate considerations into risk assessment, and setting timely check-ins to evaluate results and course-correct as needed.

Many C-level representatives at COP expressed the need for a common regulatory framework as companies make this transition, though given the slow pace of change from governments, businesses will likely continue to lead the charge through cross-industry coalitions and partnerships.

If real and lasting change is to occur, communities and consumers must buy into this new attitude of shared awareness from those in charge. Pledges must become policy, which must then be turned into legislation that sticks. And this must take months, not decades. But this means, as

climate expert Paul Behrens [recently wrote](#) for [Politico](#), that the “legal system, the civil service, national and international banking institutions, and local and national governments must all move in the same direction.” And such a coordinated approach has never happened on a global scale before.

2. Lack of human rights perspective

While a broad range of stakeholders were represented at COP26, there was sometimes a monotone nature to panel discussions and key negotiations. That meant an absence of critical voices and issues. Some all-male finance panels (“manels”) featured speakers expressing a narrow range of opinions, and gender-focused panels were largely comprised solely of women speaking to predominantly female audiences.

Attendee limits and discrepancies in [financial](#) capacity made for a conference dominated by the private sector and wealthy nations that were able to attend in person, while developing countries and civil society representatives were relegated to small delegations, virtual participation, or none at all. In one side event, the U.K.'s High-Level Climate Action Champion Nigel Topping called COP26 an overall success, only to be challenged by a leader of a civil society organization from South Africa who said that this COP completely ignored the real-life concerns of marginalized populations. For countries that are [vulnerable](#) – because of development level or susceptibility to climate change’s effects – reaching the 1.5C goal is a matter of life or death, she stressed.

Smaller country delegations had to decide which negotiations to attend, as many happened in parallel, leaving their voices absent from some key decisions. During the revision work of the guiding principles of the [Doha](#) work program, for example, Mexico missed the opportunity to ensure that human rights perspectives remained in the document. As climate change has a negative impact on nearly every facet of [human rights](#), this omission must prompt businesses to ensure their business model and value chains align their climate goals with their responsibilities under the [UN Guiding Principles for Business and Human Rights](#).

Closing the gaps between people/communities and the corporations/overarching policies affecting them will be crucial in both combating the harsh realities of the effects of climate change and ensuring business successes in the coming years.

3. Disconnect between damaging existing policies and climate ambition policies

Stakeholders were quick to put forth climate adaptation and mitigation plans, but reticent to end harmful policies already in place. Worse still, many commitments and goals contradict existing policies or leave real potential to replace one problem with another.

THERE IS AN INCREDIBLE OPPORTUNITY, AND NEED, FOR INDUSTRY TO STEP UP AND LEAD BY EXAMPLE.

- **Electric vehicles (EVs) vs. lithium batteries.** EVs emit about half the greenhouse gas of a standard car and may still be “powered” by fossil fuels if that is the original source of the electricity used. Nonetheless, the move towards EVs is a trend with staying power. This means more players will enter this market, and not all of these producers will have the same regulations and safeguards in place. Lithium batteries are regularly used in EVs due to their efficiency, but if they short-circuit or suffer thermal or mechanical failure, they can overheat and start a chain reaction known as [“thermal runaway.”](#) which emits toxic gasses and smoke into the atmosphere. While thermal runaway is not a regular occurrence, the risk rises as more EVs hit the streets. Additionally, while lithium-ion batteries are recyclable, not all recycling centers are set up to process them.

Governments are not focused on what will happen to used batteries, so industry will, again, need to see this as an obligation and opportunity.

- **Carbon offsets vs. land ownership.** While elimination of greenhouse gases remains the goal, this will happen more quickly for some countries and industries than others. To account for this discrepancy, carbon trading markets allow the removal of such gases in one place to compensate for emissions elsewhere. The downside is that in many parts of the world, land ownership is not formally documented. There is growing concern that indigenous populations will have their lands expropriated by governments and industry and used for emissions “credits” without their approval or financial compensation.
- **Fossil fuel finance vs. climate finance.** Though this COP saw major strides in allocation of finance from the world’s largest banks, insurers, and asset managers, this was not accompanied by a commitment to end the financing of fossil fuel and other high-emission industries. The same banks promoting climate finance are also financing the world’s largest oil producers. Similarly, many countries [campaigned](#) to phase out the oil and gas industry completely, with no support from oil-rich nations.

Now what?

Fortunately for all of us, the future state of people and planet is not a foregone conclusion. There is an incredible opportunity, and need, for industry to step up and lead by example. Businesses can help bring governments up to speed and fill the gap between ambition and action. Wherever a given business or organization is on its sustainability journey, this COP demonstrated that ESG must be a whole-of-organization focus. Here are some ways actors can address their specific sustainability needs and become leaders in their respective industries:

- **Begin a formal ESG journey:** It is no longer acceptable to customers, clients, employees, or investors to not have an ESG policy in place. Start by identifying the issues relevant to your industry and operations, as well as to your employees, consumers, and stakeholders, and infuse them into your core business strategy. Establish a cross-functional team to identify corporate values and set realistic goals. To avoid inauthenticity, ensure all voices are around the table.
- **Leadership review:** In a post-COP26 economy, ESG considerations should be foundational to your business. Is your board of directors climate-literate? Is your executive team diverse in opinion and expertise, as well as gender, race, and age? Now is the time to make it so.
- **Partner engagement:** As universal ESG guidelines continue to lag, industry partnerships are crucial to set the playing field for mutual action. For areas outside your expertise, partner with specialists to deliver optimal results.
- **Deep-dive into human rights due diligence:** Human rights issues can have reputational, operational, financial, and legal implications. Businesses have both an obligation and an opportunity to contribute to society in positive ways, for example, by determining the needs of vulnerable groups and minorities in their value chain and communities, ensuring the safety and security of staff, re-examining employment practices, and doing due diligence to identify vulnerabilities in their supply chain.

For further reading: [background](#) on COP26, [analysis](#) of COP’s effect on businesses, in-depth [report](#) on the final days of negotiations, [discussion](#) of COP and U.S. politics, and thorough [summary](#) of COP outcomes.

About ASG

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ASG's [Sustainability practice](#) has extensive experience helping clients navigate environmental, social, and economic sustainability. For questions or to arrange a follow-up conversation please contact [Melissa Kopolow](#).