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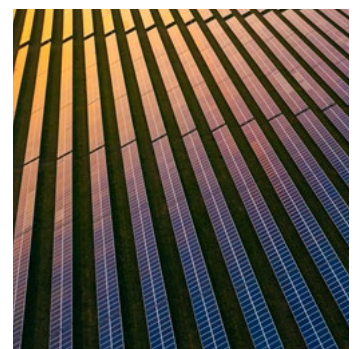


COP26 – The UK Government's preparation to date:

The UK is hosting the UN Climate Change Conference (**COP26**) in Glasgow in November 2021 in partnership with Italy.

Historically, the UK has positioned itself as a leader among the G20 in climate change policy. For example, the UK was the first G20 nation to enact a legally binding emissions reduction target when it passed the Climate Change Act in 2008. This trend has continued to the present day, with the UK Government (the **Government**) in April announcing a leading emissions target of 78% by 2035 compared to 1990 levels – aiming to further support efforts to achieve the UK's legally binding net zero target for 2050.

The UK Government has been using its position as President of the Conference to set out an ambitious platform of reforms and initiatives over the last 12 months, ahead of COP26.



Reaching Net Zero

The first major step in the Government's plan was the announcement in November 2020 of its Ten Point Plan for Net Zero (the **Plan**). This outlined ten areas of development, totalling approximately £12bn of public investment, which included:

- plans for renewable and low-carbon energy sources (wind, hydrogen and nuclear);
- research & development goals (particularly in electric vehicles, low-carbon air & maritime and carbon capture technology); and
- a commitment to advancing green finance in the City of London.

This Plan has provided the framework for further developments over the last year, and will continue to do so leading up to COP26.

Industrial Decarbonisation Strategy

The Ten Point Plan has been complemented by a strategic outline for industrial decarbonisation (the **UK Decarbonisation Strategy**). In March 2021, the UK's Department for Business, Energy and Industrial Strategy (**BEIS**) published a 175-page strategy, central to which is the development of low carbon infrastructure. This includes developing the UK's carbon capture utilisation and storage (**CCUS**) technology, particularly carbon capture clusters, as part of the Government's

commitment in the Ten Point Plan to have developed four low carbon clusters by 2030.

The Strategy also includes a pledge to develop further the Net Zero Hydrogen fund, identified in the Ten Point Plan as a key source of future energy. It outlined wider investment as well, including £1 billion to be invested from 2021-2026 as part of the Government's Net Zero Innovation Portfolio and £170 million into its Industrial Decarbonisation Challenge (an incubator for decarbonisation technology start-ups) between 2019-2024. For further information on the Industrial Decarbonisation Strategy or the Ten Point Plan, please see our previous blog posts [here](#) and [here](#) (respectively).

The Government has also implemented public-private partnerships as part of its decarbonisation strategy. The North Sea Transition Deal (**NSTD**), agreed on 30 March 2021, is the first of its kind among the G7 nations. Broadly, it comprises a commitment from the Government to provide investment, develop business models and adapt the current regulatory framework in exchange for commitments from the domestic oil sector to cut emissions and invest in carbon capture and hydrogen technologies. Notably, the deal includes joint Government and sector pledges also, such as investments of up to £16 billion by 2030 to reduce carbon emissions. These comprise:

- up to £3 billion to replace fossil fuel-based power supplies on oil and gas platforms with renewable energy;

- up to £3 billion on carbon capture usage and storage; and
- up to £10 billion for hydrogen production.

For further information on the NSTD, please see our blog post [here](#).

Green financing

More recently, the Government has been pushing green finance initiatives in accordance with point 10 of its Plan. As part of the 2021 Budget, the UK Chancellor announced plans for the introduction of a sovereign green bond, as well as the establishment of a new UK Infrastructure Bank (**UKIB**). The UK's first sovereign green gilt is due to be issued in summer 2021, with a further issuance later in the year. The planned total issuance for 2021-2022 is £15 billion, although the framework of the gilt is not yet clear. Nevertheless, the Government has stated its commitment to reporting on the contribution of gilt-financed spending towards social benefits like job creation. The UKIB (a replacement for the European Investment Bank following Brexit) is due to have £22 billion available to invest in certain economic infrastructure sectors, with a focus on tackling climate change.

Further, the Government plans to introduce a green retail National Savings & Investments product, the details of which are yet to be confirmed.

Emissions trading

Another such initiative is the UK's Emissions Trading Scheme (**UK ETS**), established on 1 January 2021 when, following Brexit, the UK left the European Union ETS (**EU ETS**). Like the EU ETS, the UK ETS is a cap and trade system, which enables the Government to leverage market forces to help to contain pollution. The Government aims to align the cap to a Net Zero trajectory by 2024, and has indicated that it will expand the UK ETS in the summer leading up to COP26, potentially by extending the scope of the UK ETS to cover additional sectors.

For further information on the UK ETS, please see our previous blog post [here](#).

Disclosure requirements

The Government has also attempted to pursue its climate agenda through reforms to corporate governance. One of the key elements of these recent efforts centre around the Taskforce on Climate-related Financial Disclosures (**TCFD**) recommendations and recommended disclosures which require companies to, if put simply, disclose financially material climate impacts on their business. In November 2020 the government published a report and accompanying roadmap outlining its intention to implement mandatory TCFD-aligned disclosure obligations across the economy by 2025, with a significant portion of mandatory requirements in place by 2023.

To date the UK has taken the following steps to implement its roadmap:

- In December 2020 the Financial Conduct Authority (**FCA**) introduced a new Listing Rule (LR 9.6.8(6)) requiring companies with a UK premium listing to include fully TCFD-aligned climate disclosures on a comply or explain basis.
- In March 2021, BEIS opened a consultation on whether to make climate disclosures mandatory among most companies with over 500 employees including private companies and LLPs. This would require companies to disclose climate-related financial information in line with the four pillars of the TCFD recommendations, though not going so far as to mandate following the TCFD's eleven specific recommendations.
- Most recently, in June 2021, the FCA published proposals to extend the application of its TCFD-aligned listing rule for premium-listed companies to all issuers of standard listed shares, and introduced

the same requirements to asset managers, life insurers, and FCA-regulated pension providers.

For more information on TCFD reporting in the UK, please see our two client guides for [listed companies](#) and [large private companies and LLPs](#).

Beyond TCFD disclosures, the Chancellor recently announced his intention to introduce new integrated Sustainability Disclosure Requirements (**SDRs**) which will apply to corporates, pension schemes, and other financial services. These are expected to go further than the TCFD requirements – requiring deeper and broader disclosure by including the principle of 'double materiality' and by including nature and the environment within its direct remit. In other words, the SDRs would require companies to disclose specifically how their activity could be contributing to climate change. A timeline for implementation is set to be published ahead of COP26 and it is expected that the SDRs would be implemented in a similarly staged approach to the current TCFD requirements.

Developments expected before COP26

In the approach to COP26, the UK Government is likely to continue to unveil new policies in a range of areas. For example, in addition to the measures discussed above, the Government also:

- brought forward the date to completely phase out unabated coal from the UK's energy mix from 2025 to 2024; and
- intends that new legislation which aims to clean out deforestation from supply chains will take effect from September. The Deforestation Due Diligence measures, introduced in the government's Environment Bill of 11 November 2020, will make it illegal for UK businesses to use key commodities if they have not been produced in line with local environmental protection laws.

Further laws, policies and initiatives are sure to be announced as COP26 draws closer. It will be interesting to observe the development of these schemes, how they are received at the conference, and whether the UK will be able to use its Presidency to influence other countries to set more ambitious climate goals.

Criticisms of the UK's approach

In spite of this, the UK has recently faced criticism for its climate change policy, as a number of commentators have argued that

certain domestic policies are not aligned to the UK's ambitious targets, including that all greenhouse gas emissions will be net zero by 2050. For example, although the UK designed its own ETS to replace the EU ETS, questions have been raised as to whether the design and scope of the UK ETS align with the goals of the Paris Agreement, or the UK's ambition to reduce emissions 78% by 2035 compared to 1990 levels.

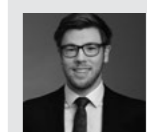
Further, the UK has failed to take certain actions which have been taken by other countries and organisations in order to tackle climate change. To continue with the example of the UK ETS, the UK Government has not provided any clarification regarding how the revenues from the system will be used. This is despite the fact that at the time of leaving the EU ETS, the revenues from the EU scheme were being used to fund the Modernisation Fund and the Innovation Fund which effectively aim to further decarbonisation efforts within the EU.

Moreover, the UK Government has recently announced significant cuts to the UK foreign aid budget. These reductions have raised questions about the sincerity of the UK's climate change ambitions, given that it is widely acknowledged that developing countries will rely on international funding in order to fund and progress their decarbonisation efforts. By extension, the cuts to the UK foreign aid budget have also cast doubt on the [effectiveness] of the UK's COP26 Presidency: it seems that the UK may be in an awkward position to ask other countries to "step up" their climate change efforts, whilst the UK itself appears to have scaled back certain elements of its climate change support.

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