WHAT WILL BE DISCUSSED AT COP26?

Insight

COP26 President-designate, British MP Alok Sharma, has outlined the following priority action areas for COP26: (i) adaptation and resilience, (ii) nature, (iii) energy transition, (iv) accelerating the move to zero-carbon road transport, and (v) finance.

Negotiations will acknowledge the urgent need for action in these areas within their discussions. However, the main focus of the negotiations is expected to centre around a number of contentious points which were not resolved in previous COPs:

FINALISING THE PARIS AGREEMENT RULES

While the Paris Agreement launched pioneering, long-term goals for climate change, it did not specify how the goals were to be implemented, and subsequent COPs have failed to completely finalise the 'Paris Agreement Rulebook'. There are two main areas in need of further detail:

NDC timeframes

NDCs are central to achieving the goals of the Paris Agreement. The climate pledges embody the efforts made by each country to reduce emissions and are expected to show a progressive reduction, known as the 'ratchet mechanism'. The initial NDCs all began in 2020, but covered different time periods, from five to fifteen years. At COP24 in Katowice, countries came to an agreement that NDCs from 2031 should cover the same time period, but did not determine the length of the period. It remains unclear whether the NDC timeframe should be five years, concurrent with the five-year ambition cycle, ten years, or the 'five plus five' approach where countries submit NDCs with five year timeframes, as well as an adjustable indication of the goals for ten years' time. The length of the timeframe is key as it can influence the level of ambition and pace for NDCs. Many countries support a five year timeframe, while countries such as Japan and Russia are in favour of ten year timeframes, arguing that the longer time period is better suited to their national planning. During the UNFCCC Climate Dialogues 2020, countries indicated a desire to resolve the negotiations by COP26.

Transparency

NDCs are not legally binding, but the progress of the parties' climate actions is tracked by a technical expert review to assess their level of achievement. Under Article 13 of the Paris Agreement, the enhanced transparency framework (**ETF**) specifies the reporting requirements, as well as procedures for review and evaluation of the parties' progress. Its effective implementation is necessary in order to establish a universal system that encourages all countries to enforce their commitments. Many of the modalities, procedures and guidelines (**MPGs**) were established at COP24. However, some technical details still need to be addressed at COP26 before the ETF can become fully operational including:

- reporting tables and formats to track data;
- an outline of the biennial transparency report for use by all countries; and
- a training programme for the technical expert review procedure.

CARBON MARKET MECHANISMS (ARTICLE 6 PARIS AGREEMENT)

Another area of contention of the Paris Agreement is the operation of Article 6. The article aims to promote the use of voluntary international cooperation mechanisms to raise ambition towards climate goals. Article 6 contains three separate mechanisms for "voluntary cooperation" towards climate goals: two are based on markets and a third is based on "non-market approaches". While the text of Article 6 outlines the requirements for those taking part in the different mechanisms, it leaves the details – the Article 6 "rulebook" – undecided:

- The **first mechanism** (Article 6(2)) would permit a country that has exceeded its Paris climate pledge, for example in relation to emissions cuts, to sell an overachievement to a country that has fallen short against its own targets. Beyond emission reductions, the overachievement may also include other types of targets, such as renewable energy capacity.

- The **second mechanism** (Article 6(4)) would create an international carbon market governed by a UN body, for the trading of emissions reductions created anywhere in the world by the public or private sector. In practice, if one country pays for the reduction of carbon emissions in a second country, the first country would be able to claim the resulting emissions reduction for the purposes of meeting its own national targets. The mechanism, known as the Sustainable Development Mechanism (**SDM**), would replace the Clean Development Mechanism (**CDM**) of the Kyoto Protocol 1997, which allowed for the implementation of emission-reduction projects in developing countries (financed by developed countries), which generated certified emission reduction credits that could be used by the developed country to comply with Kyoto targets. There is controversy regarding the plausibility of the creation of strict, regulated rules that would allow carbon markets to operate in the manner intended, rather than simply allowing transfers of emissions reductions without generating further cuts and subsequently undermining the purpose of the Paris Agreement.

- The **third mechanism** (Article 6(8)) is centred around non-market-based approaches and is less well defined. The mechanism is significantly broader and would allow for a formal framework for climate change cooperation between countries in situations where no trade is involved, such as development aid.

The main unresolved issues regarding the operation of Article 6 that are to be addressed at COP26 are:

- how to prevent double counting of emissions reductions in carbon transfers so that emissions cuts cannot be claimed by both the country producing emissions cuts and the country in purchase of the offsetting credit;

- how to ensure the market results in an overall mitigation in global emissions;
- how to stop countries from establishing smaller climate targets to sell more credits; and
- whether previous credits from the Kyoto Protocol 1997 can be traded under the Paris Agreement.

CLIMATE ADAPTATION

Climate change adaptation is the process of adjusting ecological, social or economic systems in response to current or expected climate change and its impacts. There is a wide variety of adaptation solutions, from early warning systems and resilient infrastructure, to redesigning government policies. Adaptation is especially important in developing countries as many of them are considered to be the most vulnerable to the impacts of climate change.

Article 7 of the Paris Agreement establishes a global goal to enhance adaptive capacity, strengthen resilience and reduce vulnerability to climate change. However, there is a continuing funding deficit for adaptation support, at only a quarter of total climate finance, which will need to be resolved at the COP26 summit.

The UNFCCC Adaptation Committee was established in 2010 to advise on the effects of climate change and encourage the implementation of adaptation actions under the Paris Agreement. Its 19th meeting was concluded on 19 March 2021 to address crucial adaptation issues ahead of COP26.

Many of the issues addressed will likely be developed at COP26, such as the consideration of approaches to review progress made towards the global goal on adaptation and establishing methods for assessing adaptation needs. All countries will also be invited to join the new UK-founded Adaptation Action Coalition to find solutions to the most challenging climate change effects.

LOSS AND DAMAGE (ARTICLE 8 PARIS AGREEMENT)

The societal, environmental and financial costs of climate impact that can no longer be prevented are referred to under the term "loss and damage".

Under Article 8 of the Paris Agreement, parties should avert, minimise and address loss and damage associated with the adverse effects of climate change. The issue has been contentious for a number of years, as developed countries wish to avoid claims of liability and compensation. At COP19 in Warsaw, the parties agreed to launch the Warsaw International Mechanism for Loss and Damage (**WIM**), which encourages implementing methods to address loss and damage though five work streams: (i) slow onset events, (ii) non-economic losses, (iii) comprehensive risk management approaches, (iv) human mobility and (v) action and support.

At COP25 in Madrid, developing countries joined forces to establish two demands relating to loss and damage:

- the creation of a body for the provision of scientific and technical loss and damage assistance; and
- the provision of funding for loss and damage from the developed countries to the developing countries - this demand mainly focussed on a request for the Green Climate Fund to consider the relevant issues.

The first demand was achieved through the launch of the Santiago Network for Loss and Damage, but it is currently unclear how the assistance will be provided.

The second demand will also need further consideration as the path towards implementation is likewise unclear. Both of these issues and others will need to be addressed at COP26. Commentators have suggested that success regarding the second demand might be at risk considering the reservation of developed nations and the lack of inclusion of the term 'loss and damage' in the 'adaption and resilience' priority area.

CLIMATE FINANCE

The Paris Agreement is a global effort, and the provision of financial support to developing countries will be necessary in order to achieve its targets. Article 9 of the Paris Agreement requires developed countries to provide financial resources to aid developing countries both in respect of the mitigation of climate change and the adaptation to its impact. Under the UNFCCC, developed nations agreed to finance $100 billion annually by 2020 to support developing countries. However, countries have failed to fulfil this commitment. 80% of climate finance is provided as a loan rather than a grant and is often conditional to the achievement of specific environmental outcomes. COP26 must address the issue and set out funding plans in order to meet the $100 billion goal. A new target for climate finance to be achieved by 2025 will also be set in accordance with the Paris Agreement commitment.

The Glasgow Financial Alliance for Net Zero (**GFANZ**) was launched in April 2021 ahead of the COP26 summit. Mark Carney (the UK Prime Minister's Finance Advisor for COP26) and the COP26 Private Finance Hub have partnered with the UNFCCC Climate Actions Champions, the Race to Zero campaign and the COP26 Presidency to form a coalition that joins new and existing net zero finance initiatives into one forum. The coalition brings together over 160 leading financial firms and will work to mobilise trillions of total climate investment. GFANZ plans to showcase the collective efforts and achievements of the finance sector in leading the energy transition at COP26. The UN-convened Net-Zero Insurance Alliance, comprising of world-leading insurers, is expected to launch at COP26 and become part of the GFANZ.

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KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.

SILKE GOLDBERG
PARTNER, LONDON

+44 20 7466 2612
Silke.Goldberg@hsf.com

JANNIS BILLE
ASSOCIATE, LONDON

+44 20 7466 6314
jannis.bille@hsf.com