

# Learning About **ESG**

## Pre-COP Milan 2021

**Learning About ESG** is an educational series that connects **environmental, social and governance** topics with investing.

Join us each issue to see how global developments can have implications for investors. The better we understand ESG, the bigger the role it can play in our everyday lives – and investment portfolios – contributing to a better world.

### Key takeaways

- ◆ The official Pre-COP was held in the last weekend of September, bringing together climate and energy ministers, representatives from the UN Framework Convention on Climate Change, as well as members of the civil society.
- ◆ The forum focused on unresolved issues from the previous COP in 2019, including carbon trading negotiations and climate financing targets. These topics have amounted to growing pressure for resolution and more ambitious targets to be met by governments across the globe.
- ◆ A key to raising climate ambition will depend on financing. Investors are encouraged to take advantage of sustainable technologies with focus on decarbonisation, particularly for the carbon-heavy energy sector.

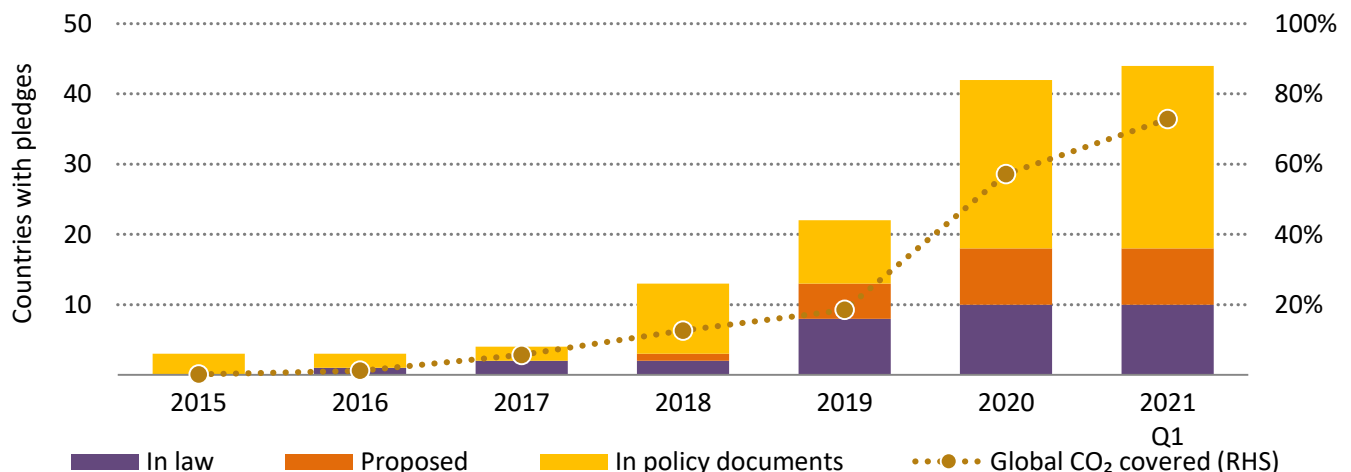
# What has happened recently?

Ahead of the UN Climate Change Conference (COP26), an official preparatory meeting known as “Pre-COP”, was held in Milan, Italy from Sept 30<sup>th</sup> to Oct 2<sup>nd</sup>. The forum brought together climate and energy ministers from fifty economies, representatives from the UN Framework Convention on Climate Change, as well as those from civil society (including non-governmental organisations)<sup>1</sup>.

Pre-COP Milan was the last formal ministerial meeting before COP26, held under the UK’s presidency and in collaboration with Italy. Its purpose is to strengthen the Nationally Determined Contributions (NDCs), or the climate action plans by the parties who ratified the Paris Agreement. The treaty’s core target is to prevent global temperature rise from exceeding 2°C (ideally 1.5°C) by century’s end.

Whilst the UN had set Jul 31<sup>st</sup> as the original deadline for NDC submission, only 113 parties have delivered new commitments (out of the 191 who initially ratified the Agreement). The remaining 78 economies account for half of the world’s emissions, including Mainland China, India, Turkey and Saudi Arabia.

**Figure 1: Number of national zero pledges and share of global CO<sub>2</sub> emissions covered**



Source: IEA

Other themes discussed at Pre-COP Milan were:

- Increase ambition for emission reductions to stay within the 1.5°C reach
- Increase ambition and enable climate financing and support for developing countries
- Improve approaches to avoid, minimise and address loss and damage caused by climatic extremes
- Set a global adaptation goal to reduce vulnerability and build resilience through planning and implementation of actions
- Advance the technical aspects for economies to transparently report on climate actions and the support needed or received
- Advance the rules on how economies can cooperate to achieve their emission reduction targets

# What are the calls for government pledges from Pre-COP and around the world?



Pre-COP Milan focused on unresolved issues left from COP25 in 2019, including negotiations on carbon trading and climate financing targets for less developed countries. These topics have amounted to growing pressure (inclusive of investors) for resolution and more ambitious targets to be met by governments across the globe.

Economies such as Mainland China, France, the UK, Germany and Chile have pledged to not build new coal-fired power plants. They have also called on other governments to join the action of "relegating coal to past history" as an objective of COP26. Meanwhile, Costa Rica and Denmark are also behind a diplomatic initiative to phase out oil and gas.

In other steps forward, the US announced that it would double its climate financing funds by 2024 to USD11.4bn per year to help developing

countries. South Africa has submitted new NDCs with much more ambitious targets. Turkey, who had signed the Paris Agreement in 2016, promised to ratify and have the country enter force within one month from Pre-COP.

Yet despite some progress, many economies have yet to present climate plans aimed at complying with the commitments made in Paris in 2015. This will remain a focus at COP26 in Glasgow.



Global investors have also placed pressure on governments, in particular to rapidly implement five actions that can enable investment towards the climate crisis. The 2021 Global Investor Statement to Governments on the Climate Crisis, signed by 500+ investors representing over USD46trn in assets, was established in September and called for governments to<sup>2</sup>:

1. Strengthen NDCs before COP26, to align with Paris Agreement goals and a planned transition to net-zero by 2050 or sooner
2. Commit to a mid-century, net-zero emissions target and outline decarbonisation roadmaps for carbon-intensive sectors
3. Implement domestic policies to deliver

climate targets and incentivise private investment into zero-emissions solutions

4. Ensure that COVID-19 recovery plans support net-zero transition and enhance resilience, including investing in zero-emission energy and transport infrastructure
5. Commit to implementing mandatory climate risk disclosure requirements aligned with the Task Force on Climate-related Financial Disclosures recommendations

This collective call supports the conviction that strong policies, in line with limiting global warming to no more than 1.5-degrees Celsius, can accelerate and scale up funding towards the net-zero transition.



# Where can investors focus to help deliver sustainable change?



A key to raising climate ambition in mitigation and adaptation will depend on financing. Developed countries have previously pledged to support developing countries (to mobilise USD100bn annually by 2020), though the objective remains unmet.

Whilst large-scale climate financing will require time to negotiate, investors are encouraged to explore sustainable technologies with focus on decarbonisation, particularly for the carbon-heavy energy sector.

For investors, full implementation of the Paris Agreement can create significant opportunities in clean technologies, green infrastructure and other solutions needed for a net-zero future. Investors are encouraged to support sustainable activities that generate jobs and economic growth, transition away from carbon-intensive activities and increase resilience.

Energy is responsible for three-quarters of global emissions today and holds the key to averting the effects of climate change. According to the Energy Transitions Commission, whilst COP26 can be the catalyst to accelerate climate policies, technological advances on decarbonisation should meanwhile focus on<sup>3</sup>:

- Rapid reductions in methane emissions (40% of global emissions)

- Ceasing deforestation and increasing reforestation
- Accelerating the phase out of coal and coal-fired plants
- Electrification of transport (including road and heavy transport)
- Accelerating decarbonisation in buildings and heavy industrials
- Improving energy and resource efficiency

As the world anticipates outcomes from COP26, winning the climate race no doubt requires immediate, decisive, collective action from policymakers, industry players, financial institutions and civil society organisations.

## Glossary

**COP26:** the 2021 United Nations Climate Change Conference, also known as the 26<sup>th</sup> Conference of the Parties to the UN Framework Convention on Climate Change held in Glasgow, Scotland from Oct 21<sup>st</sup> to Nov 12<sup>th</sup>

**Environmental, Social and Governance (ESG) score:** a numerical evaluation designed to measure a company's relative performance, commitment and effectiveness across the E, S and G pillars based on publicly-reported data<sup>5</sup>; scoring criteria and methodology can differ within the industry

**Pre-COP Milan:** the official preparatory meeting held in Milan, Italy from Sept 30<sup>th</sup> to Oct 2<sup>nd</sup> bringing together climate and energy ministers, UN representations and those from civil society

**UN Sustainable Development Goals (SDGs):** the 17 SDGs were adopted by all UN Member States to end poverty and other deprivations, improve health and education, reduce inequality, generate economic growth – while tackling climate change by 2030

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