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Editorial

In this issue of showCASE we are taking a look at the outcomes of the 26th Conference of the Parties (COP26) that took place earlier this month in Glasgow. According to CASE economist Karolina Zubel and CASE intern Giuseppe Scullari, despite certain disappointments such as a failure to reach an agreement on the creation of a "loss and damage" fund or insufficient inclusivity of the event, certain progress was made in the fields of mitigation measures, deforestation, and mobilisation of both public and private funds.

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COP26: A Decade to Deliver?

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After two weeks of drafting – on 13th November, one day after the scheduled end of the meeting – an agreement was eventually reached in Glasgow during the 26th Conference of the Parties (COP26). The deal represents a balanced compromise between interests and needs of roughly 200 Parties to the United Nations Framework Convention on Climate Change (UNFCCC).

> The Glasgow Climate Pact was not homogeneously welcomed.

Most contentiously, developed countries did not manage to reach an agreement on the creation of a "loss and damage" fund dedicated to helping the most exposed nations recover from climate-related disasters. What is more, they failed to deliver on their 2009 promises of USD 100 billion annual funding to low- and middle-income countries by 2020.

The event, postponed by one year due to COVID-19, gathered nearly 40,000 registered participants – almost twice that of the previous (2019) United Nations (UN) climate conference – around 25% of which were non-governmental groups. Yet the overwhelming majority of the latter were not allowed to directly observe the discussions, thereby raising criticism over the real level of inclusivity of the event. However, encouraging achievements were reached, too. New ambitious pledges were made especially over mitigation measures, deforestation, and fresh financial mobilisation – from both public and private sources. Overall, the results could be divided into four broader categories. The first concerns mitigation, the second – solidarity in fulfilling these activities, the third – financing scheme, while the fourth – transparency.

Mitigation: worrying estimates, conflicting measures

> The most disheartening flaw of the Glasgow Climate Pact is the outcome of the negotiations on the abandonment of coal power and subsidies for fossil fuels.

(Although on the bright side this is admittedly the first UN climate deal to mention the necessity of such a move at all). Due to the pressure from top fossil-fuel-producing countries, the language of the agreement was diluted and weakened time and again during the process: from "phasing-out of coal and subsidies", through the reference to "unabated coal" and "inefficient subsidies" only, finally to the use of "phase-down" pushed for by China and India at the very last moments of the negotiations. After the end of the summit, COP26 President Alok Sharma declared that "China and India will have to explain themselves and what they did to the most climate-vulnerable countries in the world".

All this happened despite the fact that according to the last assessment from the Climate Action Tracker (CAT), policies currently underway are projected to lead to 2.7°C warming above pre-industrial levels. When Nationally Determined Contributions (NDCs) are considered, the figure becomes

2.4°C, reaching 2.1°C – most likely, in probabilistic terms, "below 2.3°C" – if long-term or net-zero targets are included, too. Estimates went down by 0.3°C relative to the previous assessment because the United States (US) and China eventually presented their long-term strategies to UNFCCC. Also, the CAT ran an "optimistic" scenario based on over 140 countries' – 90% of global emissions – net zero targets which are already adopted or under examination: if governments will be able to succeed, estimates will fall to 1.8°C – probabilistically, "below 2.0°C". However, both the present and the promised policies trajectories still lie above emissions paths compatible with the long-term goals of the Paris Agreement.

There is also a misalignment between the current 2030 targets and long-term net zero goals that causes a gap of 0.9°C, which represents a major credibility gap for the Parties. Indeed, the 2030 emissions gap showed a reduction of just 15-17% after last year's NDCs' submissions – despite the European Union (EU), US and China improvements, among other countries – while several countries simply re-presented the same target as six years ago or even less ambitious ones, and Turkey and Kazakhstan did not submit at all. This is even more disorienting since a stated requirement of the Paris Agreement is that NDCs, when revised, must progress beyond the previous version. Eventually, even assuming that all new 2030 pledges will be met, at that moment we will still produce twice the emissions required for reaching the goal of 1.5°C. "The pulse is weak", to borrow from Mr Sharma.

Nevertheless, according to the World Meteorological Organization (WMO) Secretary-General prof. Petteri Taalas, some progress is to be recognised when it comes to emissions' reduction measures. Methane is a powerful greenhouse gas, indeed second to carbon dioxide only as for its impact on the climate. The Global Methane Pledge was signed by over 100 countries in Glasgow, with the US and EU at the forefront, and aims at curbing emissions by 30% by 2030.

Ambitious solidarity

Another ambitious commitment of this year's COP, agreed on by around 140 countries, aims to halt and reverse forest loss and land degradation by 2030, backed by nearly
USD 20 billion of both public and private finance. The Glasgow Leaders' Declaration on Forests and Land Use was signed by countries which are host to approximately 85% of the world's forests – Canada, Russia, Brazil, and the Democratic Republic of the Congo, to name the biggest ones. This is not the first time that a similar initiative was launched: hundreds of national and regional governments, companies and indigenous groups had signed the New York Declaration on Forests in 2014 with the aim of halving deforestation by 2020 and pushing to end it by 2030.

Marked by a more substantial commitment, the newly announced package will include USD 12 billion of public finance – the Global Forest Finance Pledge (GFFP) – provided by 12 high-income countries in the period 2021-2025, in order to support developing countries in restoring degraded land, coping with fires and protecting the rights of indigenous communities. The official statement from the GFFP group says it "will work closely with the private sector, using our public climate finance to leverage vital funding from private sources to deliver change at scale". As some argue, this suggests that loans will represent the lion's share of the funding. Yet the Wildlife Conservation Society in New York's President Cristián Samper looks at the glass as half full since few previous COPs saw this much attention on nature and forests, because biodiversity and climate were always dealt with as separate matters by the UN.

The remainder of the fund under the Leaders' Declaration will consist of USD 7 billion new financing from the private sector, in addition to more than 30 financial institutions worth almost USD 9 trillion in global assets working to abandon investment in deforestation-related activities. Moreover, a new Forests, Agriculture and Commodity Trade (FACT) Statement will be joined by countries accounting for 75% of global trade in commodities that threaten forests (e.g. cocoa, soya, palm oil) with the commitment to jointly act in order to provide sustainable trade while supporting small farmers and guaranteeing transparent supply chains.

Last but not least, indigenous and local communities' rights have been also addressed with a Joint Statement from around 20 bilateral and philanthropic donors. They pledged to commit USD 1.7 billion from 2021 to 2025 "to support the advancement of Indigenous Peoples' and Local Communities' (IPLC) forest tenure rights and greater recognition and rewards for their role as guardians of forests and nature". As a matter of fact, forests IPLC inhabit and control hold 25% of the carbon of the world's tropical forests and deforestation is way lower on these lands; they are thought to live in and manage one third of the world's land, yet they have secure land rights on its 10% only. Hence, the pledge will help them protect forests and ensure their rights as well as promote participation and include them in forests-related decision-making.

The new financial snapshot

» Among the most notable updates, the EU committed to top-up EUR 4 billion to an already high 2021-2027 forecasted expenditure to support developing countries, reaching an amount of nearly EUR 30 billion of its own funding, alongside single Member States' (MS) contributions.

Developed countries' new climate finance commitments up to 2025 have been announced in Glasgow, too.

Positive outcomes were attained also regarding private finance mobilisation, especially through the Glasgow Financial Alliance for Net Zero, a group of more than 450 financial organisations pledging to commit over USD 130 trillion of investments to net zero targets and near term milestones by 2050. A primary focus of the Alliance will be supporting developing countries and emerging markets.

As already mentioned, the goal of USD 100 billion of climate finance provided annually by developed countries to developing ones was planned to be reached by 2020, and maintained to 2025. However, an analysis was released in September that showcased the climate finance actually mobilised in 2019 amounted to roughly USD 80 billion, with a slight increase of just 2% from the previous year. Albeit the verified data needed to officialise the failure to deliver on the 2009 pledge will not be available until 2022, it is unlikely that the goal was met on time. Indeed, according to the latest Organisation for Economic Cooperation and Development (OECD) assessment of progress issued right before COP26, the target is likely to be achieved not earlier than in 2023.

Another crucial point of contention and concern for developing countries is whether climate finance takes the form of loans or grants. The bulk of climate finance is public, especially from governments, and a major part of it is loans. In fact, loans have more than doubled from 2013 to 2019, from roughly 20 to USD 44.5 billion, resulting in 71% of the public climate finance in 2019. What is more, last year Oxfam even estimated that 40% of public finance was non-concessional in 2017/2018 – loans provided on or above market interest rates. Grants, for their part, were stable after the Paris Agreement and actually increased significantly from 2018 to 2019, but still representing only 27% of public finance. It is not a coincidence that calls to increase the share and value of grants came from the Vulnerable20 (V20) Group – a cooperation initiative of countries most vulnerable to climate change.

Additionally, the trend indicates that until now, projects related to the reduction of emissions (mitigation) have been preferred under international climate financing with only 25% of the USD 80 billion climate finance available annually to those most vulnerable for adaptation measures. Yet, developing countries want the installation of solar panels (mitigation) and the protection of the coastline against flooding (adaptation) to be of equal priority. Accordingly, the Glasgow decision highlighted the need for more financial aid to developing countries, confirming the USD 100 billion annually pledge and, more importantly, committing to double financing for adaptation purposes to USD 40 billion by 2025.

» Where Glasgow failed to produce a breakthrough, though, is on the topic of financing of the loss and damage mechanism.

Wealthy nations, historically responsible for the most greenhouse gases emissions, failed to agree on the proposed creation of a "loss and damage" fund aimed at helping their poor and climate-vulnerable peers – most notably, Least Developed Countries (LDCs) and Small Island Developing States (SIDS) – to deal with the catastrophic consequences of emissions which they did not contribute to. The US has put a clear line on the most exposed nations that are asking for dedicated funding for post-disaster recovery. What became clear is that rich countries are ready for technical and expert assistance, but not for establishing a separate funding channel beyond existing humanitarian aid channels. This is an area of negotiation where tough politics collides with moral responsibility.

Transparency

Important decisions have been made with regards to transparency stating what and how all Parties are to report regarding their NDCs. Unification will finally make it possible to juxtapose individual obligations that have so far been incomparable. A great deal of work has been done in this area in Katowice in 2018, but it was only in Glasgow that the parties matured to resolve the last, key provisions. The Katowice Package was complemented by the final definition of the time period for NDCs. The plans will be submitted every five years, but are to be planned with a five, not ten-year horizons, to make projections even more accurate. The inflammatory topic of international emissions trading was also finalized, something that was not achieved either in Katowice or a year later with the Chilean presidency in Madrid. For years, it has been the axis of dispute, and few expected an agreement on this matter.

In fact, issues related to emissions trading systems in the world (such as the European or Chinese ETS) were already mentioned in Art. 6.2 of the Paris Agreement which stipulates that under these systems, countries can exchange units, which they can then count towards their reduction targets. In addition, the Paris Agreement provides in Article 6.4 for the creation of a new, unified emissions trading system. This mechanism will also make it possible to use the emission reductions generated therein to meet the national reduction targets. The negotiations leading to the agreement were truly challenging as while one group of countries wanted to ensure that the scope for abuse was narrowed and that the mechanisms abounded with real emission reductions rather than creative accounting, a second group, including Brazil, wanted to transfer the reductions generated under the Kyoto Protocol mechanisms into the new system, protecting its economic interest – units to be traded – but harming the global reduction effort. Negotiators also had to deal with the issue of double counting of units by the seller and the buyer, and the question of whether part of the sales revenues would be obligatorily transferred to adaptation projects and to a large extent these issues seem sorted for now.

What next?

The next COP is planned to take place in November 2022 in Egypt. Most likely, the NDCs will be under scrutiny again – in Glasgow the most ambitious Parties called for their update in 2022, despite opposition from countries such as Australia. Hence, it is important to observe whether other laggers, i.e., China, Mexico and Brazil, will follow in opposition towards the NDCs update.

» Another key element to be discussed in the months to come is related to financing of the adaptation to climate change and opening specific talks about a new financial target in post-2025 reality.

The question is not only about the time horizon, or the amount dedicated to investments on climate change-related measures, but also – who will pay for them, especially with regards to adaptation. Specifying the group of donors, as long as it extends beyond the countries of the so-called Annex II (the members of the OECD in 1992), will certainly be a challenge, planned for the future COPs similarly to the next "loss and damage" mechanism financing. Since its establishment in 2013 (Warsaw's COP), developing countries have been able to benefit from technical assistance in the event of disasters caused by climate change. However, they still demand that a pool of funds is reserved specifically for them should a said disaster strike. Thus far, humanitarian aid in times of disasters reaches those in need through other channels, typically bilateral arrangements. Effectively, the most vulnerable states lobby for higher transparency and that relief efforts are undertaken within the framework of the climate policy. The Egyptian Presidency, given the country's status, might take on a role of an unofficial leader of developing and most vulnerable countries, and consequently put the traditional priorities of these countries – money, adaptation, and loss and damage – high on the next COP's agenda.

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