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22 November 2021

COP26 FEEDBACK NOTE

FORMAL NEGOTIATIONS AND OUTCOMES[1]

Two years of (some say skewed) diplomacy and campaigning undertaken by the UK Presidency (in partnership with Italy), strenuous informal work over past months and two weeks of intense formal negotiations in Glasgow ended on Saturday evening 13 November 2021. 197 countries agreed the Glasgow Climate Pact[2] to 'keep 1.5 °C alive' and finalise the key outstanding elements of the Paris Agreement Rulebook – the guidelines necessary to fully implement the Paris Climate Accord adopted in 2015.

Many Parties expressed concerns with the final texts on different issues, including Article 6, finance, adaptation and loss and damage, but signalled that they were willing to compromise and accept them. The outcome of COP26 is a very important step in the right direction and it sets the base to keep the Paris Agreement goal of limiting global warming to 1.5°C within reach, but much work remains to be done and the coming months will be crucial.

Cover Decisions

The final texts request countries to revisit and strengthen their current climate targets by 2022 – however the detailed text 'encourages' the submission of pledges every 5 years (see below) . The texts also set up processes towards delivering a global goal on adaptation and higher levels of climate finance and finance for loss and damage. For the first time in the history of the UNFCCC process, countries also agreed accelerating efforts towards "the phasedown of unabated coal power" and "phase-out of inefficient fossil fuel subsidies".

Finance

Finance was heavily discussed throughout the two weeks of COP26. There was consensus on the need to continue increasing support for developing countries. The call to at least double finance for adaptation was welcomed and the process to define a new global goal on climate finance was launched. However, the most vulnerable countries expressed profound disappointment that the $100 billion pledge for 2020 remained outstanding and also expressed concerns regarding the quality of financing provided, referring to high-interest loans that are often included in climate finance reports.

Article 6

After years of negotiations, countries finally adopted rules for the implementation of Article 6 of the Paris Agreement on international carbon markets. Final decision texts cover three important issues under Article 6 – two mechanisms that enable the effective functioning on international carbon markets – Article 6.2 and Article 6.4 – and a third one based on non-market approaches – Article 6.8.

There was significant compromise to reach this agreement. Specifically, countries accepted the "carryover" of carbon credits generated under the Kyoto Protocol on or after 1 January 2013, bringing up to 320m tonnes of CO_2 equivalent ($MtCO_2e$) into the new Paris mechanism. In addition, Parties agreed that adaptation finance from a "share of proceeds" of trade in emissions cuts would be mandatory under Article 6.4, remaining voluntary under Article 6.2.

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[1] ICC
[2] https://unfccc.int/sites/default/files/resource/cop26_auv_2f_cover_decision.pdf

Finally, countries agreed to make corresponding adjustments to ensure no double-counting of units in both Article 6.2 and Article 6.4 mechanisms.

An agreement on the fundamental norms related to Article 6 will set the base for certainty and predictability to both market and non-market approaches in support of mitigation as well as adaptation. However, much more work needs to be done and significant further technical work will be needed to define and implement the rules in a way that works for the real economy and protects the environmental integrity and the ambition of the Paris Agreement.

Enhanced Transparency Framework

Negotiations on the Enhanced Transparency Framework were also concluded, providing for agreed tables and formats to account and report for targets and emissions.

There was clear consensus among Parties on the importance of a strong enhanced transparency framework to support the implementation of the Paris Agreement and delivering on countries' Nationally Determined Contributions.

Its effective implementation will be essential to build trust and confidence in the Paris Agreement Regime. The decision texts provide a certain flexibility to developing countries in the light of the capacity they have and also recognise the importance of providing capacity building resources and technical support to developing countries.

Adaptation Goal and Loss and Damage

Adaptation and Loss and Damage was particularly high on the negotiation agenda during the two weeks of the Conference.

On the side lines, the first ever explicit commitment was made to 'loss and damage' finance by Scotland pledging £1 million to the Climate Justice Fund. Greater pressure is being placed on the COP to enforce 'loss and damage' principles.

In the final decision texts countries recognised the need to scale up efforts on adaptation, including adaptation financing – calling for finance from developed countries to be at least doubled in the coming years and recognising as well that Small Islands Development States and Least Developed Countries are particularly vulnerable to the adverse impacts of climate change.

Parties also agreed to a two-year work programme "Glasgow–Sharm el-Sheikh work programme on the global goal on adaptation" under the UNFCCC Subsidiary Bodies, with the involvement of the CMA Presidencies to maintain the political profile of the goal.

Common Time Frames

Negotiations on the issue of common time frames – the period by which all countries are required to submit and communicate their NDCs or national climate pledges – concluded with the adoption of this final decision text.

While many countries supported a single Common Time Frame of 5 years others favoured a more flexible time frame with 10-year pledges or different combinations. The final texts "encourages" all parties to submit five-year pledges every five years, starting with pledges in 2025 covering the period from 2031-2035. The notion "encourages" is however much weaker than the option "invites" or "shall" that we find in UNFCCC legal texts.

Technology

Discussions under this item focused on enhancing technology development and transfer through the UNFCCC Technology Mechanism – the Technology Executive Committee and the Climate Technology Centre and Network (CTCN).

The final draft text takes note of the challenges faced by the CTCN without specifying them, in particular with regards to financial resources, administrative and communication challenges, and lack of resources of developing countries. Final decision text also includes a relatively weak reference to the importance of the continued collaboration of the Technology Mechanism with the UNFCCC Financial Mechanism.

BUSA PARTICIPATION – SIDE EVENTS

- BUSA CEO, Cas Coovadia participated in a panel at the NDC Partnership Pavilion on **Scaling Finance for South Africa's Updated NDC and the Just Transition**. Cas confirmed organised business commitment to the transition from fossil fuels to green energy; stressing SA's unique socio-economic challenges. These challenges underpin the need for a managed and just transition for all.
  Cas further highlighted:
  - The critical role that finance must play in the just transition
  - SA's sophisticated and credible banking sector
  - Our experience with climate and green finance to date

  Cas applauded the recent multilateral deal signed between SA and developed countries and stated that while the updated NDC shows the international community the strategy, the projects required to deliver these goals will need financing and partnership.

- BUSA Energy and Environment Policy Manager, Jarredine Morris participated in discussion on **Understanding the development of sector-level just transition pathways: a multi-stakeholder approach to South Africa's NDC context, illustrated through the power sector case study**. Together with Steve Nicholls from NBI, the unique and successful engagement process undertaken by the two organisations to engage with members, experts, academics, and government etc. was outlined.
  This process was key in building business-wide consensus and support for the pathways work which was showcased at the South African Pavilion; particularly for the Power Sector. These engagements with and among experts also helped move the business position in support of a more ambitious NDC.

- BUSA CEO, Cas Coovadia participated on a finance panel with a representative from the Department of Forestry, Fisheries and Environment, and senior representatives from Germany and the UK. There is considerable confidence in SA because we have committed to ambitious targets, have had experience in financing renewables and we are working on a Just Transition Pathway.

- In addition, Cas Coovadia participated in an afternoon session hosted by **Systamique, a group working in climate finance**. The session was attended by, inter alia, Andre de Ruyter (Eskom CEO), Lord Nic Stern (Chair: Grantham Research Institute and very active in climate change and the economy), Patrick Dlamini (CEO DBSA), Mark Swilling (Chair: DBSA) and Dipak Patel (Presidential Climate Change Commission). The discussion focussed on South Africa and opportunities the country has in moving from fossil fuel-based energy to cleaner and greener energy. Again, a lot of confidence was shown in South Africa, as well as ambitious expectations from the country. The agreement that was signed between SA, UK, EU, and USA to avail $8,5 billion to SA over 3 to 5 years for transitioning to cleaner energy was also discussed.

  We must, in BUSA, discuss this in detail and see what role business plays.

These highlight some of the engagements and side events over the course of the conference. The SA Pavilion alone hosted over 30 events over the 2-week period. These included presentations and panels from NBI, BUSA, PCC, ACF, Climate Group, Africa Europe Foundation, NDC Partnership, DFFE, NCEDA, DBSA, Exxaro, Sasol, IDDRI, SouthSouthNorth, SANBI, GIZ, Fibre Circle and ICFPA, and the Alliance for Climate Action South Africa.
Topics included the Just Transition, Mitigation, Adaptation, Finance, Opportunities in the Green Economy, Circular Economies etc.

Some of the videos from the events can be viewed on NBI's YouTube Channel

KEY TAKEAWAYS FOR BUSINESS

Make bold moves, embed the climate transition, and accelerate change through ecosystems[3]

1. Quicky move beyond pledges to actions… to align to 1,5ºC
2. Adapt your assets and operations for a warmer world
3. Prepare for deviations in local transitions, but do not wait to take action
4. Explore unique opportunities to compete for market share in a low-carbon economy
5. Work with policy makers
6. Collaborate with, co-invest in, and promote incentives for players across the value chain
7. Raise awareness and educate the end consumer… engage with and listen to youth actors (civil society broadly)
8. Bring employees on the journey early on (key part of the JT)
9. Don't treat climate in siloes

KEY AREAS TO WATCH:

- **Disclosure, disclosure, disclosure!** Many of the business-oriented side events at COP26 were focused on the need for more stringent monitoring, reporting/disclosure, and management of emissions. Several entities launched or promoted ESG guidelines and sustainable finance taxonomies with talks on the need for minimum disclosures and global standards for ESG. Three notable developments are:
    - the establishment of the International Sustainability Standards Board (ISSB) at COP26,
    - UK companies being required to publish their net zero emissions roadmaps from 2023, and
    - the Johannesburg Stock Exchange supporting net zero and releasing climate change disclosure guidance for corporate reporting.

- **Pressure from civil society** calling for more transparency and ambition.

- **Race of ambitions continues with increasing pressure on business** – the International Energy Agency (IEA) presented findings that globally we were on a path to 2.1ºC degrees at the beginning of COP26 and are now on a 1.8ºC degrees path based on additional commitments (contingent on all commitments being implemented and has a 50% chance of materialising; some are questioning this assertion and are stating 2.5ºC is more realistic). This marks the first time that governments have collectively increased ambition aligned with the well-below 2ºC temperature targets; although the conference is pushing for the 1.5ºC temperature limit.
    - Strong new commitments announced from developing countries, such as India's net zero by 2070, Brazils' 50% reduction by 2030, Saudi Arabia's net zero by 2060 and Vietnams' net zero by 2050.
    - If countries fail to establish stricter NDCs towards the 1.5ºC goal, the pressure to achieve net zero is likely to fall to the private sector.

International coalitions formed focused on high impact levers that will need to translate into specific commitments post COP26.

- Over 100 countries signed the US and EU-led pledge to reduce methane emissions by 30% by 2030 from 2020 levels. Methane has become a major focus based on the IPCC AR6 report[4].

[3] BCG Executive Perspectives Inside COP26: Kickstarting a Decade of Delivery
[4] Intergovernmental Panel on Climate Change, sixth assessment report, released in 2021.

- More than 100 countries, covering over 85% of the world's forests, committed to halt deforestation by 2030.
- Over 40 countries announced their shift away from coal, committing to end all investment in new coal power generation domestically and abroad.

Increased focus on investments required to make the transition possible

- Through the Glasgow Financial Alliance for Net Zero, over $130 trillion of private capital is now committed to transforming the economy to net zero.
- The $100 billion pledge from developed to developing countries has now been pushed from 2020 to 2023 – 2025; **one notable exception is the $8.5 billion earmarked for South Africa**, which is being questioned by many other developing country parties, particularly the rest of Africa, potentially leading to political challenges.
- The EU-Catalyst partnership (European Commission, the European Investment Bank, and the Bill Gates Breakthrough Energy initiative) aims to mobilise $1 billion in public and private investments between 2022 – 2026 to accelerate the deployment and rapid commercialisation of innovative technologies that will help deliver the EU Green deal and climate targets. Focus is placed on high potential sectors, such as Sustainable Aviation Fuels (SAF), clean hydrogen, direct air capture and long duration energy storage.
- The South African government fought hard to have the just transition recognised so as to support directing financial flows to transition. This is however being opposed by developed countries and small island states. Political discussions are unlikely to be concluded this year.
- Developing countries have been pushing for greater ambition on the financial goal commitment, commensurate with higher ambition NDCs, which is not being supported by developed countries. These discussions are unlikely to be concluded this year.

COP27

COP27 Egypt is likely to focus on adaptation, resilience, and 'loss and damage' funding. The launch of new frameworks for transparency on country, corporate, and supply chain resilience (such as UN Global Resilience Index, Race to Resilience metrics framework) is hoped to take place following the next year of work.

There has been interest from other African states in the pathways work and the multi-stakeholder approach thereto. BUSA and the NBI are looking to developing a work plan to engage with business representatives across Africa in the lead up to COP27 towards alignment on positions ahead of COP; regional collaboration; and identifying projects to attract climate financing.