

# COP26's key takeaways and what they mean for businesses

## Yvonne Castillo:

Hello. I'm Yvonne Castillo, Director of Risk Management for Victor.

Welcome to our post-COP26 podcast. The recent UN Climate Change conference in Glasgow grabbed headlines and many key learnings about our changing climate and commitments from governments and others were made during the conference. Coming out the conference, many businesses are trying to digest what it all means for operations, risk management, and insurance.

In today's conversation, I am speaking with Amy Barnes, Head of Climate & Sustainability Strategy at Marsh and we'll go into more detail about key takeaways from COP26, including how they impact the design and construction industry in the US.

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## Yvonne Castillo:

Okay, but before we get started with our discussion on [COP26](#), we didn't want to assume that everyone knows what COP is and how it came about as a global meeting, or even what the purposes were for this meeting. So we thought we'd provide a little background to help our listeners with today's discussion.

COP stands for Conference of the Parties, and these parties just met in Glasgow for the 26th time—hence the

name COP26. Think of this as a standing annual meeting of global heads of state that began after a global treaty was signed in 1992 to tackle global warming. The treaty is called the UN Framework Commission on Climate Change.

Three years after signing this treaty, countries began to meet. The first one was called COP1—and that was in 1995—to hash out the details on how to move forward and what countries should each commit to doing. At COP21—again, this was in Paris—the parties agreed to limit the Earth's warming to below two degrees above pre-industrial levels, but preferably below 1.5 degrees in warming.

Part of the outcome of this Paris agreement involved a request to the UN global scientific community—they are called the Intergovernmental Panel on Climate Change—to study and tell us what the difference between two and 1.5 degrees would mean to the world, because at that time again, in 2015, we didn't really know what the difference was and what the impacts would or could be.

[So the report came back three years later in 2018.](#) And we found out that there's a significant difference, and that two degrees of warming was an unacceptable and dangerous level of warming. That for example, could mean many things, but Arctic ice and coral reefs would disappear, ice sheets could collapse causing sea level rise up to 30 feet, and permafrost would melt causing dangerous levels of methane gas to be released—which, of course, would then accelerate climate change even further.

Looking at the commitments made at COP26 by each country—these commitments, by the way, are called Nationally Determined Contributions — we are on a best-case scenario trajectory of 1.8 to 2.7 degrees of warming. And that is if indeed countries actions match their words.

So it feels as a global community that we are making progress. But what do you think, Amy? Are we making progress?

## Amy Barnes:

Yes, we're making progress. Could it be faster? Of course, it could.

I think that the reviews that many people will have heard coming out of COP are a mixed bag—some disappointment and some optimism. And that doesn't really surprised us that it was always going to be a mix of both.

So where some of the optimism is—if we think about the four goals that COP had, it was to secure our future with trying to limit temperature to a one and a half degree rise, to think about how to adapt and protect communities and habitats, to mobilize finance and work together to deliver.

First of all, thinking about the one and a half degrees within reach—we saw some ambitious climate commitments from countries, such as India, that committed to net zero by 2070. Now, although that's beyond the mid-century, we're talking about a country that still has hundreds of millions of people to lift out of poverty. And we know that energy helps lift people out of poverty, so a compelling commitment there.

Notably as well, the methane commitment—30% methane reduction by 2030. Methane as a reminder is

more than 80 times more effective greenhouse gas than carbon dioxide, so curbing methane emissions are really meaningful. And just as a reminder, methane emissions—I think a lot of people think about the oil and gas industry, but the main driver of methane emissions is actually the agricultural industry.

Some commitments around one and a half degrees or as close to it as we can. If we then think about adaptation and protecting communities, we saw some impressive commitments such as halting deforestation by 2030. Now, there was then potentially a slight clawback on that, so we need to wait a bit to see where that will settle out. We've also seen a really increased focus on the importance of the ocean and the marine environment as part of both the risk for us and as a solution.

As many people may know, there's a task force working on what nature-based financial disclosures will look like in the future, so a lot of conversation around that. And a lot of conversation about protecting at least 30% of the global oceans by 2030—thinking about the important role of mangroves, salt marshes, sea grasses, not just for carbon sequestration, but also for resilience from climate perils.

We then talked about mobilizing finance. And one of the comments I thought was really interesting, so Glasgow was hosted by the UK, co-hosted by the Italians. And the Italian minister for climate, who was a co-host, said that some of the mobilizing finance initiatives were some of the most impactful issues to be addressed at COP. And the reason for that is over the past six years, the largest 20 nations have struggled to commit a hundred billion dollars to tackling climate change. But this isn't a problem that can be measured in billions of dollars. It's a challenge that is going to cost trillions of dollars to address. GFANZ, which is Glasgow Financial [Alliance] for Net Zero has coalesced 450 companies over 45 countries who have committed \$130 trillion to climate-

related commitments, making sure that those assets are net zero by 2050, so really significant mobilization.

And then finally working together. I think we saw a lot more working together, and quite a lot in the press about the fact that some of the corporate delegations were larger than some of the country delegations. If we think about the mobilizing finance and the important role that the private sector is going to have in achieving these targets, I think it's absolutely essential that the private sector was represented at COP and continues to be represented so that they're making commitments and they're fully aligned with the government strategies, and have got tangible ways that these policies can be implemented.

So a mixed bag—some areas fell short, but definitely some progress.

## **Yvonne Castillo:**

Thank you, Amy. That's very helpful to understand sort of the scope of what happened, especially the financing piece, because I know that's really important.

Because, ultimately—now that we've come out of COP26, the big question on everyone's mind is now we have ambitions, but how do we turn those ambitions into reality? Because the reality is the world emits 50 gigatons of carbon dioxide equivalent per year now. And in accordance with the commitments, somehow we're going to have to get to net zero in 28 years, which feels like a relatively short period of time. I realize many governments already have national frameworks, but if we sort of zoom out for a moment to think about what everybody has to do, and what needs to be in all of those national policy frameworks, there's three big things that we have to see, or three strategies, I should say.

Energy efficiency would be the first one. Obviously the less energy we consume, the less emissions we emit. And this should be the lowest hanging fruit for all strategies, in all countries. And of course this can be done through energy codes, efficiency standards, demand side technologies.

The second, which you talked about, clean energy sourcing, replacing carbon-intensive energy resources. It was referred to in the Glasgow text as unabated coal, so that's one of the fossil fuel resources that need to be replaced with low- or no-carbon resources. And in the case of renewables, which we obviously need more of on our cost competitive worldwide, we're going to need storage, especially seasonal storage to help us to manage that variability.

And then as economies transition over the next decade and continue to use what fuel-burning technologies near term, pairing those carbon-intensive resources with technologies that can actually capture and sequester the carbon is going to be crucial.

The third bucket would be, or the third strategy, would be carbon removal. And you also talked about that—negative emission strategies, taking carbon out of the atmosphere and out of our oceans with natural and engineered technology solutions. The engineered technology solutions is a rather nascent market at the moment, but it is an exciting area to watch.

I'm going to take just a few minutes to share how the US policy landscape is accelerating some of these strategies through its policy frameworks. There are two key pieces of legislation that our listeners may want to know about. The first one is called the Infrastructure Investment and Jobs Act, and this was signed by President Biden November 15th. And then there's also the reconciliation bill.

The first one, the Infrastructure Investment and Jobs Act—this is a \$1.2 trillion bill. It is not a climate bill per se, but it's an infrastructure bill for roads, bridges, water, broadband expansion, for example. But what's significant about it—and related to climate—is there are a lot of really good provisions on energy infrastructure that are going to help reduce the United States' carbon footprint as a nation.

For example, \$73 billion in clean energy investments in that bill, and these investments are going to go towards things like upgrading our power infrastructure, so building out transmission to accommodate more renewables, battery manufacturing and recycling, research and development for electricity distribution technologies, smart grids, and then a ton of funding for electric vehicles, cars, trucks, buses, and charging infrastructure, transit investment to help us reduce our reliance on oil. And then what was also really interesting is investments in three early stage technologies: green hydrogen, carbon capture, and advanced nuclear power.

The key takeaway here for our listeners from this legislation is that the US is taking a really broad view of clean energy trends to the clean energy transition, and basically hedging its bets by investing in multiple potential technologies and pathways.

The other key piece of legislation which is still in play, had actually made some progress on November 19th passing the US legislative chamber—House of Representatives. If this passes, which it's supposed to pass this year, it would be an historic investment in spending to tackle climate change on the order of half a trillion or \$555 billion on the clean energy transition.

And then switching just for a moment over to outside of legislation, the administration through the Department Of Energy announced early November an initiative to stimulate innovative negative emissions technologies

through what they call their Earthshots program, so it's called the carbon negative shot, and this is the first official US effort to explore carbon dioxide removal technologies.

Then at the subnational level, we're seeing a lot of policy activity, so for decades, while the federal government in the US may be slow in action, the state level activity has been very aggressive. So there are a handful of states at the moment that are actually aiming to address embodied carbon and construction materials. There are 30 states plus the District of Columbia and US territories that have adopted renewable portfolio standards to increase the use of renewable energies by utilities. A number of states have passed what are called Climate Mobilization Acts. And these actually establish greenhouse gas emission reduction requirements. And that's just scratching the surface. There are lots of activities on codes, and standards, and climate codes.

Then the last bit of policy that I'll touch on that will have actually enormous ripple effects in markets is the issuance of regulations by the SEC on environmental, social, and governance risks. What I can say at the moment at the time of this recording is that we are still waiting to hear. In September, the SEC did issue some climate guidance, which appears to be a warning flag of what may be coming. And that is that the SEC is very interested in exploring more deeply how public companies assess their climate risks—things like whether companies are considering the impacts of the changes that we just talked about, federal state and local policy, how these policy shifts are going to impact demand for products and services, and finally, how companies are planning for extreme weather events and how those events like power outages, flooding, fire, weather, intense tropical cyclones, for example, might impact their operations and the operations of clients, customers, and supply chain.

Amy, I know you are deeply steeped—you shared with us a lot about the financial sector progress that was made at COP26. Is there anything more you want to explore on that side as it relates to advancing other economies? Obviously the US is spending a lot of money and how do we distribute that wealth? You talked a little bit about that, but are there some examples that you want to share with our audience about how that may play out in the coming years?

## Amy Barnes:

I think the deep dive into the US policy and regulation is really, really helpful. And without doing that globally, we are seeing a lot of activity. Now, whether that's—you started off by increased energy efficiency. I think one data point that's quite helpful to give context of this is that it's understood that we are going to need to double our built environment by 2060. So in the next 40 years, we're going to double the amount of buildings that we have in the next 40 years.

If we think about the energy standards of the building stock of the real estate that we already have, it's not up to par. And so we've got to get much better at retrofits, and we need to think not just about what the code is going to be for all the additional built environment that we need, but how do we retrofit? How do we do that efficiently? And I mean, cost efficiently as well as to improve the efficiency of buildings, so I think that's going to be a really strong area of focus on regulation that we'll see in countries all over the world.

Then as we think about, actually, how are we generating energy? If I think my own example in the UK, that the use of hydrocarbon vehicles or passenger cars will be outlawed in the next 10 years—or certainly sale of new. Looking at new ways of heating our homes—so in the UK, much of the heat is provided from natural gas. And we're looking to transition that to hydrogen, to our air

source heat pumps, to other forms of power. And we see similar trends throughout the world, so that isn't just the UK. But so a number of the specific examples you gave in the US, both of investment, but focusing on areas we're seeing play out globally. We're also seeing consumer power make preferences in those areas as well.

Then if I think about some of the other regulation—not so much in how companies operate, but they're going to need to comply with—we talked about the need for climate reporting, and how climate reporting is going to drive behaviors. And I think as we see more and more countries mandate some form of climate reporting, so clients have a better understanding of both how they will be impacted by the environment, so how physical risks and changing nature of catastrophic perils will impact their business, but also the impact that they are having on the climate and how they're looking to address both of those.

So if we think about the frequency of climate-related events—in the 10 years from 2010 to 2019, over 400,000 lives were lost globally to climate change. And it was over \$120 billion in cost. So we need to have resilient infrastructure. And Yvonne, that was much of the points that you were making about the US investment spending is making sure that the infrastructure is resilient to that changing weather, so we need better forecasting, we need better prevention, we need better understanding of the threat level, so then the infrastructure can be built in a more resilient way.

But we also need to start building digital twins of systems and have better digital twins of systems, so that combined with satellite data, with land centers, and drones data, with buildings information, we can improve our simulation modeling and forecasting because we need tools to help us be predictive, so we can anticipate

to reduce the impact and loss of human life as well as to minimize the cost.

I think, Yvonne, all of these strands are just so intrinsically interwoven, that how finance is being mobilized is very much being driven by the demand signal that they're seeing from regulators, where regulators are pushing out policy. Companies know that they can invest because there's going to be a strong demand in those areas, such as for more sustainable and resilient buildings, so I think it's a virtuous circle that we'll see a constant connection between both the policy decisions that we have made and how finance is mobilized.

## **Yvonne Castillo:**

Thanks Amy. Very interesting—"virtuous circle." I love that.

We've talked about the policy frameworks, we've talked about how markets are going to—or how governments are going to—have to finance the next steps. Let's transition a little bit to risks and opportunities for business themselves because, obviously, with change comes risks but also opportunities.

As you see it based on the COP26 outcomes, what should companies be thinking about in their business models or in their operations? What are the key takeaways for you?

## **Amy Barnes:**

I think if we park climate reporting and understanding the physical risk—so understanding how the physical risk is going to impact you, not just your first order risk, such as the impact on building, but second order risks in terms of the supply chain and other factors may impact your business, we also need to be thinking about the

transition risk. How is the demand signal going to be changing as we look at the stimulus from governments and the investment from finance and stakeholder preferences?

I think for companies recognizing that there's a major focus on direct decarbonization, that there's a major focus on the indirect, such as losses from ecosystems. That's really thinking about things like the circular economy, so if you are the producer of goods, how can those goods not have a predetermined end of life, but how can they go on to serve additional purposes? Not just be recycling, because recycling takes energies, but it's a continued reuse so much longer lived products.

In the UK—sorry to keep using UK examples—but just this week, there's been conversation of the ban of plastic disposable cutlery, that we need to find alternatives so that all products have a far longer system life. If we think about some of the fashion brands—fast fashion has been a really large growth area, but increasingly both consumer preference and regulation is going to be directing people to have more long-term sustainable buy. So I think thinking about the sustainability in the widest sense of your products is going to be really important, and being able to show the circular nature of those products is going to be critical.

And then thinking about nature, thinking about how we impact nature both positively and negatively, The World Economic Forum estimates—I think it's over 45% of the global economy is dependent on nature in some way. And so if we think about that in our systems, how are we factoring in the health of nature and how are we contributing to make sure that it's there to support the global economy into the future?

It's going to be different for every business, and every sector, and every geography. But starting to think and ask those questions, hold yourself to account, tell your

teams how you expect them to embed climate-related thinking into their decision-making.

Think about double bottom line accounting, so should you be accounting for carbon in the way that you currently account for dollars? It's increasingly expected that carbon will have a price and a lot of companies are embedding carbon pricing into the way they make decisions, certainly around CapEx. And so does it make sense for you to start to introduce a shadow carbon accounting for your investment decisions?

I think there are a lot of very tactical things that people can do. When you're faced with this overwhelming challenge where we think that 28 years isn't even a long enough time horizon to do everything that we've got to do, I think there are some small steps that that can be taken that will start to make a difference and will give information that we guide future investment decisions.

## **Yvonne Castillo:**

Thank you Amy. I think everything you're saying is right where I was thinking. I think as I was watching the COP26 proceedings and reading reports. To me, it took a little while to sort of decide, so what is the biggest key takeaway here? To me, the biggest takeaway among all the things you just outlined is that the private sector needs to see this as a very, very big signal that governments are going to have to take action and they're going to have to take it quickly.

What I found really interesting in the Glasgow text was the revisit and strengthen language—that they're coming back next year, rather than waiting five years as the Paris agreement had required. They're coming back next year and they're being asked to have more aggressive 2030 targets, November 8th in Egypt, so we're already under a year at this point.

I think countries barely have time to breathe and are going to have to scramble to be prepared to have more ambitious targets in Egypt. And also if you think about it—listeners, of course, know this—but within one year's time, think about the months and months of preparation and negotiations that are happening prior to the actual conference itself. So countries are really going to have to be extremely aggressive and come to that meeting within a year's time with demonstration of good faith, that activities are underway, policy frameworks are in place. And that's going to mean a lot of big change in the marketplace.

And so, as you said, companies being able to navigate those changes in the marketplace, anticipating what those changes in supply and demand are going to be towards low and no carbon products and services, that's just one thing.

But then the other thing, as you mentioned: How are companies going to maintain resiliency of their operations in the face of severe weather? As you said, we've seen torrential rains just this year in China, Western Europe, hundreds of deaths. Pacific Northwest had record highs, hundreds died. Massive melting events happening in Greenland. We had wildfires on the Western side of the United States. It's just there's no region in the world that can escape the reality of climate change.

And then I'll just close with this. The Glasgow text did refer to the [Intergovernmental Panel on Climate Change report for 2021](#), which was released just a couple of months ago in August. And the key takeaway from that report in my opinion, was the sounding the alarm that the emissions that we have in our system have our already been baked into our climate system. And that global warming is going to continue through the next 30 years.

There are scientific reporting that's saying we're going to hit that 1.5 degrees within three to five years. And that's supposed to be our maximum threshold according to the experts by the end of the century. So the acceleration of policy frameworks is going to impact markets, and businesses should be thinking about not only their business models, but the impacts on operations and how they're going to be resilient in the face of these severe weather events.

I was thinking, if I were a leader in a corporation in the world, I would be thinking we need to get our leaders together to sort of walk through what potential disruptions to expect and do scenario planning, how to plan for those events, for the power outages, and communication disruptions, supply chain disruptions. That's really the best way to prepare is to go through scenarios and anticipate what all those possibilities are. And increasingly we're seeing the expectation for those disruptions to be quite severe.

Amy, any final words before we close this podcast out?

## Amy Barnes:

No, I agree with everything you've said, Yvonne. And I think that actually having a consistent signal from government around the direction of regulation, the fact it's only going to get firmer, provides industry—the private sector—with a very clear message that this needs to be taken seriously, that steps need to be taken, to think about how their business fits within the system. And actually it allows businesses to plan because as you say, with each new commitment, the rules are only going to get stricter. And I think actually so much better to be able to plan with certainty of the direction than the ambiguity that potentially we had pre-COP.

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## Yvonne Castillo:

I hope you enjoyed our discussion today, and I thank you for listening.

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Thanks again for listening.

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