

## COP26: Shaping Energy Policy

Environment Energy Hub

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Energy , Renewables

The decisions made at the forthcoming COP26 will shape energy policy in the decades to come.

This is particularly so if targets are set to accelerate the move to net zero and renewables, along with the phase-out of the coal-fired power generation. In anticipation of the discussion beginning at COP26 on 31 October, this piece explores some of the key points that will likely be at the forefront of discussion.

### COP26 Goals

The COP26 Goals give an indication of the focus of the discussions which will take place over the coming weeks[1] Those four goals are:

1. Secure global net zero by mid-century and keep 1.5 degrees within reach.
2. Adapt to protect communities and natural habitats.
3. Mobilise finance.
4. Work together to deliver.

### Key areas of discussion

Based on the four goals and the areas which are already garnering attention, one can anticipate some of the areas where COP26 will be focusing on the energy sector:

- **Moving to net zero:** In terms of the four goals for COP26 the most significant one for the energy industry is the first. As part of COP26 Goal 1 countries are being asked to come forward with ambitious 2030 emissions reductions targets that align with reaching net zero by the mid-century. Those involved in the energy market will therefore be keeping a close eye on further commitments to reduce carbon dioxide emissions and emissions reductions targets.
- Any specific actions relating to those targets will impact the energy industry. However, as these targets are set on a country-by-country basis, specific actions for energy market participants will likely follow in the months ahead. However, COP26 will certainly set the agenda for those targets – building on the Kyoto Protocol and Paris Agreement.
- Those discussions will no doubt reflect other policy changes which have already been announced – including China’s recent announcement that it will cease financing new coal-fired power stations in overseas territories.[2]
- There has all been a push amongst interested parties towards net zero roadmaps, as opposed to simply net zero targets.[3]
- **Nationally Determined Contributions:** The Paris Agreement will unsurprisingly be a focus of discussions at COP26 – this will include NDCs. As per Article 4(3) of the Paris Agreement: *“[e]ach Party’s successive nationally determined contribution will represent a progression beyond the Party’s then current nationally determined contribution and reflect its highest possible ambition, reflecting its common but differentiated responsibilities and respective capabilities, in the light of different national circumstances”*. The EU Council has recently approved conclusions setting the EU’s position.[4] Those conclusions include: (i) one NDC on behalf of all member states; (ii) a 55% reduction in carbon emissions compared to 1990 by 2030; (iii) carbon neutrality by 2050; and (iv) negative emissions after 2050.[5]
- Many countries are yet to publish their detailed net zero strategies – it is hoped that more will do so over the coming days in advance of the conference.
- **Emissions trading:** A significant development from the Kyoto Protocol was the creation of the emissions trading system. It is anticipated that COP26 will expand on this model with market-based mechanisms – focusing on coal phaseout and renewable generation.
- Related to this is what has been referred to as the “Paris rulebook” or “Article 6 rulebook”. Article 6 of the Paris Agreement enables the Parties to pursue voluntary international co-operation. One of the features of Article 6 is that it would allow a country that has overachieved in terms of its climate targets under its NDC to sell achievements to another country. This will likely be explored at COP26. A further option would be to create a mechanism whereby

carbon credits can be traded. However, no rulebook has yet been created to govern how this process would work.

- It is expected that discussion will take place at COP26 around how this rulebook could work in practice, no doubt informed by the work of Taskforces who have been considering this issue.[6]
- **Carbon pricing:** The G7 and G20 have endorsed carbon pricing as an effective tool for reducing greenhouse gas emissions and this is an area where there is considerable expectation. However, it is less clear the way in which changes will be made regarding carbon pricing.
- By way of example Austria has recently introduced the use of carbon taxes. From next July, Austrians would be taxed €30 per tonne of carbon, rising to €55 by 2025.[7] Another example is the EU's proposed Carbon Border Adjustment Mechanism – this would apply a cost of carbon to imports of certain goods based on the carbon emissions associated with their manufacture.[8]
- **Climate risk disclosures:** In line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) there are calls to make climate risk disclosures mandatory.[9] Indeed the US is currently in the process of consulting on this issue.[10] In November 2020, the Chancellor announced that the UK intends to make TCFD-aligned disclosures fully mandatory across the UK economy by 2025.[11] Meanwhile the EU is in the process of developing its requirements on climate and corporate sustainability reporting through the Corporate Sustainability Reporting Directive. This reflects an area where there is expected to be increased focus at COP26 – around the trustees of the International Financial Reporting Standards Foundation who are expected to publish a global climate disclosure standard by mid-2022.[12]

The above will have clear implications for the pressure that will ultimately be passed to the energy sector.

## Conclusion

Governments agree that collective action is needed and there has never been so much expectation on any UN Climate Change Conference of the Parties, as there is for COP26. There is no time to waste and so it is hoped that the talks at Glasgow will be accompanied by action.

## Ruth Keating

[1] COP26 Goals: <https://ukcop26.org/cop26-goals/>

[2] Details available at: <https://www.mining-technology.com/news/china-to-stop-building-new-coal-fired-power-stations-abroad/>

[3] Example discussion available at: <https://www.iea.org/reports/net-zero-by-2050>

[4] Details available at: <https://www.consilium.europa.eu/en/press/press-releases/2021/10/06/council-sets-eu-s-position-for-cop26-climate-summit/#>

[5] Details available at: <https://data.consilium.europa.eu/doc/document/ST-12594-2021-INIT/en/pdf>

[6] Examples available at: <https://www.iif.com/tsvcm> and <https://vcmintegrity.org/major-global-initiative-to-bring-rigour-and-transparency-to-net-zero-and-carbon-neutral-claims/>

[7] Details available at: <https://www.ft.com/content/9c3c3c8b-0baa-415a-b4b2-674da7339481>

[8] Background available at: [https://ec.europa.eu/info/sites/default/files/carbon\\_border\\_adjustment\\_mechanism\\_0.pdf](https://ec.europa.eu/info/sites/default/files/carbon_border_adjustment_mechanism_0.pdf)

[9] Details available at: <https://www.fsb-tcfd.org/>

[10] Background available at: <https://www.sec.gov/news/public-statement/lee-climate-change-disclosures>

[11] Further background available at:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1026224/CCS0821102722-006\\_Green\\_Finance\\_Paper\\_2021\\_v5\\_Bookmarked\\_48PP.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1026224/CCS0821102722-006_Green_Finance_Paper_2021_v5_Bookmarked_48PP.pdf)

[12] Further details available at: <https://www.ifrs.org/projects/work-plan/sustainability-reporting/>

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