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The Italy–UK Tandem: Resetting Climate Action in the Run Up to COP26

by Margherita Bianchi

Economic responses to COVID-19 will significantly impact world development patterns for the remainder of this decade. As such, they will be key determinants for long-term greenhouse gas emission (GHG) trajectories. Many across governments, civil society and international organisations are increasingly vocal about the need to ensure that such a recovery is both "green" and "just", in line with the commitment to "build back better".

The objective is to shape recoveries in a way that sets the world on a path for a transformative, inclusive economic shift towards climate neutrality. The wealthier and most polluting countries, that bear greater responsibility and capabilities in this domain, should align their stimulus packages with the climate agenda to be negotiated in November – a process that Italian and UK leaders, respectively leading this year's G7 (UK) and G20 (Italy), as well as co-hosting the COP26, can push forward.

The pandemic brought the global economy to a standstill and triggered the deepest economic contraction since the Great Depression. The resulting bankruptcies and job losses have already created major strains for billions of people – with millions expected to fall into extreme poverty in 2021.[1] Relatedly, the effects of lockdowns in 2020 caused a temporary dip in carbon dioxide emissions (around -7 per cent compared to 2019), but this has not altered the world's temperature trajectories,[2] still heading

[1] World Bank, *COVID-19 to Add as Many as 150 Million Extreme Poor by 2021*, 7 October 2020, https://www.worldbank.org/en/news/press-release/2020/10/07/covid-19-to-add-as-many-as-150-million-extreme-poor-by-2021.

[2] The 2020 inflection only translates to a 0.01°C reduction of global warming by 2050 according to

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for a rise in excess of 3°C this century – far beyond the 1.5°C objective agreed in Paris five years ago.

Trillions of dollars have been and are going to be injected into the global economy through recovery plans. Going back to business as usual – i.e. indiscriminately supporting the expansion of all sectors and revitalising systemic shortcomings – is not compatible with a future-proof paradigm. The crisis will leave countries with significant budget deficits while huge supplementary investments will be needed to set the world on a climate-friendly path over the period to 2050:[3] should current recoveries be incompatible with Paris, there may be no other way to raise public resources for climate in the less than a decade that scientists consider crucial to avoid ecological collapse.[4]

Circumstances provide unprecedented chances to decouple growth from GHG emissions through fiscal packages. First, "green growth" is no longer an oxymoron. Analyses suggest that recoveries that seek synergies between climate and economic goals are capable of generating equal – or in many cases higher – economic returns compared to carbon-neutral or environmentally-negative measures.[5] Second, the institutional and political context is more conducive than the past. Compared to the 2008–9 financial crisis,[6] the Paris Agreement and the Agenda 2030 serve as a compass for government action and progressively for the engagement of international financial institutions – including multilateral development banks which have a role in facilitating recovery in developing countries. What's more, many key countries have defined net-zero targets. The carbon footprint of projects is becoming an increasingly important risk factor and variable that is defining investors' interest, while low and zero carbon technology prices continue to fall and renewables are increasingly perceived as a safe haven by financial operators.[7]

UN Environment Programme (UNEP). See more in UNEP, *Emissions Gap Report 2020*, December 2020, https://www.unep.org/node/28560.

[3] International Renewable Energy Agency (IRENA), *Global Energy Transformation. A Roadmap to 2050*, April 2019, https://irena.org/publications/2019/Apr/Global-energy-transformation-A-roadmap-to-2050-2019Edition.

[4] Intergovernmental Panel on Climate Change (IPCC), "Summary for Policymakers", in *Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways...*, 2018, https://www.ipcc.ch/sr15/?p=6333.

[5] Cameron Hepburn et al., "Will COVID-19 Fiscal Recovery Packages Accelerate or Retard Progress on Climate Change?", in *Oxford Review of Economic Policy*, Vol. 36, Supplement 1 (2020), p. S359-S381, https://doi.org/10.1093/oxrep/graa015.

[6] When environmental investment comprised only one-sixth of the stimulus.

[7] Solar panels and wind turbines are now competitive with or cheaper than fossil fuel generation in many countries even without subsidies. In 2020, RES made around 90 per cent of the increase in power capacity worldwide – and overtaking coal in 2025 according to the IEA. See more in International Energy Agency (IEA), *Renewables 2020. Analysis and Forecasts to 2025: Fuel Report*, November 2020, https://www.iea.org/reports/renewables-2020. On the topic, see also: SYSTEMIQ, *The Paris Effect. How the Paris Agreement Is Reshaping the Global Economy*, December 2020, https://www.systemiq.earth/paris-effect.

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In such a context of paradigmatic change, leaders must set a clear direction of travel towards a global green recovery, the number one priority in 2021. The recent Climate Ambition Summit has kickstarted a very packed twelve-month climate agenda that will culminate with the COP26 in November – not least because of the massive backlog of work inherited from 2020.[8] The strength of the UK–Italy tandem – and their opportunity to "speak with one voice" through their triangle presidencies – is good news and provides an opportunity for Italy and the UK to show bold leadership at home and on the world stage.

Rome and London share a credible low-carbon vision at both the domestic and international level – a reassuring starting point as they inherit the G20 and G7 presidencies from Saudi Arabia and the US, both of which achieved limited results when it comes to the environment. Italy is promoting green recovery measures domestically (for instance by encouraging building renovations) and internationally (embedded in its "people, planet, prosperity" G20 motto). Rome is moreover fully supportive of the Green Deal and the EU climate neutrality goal. Italy is also the largest recipient of NextGenerationEU funds, the relative majority of which need to be spent on the energy transition as per EU binding decisions – one reason behind the recent appointment of the first Italian Minister for the Ecological Transition. The UK's ten-point plan for a green industrial revolution, its nature-based solution campaign and its commitment to require compulsory climate risk disclosure by 2025 have on the other side further raised the political profile of climate policies and risks. Italy and the UK are also two of only four G20 countries that have Paris-compatible coal phaseout plans.[9]

At the time of writing, and in spite of green recovery plans in some countries, there is a clear danger of locking in carbon, especially with regards to investments in fossil fuel production and infrastructure as well as carbon-intensive sectors. G20 members[10] have rolled out stimulus packages totalling 12.1 trillion US dollars (with significant differences across members).[11] The spending trend is so far worrying: by the end of February 2021, stimulus spending in environmentally-relevant sectors appeared oriented towards reinvigorating carbon-intensive industries in 15 out of 20 countries, according to Vivid Economics.[12] Energy

[8] Lynn Wagner and Jennifer Allan, "A Busy 2021 Negotiations Calendar Bodes Well for the Environment", in *IISD Blog*, 8 January 2021, https://www.iisd.org/node/15432.

[9] By 2030 or earlier, together with France and Canada. See Climate Transparency, *Climate Transparency Report 2020*, November 2020, https://www.climate-transparency.org/?p=10978.

[10] Accounting for 85 per cent of global GDP, 75 per cent of world trade, 80 per cent of CO_2 emissions, two-thirds of the world's population and more than half of the world's poor. Data come from: Organisation for Economic Co-operation and Development (OECD) and UN Development Programme (UNDP), *G20 Contribution to the 2030 Agenda. Progress and Way Forward*, Paris, OECD, 2019, https://doi.org/10.1787/db84dfca-en.

[11] E.g., 17,200 US dollars per capita in Japan vs 200 US dollars in Indonesia. Data come from Climate Transparency, *Climate Transparency Report 2020*, cit.

[12] Environmentally-relevant sectors are namely agriculture, industry, waste, energy and transport. See more in Vivid Economics,

Policy Tracker calculated that out of a total commitment of 393.4 billion US dollars of support to energy, 53.5 per cent has been directed towards fossil fuels (of which 86 per cent provided without any green strings attached).[13]

This trend must be reversed. As a closer-knit group of likeminded countries, particularly after President Biden's election in the US, the G7 should work on clear benchmarks for the explicit greening of stimulus policies where realistically achievable and bring their compelling green credentials to set standards at the G20 table. Directing production, consumption and trade away from carbon-intensive structures requires debating several measures with implications on the global economic system, for which the multilateral context of the G20 is best fit. Countries should indeed coordinate on ways to create or redirect incentives, regulations and fiscal levers, bringing thorny matters to the table (such as carbon pricing and border taxes that also involve several technical, legal and political challenges).

In particular, they should agree on practical ways to measure the amount of carbon embedded in traded goods and start defining international taxonomies (possibly taking the EU model as a foundation for the G20 to build on) while also introducing climate variables into the lending criteria of public finance institutions and financial risk assessments. So far, 17 out of 20 members in the G20 have at least initiated discussions or are already implementing some form of green finance principles, 13 have implemented or are discussing disclosing climate-related risks to financial institutions and five do incentivise low-carbon lending.[14]

Redirecting energy subsidies is also on the to-do list. Already at the 2009 Pittsburgh G20 Summit, leaders pledged to phase out "inefficient" fossil fuel subsidies over the medium-term, but compliance on this aspect has been lagging. Insufficient progress has been registered within the EU itself but most notably by China, India, Russia, Brazil and Saudi Arabia, all of which have disproportionately high fossil fuel subsidies. In 2019, excluding Saudi Arabia, Turkey and the UK, G20 countries destined 130 billion US dollars in subsidies to coal, oil and gas.[15] A credible timeline for their phasing out should now top G20 priorities.

In addition to promoting green recovery at home, the world's biggest powers should also reform the international framework so that it allows to efficiently overcome the debilitating effects of the pandemic on many developing countries. This includes effectively supporting them adapt to climate change, bearing in mind that the price of adaptation will increase over time.[16]

Greenness of Stimulus Index, February 2021, https://www.vivideconomics.com/?p=10020.

[13] EnergyPolicyTracker database, https://www.energypolicytracker.org.

[14] Climate Transparency, *Climate Transparency Report 2020*, cit.

[15] Ibid.

[16] Annual adaptation costs in developing countries are estimated at 70 billion US dollars. This figure is expected to reach 140-300 billion in 2030 and 280-500 billion in 2050. See more here: UNEP, UNEP DTU Partnership and World Adaptation Science Programme (WASP), *Adaptation Gap Report 2020*, January 2021,

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Back in March 2020, the UN had already calculated that lower-income countries would need 2.5 trillion US dollars to speed up their COVID-19 recoveries,[17] and this at a time when the pandemic was just beginning.

The moratorium on debt has been discussed in previous G20 summits and will be crucial for the Italian presidency to address in order to avoid that several healthcare, development, anti-poverty and green recovery programmes go underfunded. Beyond that, delivering on previous commitments (e.g., the 100 billion US dollars for climate finance) is critical to build bridges in view of COP26. A European-led G20 should demand more coherence – starting from Chinese overseas investments in coal – and promote a "just transition" which works globally. The G20 focus on Africa is therefore a great opportunity to discuss the stakes and needs of the continent[18] – predominantly affected by these challenges.

Another priority is to keep the bar high on targets in the run up to COP26. Even if half of the G20 members are committed to achieving climate – or at least carbon – neutrality by 2050 or shortly thereafter, no G20 country is on a Paris-compatible emission trajectory. Moreover, announcing a target is not enough per se, as there are several issues of credibility to resolve – for instance the need for China to clarify its mid-term steps (particularly on coal) on the road to 2060.

Against this backdrop, there are concrete policy benchmarks (sustained by recovery plans) that can be pursued in order to fill the gap. These include coal phase-out plans in all countries of the net zero club (including the US, Japan and Korea); stronger deforestation targets (e.g., in Australia, Canada and Brazil); and greater industry energy efficiency plans (in most countries). In the midst of the pandemic, both the UK and the EU have announced ambitious 2030 emissions reduction targets, setting an example for others in the pursuit of rigorous mid-term goals and Nationally Determined Contributions (NDCs) ahead of the COP26.

When it comes to climate action, cooperation is essential. Yet, the multilateral arena is not in its best shape and there is much work to be done to recover lost time and goodwill following the US Trump administration and the tensions in the international arena that followed over the past four years. The Biden administration and the EU still need to figure out where they can have competitive advantages to be collectively leveraged, but for the moment prospects for stronger international climate diplomacy look brighter. Hopefully, such change and a bold leadership in the G7 and G20 fora in such crucial year will help to make better use of the ministerial meetings on all the topics that climate intersects.

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https://www.unep.org/node/28727.

[17] UN Conference on Trade and Development (UNCTAD), *UN Calls for $2.5 Trillion Coronavirus Crisis Package for Developing Countries*, 30 March 2020, https://shar.es/aoinp4.

[18] Italian Ministry of Foreign Affairs and International Cooperation, *A Partnership with Africa*, December 2020, https://www.esteri.it/mae/resource/doc/2021/01/a_partnership_with_africa_en.pdf.

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