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Towards COP26: Detangling the Knots of Climate Negotiations

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ABSTRACT

The upcoming 26th Conference of the Parties (COP26) requires effort to make progress on the remaining details of the Paris rulebook – unresolved from the previous COP25 – and part of the structural backbone to untap the Paris Agreement's potential. Pending details include a decision on common timeframes, on the enhanced transparency framework and on international carbon markets (Article 6). Secondly, as countries plan their economic recoveries around the world, mobilising additional and transformative climate finance is of utmost importance: on the road to COP26 a number of key conversations need to gain wider space, including that on adaptation and on "loss and damage" impacts. Thirdly, COP26 must gather revised pledges (NDCs) from the parties and set the way forward for progressively higher ambition through to 2023 – when the Global Stocktake of the Paris Agreement will assess the collective progress towards achieving its purpose – and beyond.

United Nations | Climate change | Finance

keywords

Towards COP26: Detangling the Knots of Climate Negotiations

by Margherita Bianchi*

Introduction

Against a backdrop of growing consensus and societal engagement around climate change, the 25th Conference of the Parties (COP25) to the United Nations Framework Convention on Climate Change (UNFCCC) took place in Madrid in 2019, with the main objective of agreeing on the remaining rules of the 2015 Paris Agreement. COP25 was the longest COP on record and one of the most inconclusive, stalled over the pending technicalities and political deadlocks among negotiating parties, particularly between developed and developing countries.

In an effort to maximise progress and minimise delay after losing one additional year to the coronavirus pandemic, the postponed COP26, scheduled for this autumn in Glasgow, has multiple purposes. Open questions from Madrid include defining how carbon markets will work (Article 6 of the Paris Agreement) as well as setting common timeframes for pledges and strengthening transparency reporting. COP26 will discuss climate finance commitments, address adaptation to climate change and debate its irreversible effects – the so-called "loss and damage" impacts. In addition to the legacy of COP25, the COP26 will need to gather revised nationally determined contributions (NDCs) from the parties.

That's a lot on the agenda, particularly at a time when international cooperation navigates agitated waters – a result of the economic fallout of the pandemic, alongside old and new international tensions. Despite the one-year postponement,

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negotiators exchanged views[1] across agendas mandated for 2020. However, both calendars and methods have been adjusted and leaders will negotiate in November without necessarily having undertaken all interim negotiations, especially not in person. Covid-19 has in the meantime impacted domestic policymaking in many countries – a reason why many have not yet renewed their NDCs.[2]

Meanwhile, a much faster rate of change is needed to keep on track with international commitments.[3] Global energy-related CO_2 emissions, mostly driven by coal demand, are on course to surge by 1.5 billion tonnes in 2021 according to the International Energy Agency – the second greatest increase in history and reversing most of last year's decline caused by the pandemic.[4] The rapid transformation needed to halve emissions by 2030 will require significant financial investments, technology transfer and capacity-building in particular for developing countries.

It is worth recalling that several processes, plans or events taking place ahead of COP26 will likely impact its outcome. A big part of the story in Glasgow relies in countries' ability to kickstart a global green recovery through stimulus packages.[5] The definition of clear benchmarks at the G7 level as well as strong political signals from the G20 are a precondition for fruitful debates in November, as the scope of the G20 encompasses the sectoral "silos" of environmental negotiations and its impact extends well beyond the borders of its member countries.

A non-exhaustive list of other rolling dialogues includes other two UNFCCC conferences on biodiversity and on combating desertification, sectoral agreements outside the UNFCCC (e.g., international aviation, international maritime transport), a United Nations Food Systems Summit, the progressive "fit for 55 per cent" adjustments within the European Green Deal, as well as the US and China's steps to meeting their greener intents.[6] Moreover, a great variety of multi-stakeholder

[1] United Nations Climate Change Dialogues 2020 and United Nations June Momentum for Climate Change 2020.

[2] Climate Action Tracker website: *CAT Climate Target Update Tracker*, https://climateactiontracker.org/climate-target-update-tracker.

[3] According to an analysis by the World Resources Institute, to get on track for the emission cuts required by 2030, the world should: accelerate the increased share of renewables in electricity generation five times faster; phase out coal in electricity generation five times faster; reduce the carbon intensity of electricity generation three times faster; accelerate the uptake of electric vehicles 22 times faster than the significant rates of adoption in recent years; accelerate the increase in the share of low-carbon fuels eight times faster; and accelerate the increase in annual tree cover gain five times faster. Katie Lebling et al., *State of Climate Action: Assessing Progress Toward 2030 and 2050*, Washington, World Resources Institute, November 2020, https://publications.wri.org/state_of_climate_action.

[4] International Energy Agency (IEA), *Global Carbon Dioxide Emissions Are Set for Their Second-Biggest Increase in History*, 20 April 2021, https://www.iea.org/news/global-carbon-dioxide-emissions-are-set-for-their-second-biggest-increase-in-history.

[5] Margherita Bianchi, "The Italy-UK Tandem: Resetting Climate Action in the Run Up to COP26", in *IAI Commentaries*, No. 21|11 (March 2021), https://www.iai.it/en/node/12892.

[6] For a very useful timeline of environment-related events in 2021, see more in Sam Geall, "Kick-

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initiatives and sectoral campaigns are ramping up ambition, including the "Race to Zero" campaign, the "Powering Past Coal Alliance", the Adaptation Action Coalition and the Leaders' Pledge for Nature, the EV100 Initiative on electric vehicles, to mention a few. There are also connections in the policy and technical solutions behind many of these (more or less) sustainable visions – e.g., carbon pricing mechanisms, Paris-compatible finance flows, circular economy models, natural carbon sinks, green fiscal measures – that are being discussed within and across meetings.

Hence, it is clear how such a super-packed year for climate requires holistic yet pragmatic thinking. Compared to late 2019, political leaders seem to have a deeper understanding of the risks of systemic shocks to the society: climate, as a threat multiplier itself,[7] is the paramount example in this sense. Pushed by extraordinary momentum, 2021 can trigger a positive domino effect where action towards a policy goal might likely bring the attainment of other objectives rather than generating trade-offs.[8] In the run-up to COP, progress on the quality of climate finance, for example, is linked to an ambitious revision of NDCs, especially from developing countries, that may include pledges that are contingent on external support. To prevent late or disadvantaged movers from missing out on the gains from the transformation and avoid an increase in global inequalities – already a consequence of the pandemic[9] – forging consensus between developing and developed countries is crucial both ahead of and within negotiations.

As a matter of fact, the considerations at play in international climate negotiations are mostly domestic (e.g., specific needs, capabilities, evolving political circumstances, national interests, etc.), making coordination on joint solutions a challenging exercise. Differently from the Kyoto Protocol's top-down architecture,[10] the Paris Agreement offers greater flexibility, with nationally and internationally determined elements that can be combined in many ways. While its bottom-up nature enables countries to pledge individual commitments, Paris remarkably has a very ambitious international objective – limiting warming at "well below" 2°C, aiming at 1.5°C. The shared direction of travel has, so far, resulted in an increased political confidence to provide consistent policy signals, stronger conditions for companies to innovate and for the markets to start scaling zero-carbon solutions.[11]

Starting the Green Recovery in 2021. An Arc of Engagement for Sustainability", in *Chatham House Briefing Papers*, March 2021, https://www.chathamhouse.org/node/25320.

[7] UN News, *Climate Change Recognized as 'Threat Multiplier', UN Security Council Debates Its Impact on Peace*, 25 January 2019, https://news.un.org/en/story/2019/01/1031322.

[8] The concept of such "positive Interplays" is well analysed in Sam Geall, "Kick-Starting the Green Recovery in 2021", cit.

[9] Joseph Stiglitz, "Conquering the Great Divide", in *Finance & Development*, Vol. 57, No. 3 (September 2020), p. 17-19, https://www.elibrary.imf.org/view/journals/022/0057/003/article-A005-en.xml.

[10] Building on quantified, internationally negotiated emissions limitations and reduction objectives – and contested by many, especially developing countries.

[11] Systemiq, *The Paris Effect. How the Climate Agreement Is Reshaping the Global Economy*, December 2020, https://www.systemiq.earth/?p=4052.

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However, there are key challenges that require both technical discussions and greater political capital to reconcile domestic and global priorities.

This year's COP requires substantive effort to make progress on many of the open questions, which have gained additional layers of complexity because of the pandemic. In Glasgow, the parties are called to:

- detail the remaining rules of the Paris Agreement on the common timeframes for climate pledges, on the transparency framework and on international carbon markets;
- assess the state of mobilisation and delivery of climate finance, its success, lessons learned in recent years and future prospects (relatedly, they must address adaptation and post-adaptation priorities, in particular the review of the Warsaw International Mechanism on how to support countries affected by the irreversible impacts of climate change);
- intensify efforts and submit stronger mid-term national climate action plans (i.e., NDCs).

The degree to which these conversations have taken a step forward from Madrid does vary greatly, and main developments are reported in the sections below.

Promisingly, major economies seem to have been engaging in a spirit of competition in climate ambition, which will likely help set the bar higher and debate more constructively on thorny matters. Compared to the Madrid negotiations, Asia has shown encouraging intentions towards net-zero – an important sign per se, and even more interesting in perspective as the continent might host both the G7 and G20 summits and the climate negotiations in 2023[12] – the year of the first Global Stocktake.[13]

Notably, a delayed COP allowed a new US administration to sit at the table, infusing renewed impetus for global climate action in particular after the Leaders' Summit gathered by President Joe Biden in April 2021. Most of his internal and foreign climate ambition is to be detailed and approved, but the direction of travel is evidently different from his predecessor, Donald Trump. Although it is too early to assess the extent to which the US will act as an enabler on specific negotiating knots at the COP, the domestic and international attention reserved so far to politically sensitive issues (e.g., adaptation) and the change in attitude towards the most obstructionist positions (e.g., Brazil) bode well for greater achievements in Glasgow.

[12] The venue and country for the 2023 Conference of the parties, however, must be determined yet.

[13] The global stocktake of the Paris Agreement (GST) is a process for taking stock of the implementation of the Agreement with the aim of assessing the collective progress towards achieving its goals. The first GST will take place from 2021 to 2023 and the process will be repeated every five years thereafter. United Nations Framework Convention on Climate Change (UNFCCC) website: *Global Stocktake*, https://unfccc.int/node/15878.

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The stronger degree of transformation across the private, business and civil society approaches also deserves attention. Increasingly, more companies are recognising that internal carbon pricing is a powerful tool to contribute to the low-carbon transition.[14] Despite – or perhaps because of – covid-19, shareholders are likewise increasingly applying pressure on climate action and there is growing momentum to get businesses to embed climate risks into their financial decision-making. While businesses are obviously not a uniform group, a growing number of them are supportive of stronger responsibility, provided they can play by the same rules. Decoding all these concepts into the world's financial architecture will also be a key focus for the Glasgow conference.[15]

1. Finalising rules of the Paris regime

At COP24 leaders agreed on a number of implementation rules of the Paris Agreement,[16] but key components of the rulebook were left behind, including setting a common timeframe for NDCs, strengthening transparency requirements and agreeing on rules for Article 6 on international carbon markets. The same happened at COP25. Although many of these matters might seem technical or less urgent compared to others, nonetheless they are part of the structural backbone to allow the delivery of climate plans and encourage ambition. Agreeing on effective and flexible rules means untapping the Paris potential – fundamental as countries are preparing their recovery plans from the pandemic, updating their NDCs and preparing domestically for the longer-term transition paths.

Deciding on *common timeframes* means ensuring that all NDCs span the same temporal horizons, in order to ease tracking and to stimulate a faster pace of action.[17] NDCs submitted in 2015 ranged in length, running to 2025 or to 2030; that's why at COP24 countries decided that from 2031 on all NDCs should observe a common time horizon. In Madrid, countries could not even agree when that decision should be taken. Interestingly, the frequent breaks between developing and developed countries are not reflected in the talks on the common timeframes. In Madrid, the EU was in favour of deferring the decision over common timeframes. The US was in favour of five-year timeframe – only pushed forward weakly as it was in the process of leaving the Paris Agreement. Countries including Russia and Japan are reportedly in favour of a ten-year timeframe,[18] whereas Brazil and many

[14] World Bank, *State and Trends of Carbon Pricing 2020*, Washington, World Bank, May 2020, http://hdl.handle.net/10986/33809.

[15] William Wilson, "Task Force on Climate-Related Financial Disclosures – A Step on the Road to Mobilising Climate Finance", in *COP26 and Beyond Blog*, 2 November 2020, https://www.cop26andbeyond.com/blog/task-force-on-climate-related-finance.

[16] David Waskow et al., "COP24 Climate Change Package Brings Paris Agreement to Life", in *WRI Insights*, 21 December 2020, https://www.wri.org/node/64637.

[17] Nathan Cogswell and Yamide Dagnet, "Insider: At COP25, Can Countries Put National Climate Plan on a Common Time Frame?", in *WRI Insights*, 4 December 2020, https://www.wri.org/node/65926.

[18] Jocelyn Timperley, "'Common Timeframes': How They Could Speed or Slow Climate Action", in

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vulnerable countries in both Latin America and Africa generally prefer shorter (five-year) timeframes. At COP25, countries discussed an expanding list of options for common timeframes.[19]

Countries are now keen to start setting the domestic process for the next NDC (expected in 2025) which requires a clearer end date. This sense of urgency and a number of changes in the political landscape – the stronger and clearer EU ambition, the new US administration – could help avoid further delays. Experts indicate there are plenty of ways in which a decision could be taken to bring a practicable deal for both the supporters of a five-year timeframe and those preferring a ten-year horizon.[20] What is crucial though is agreeing on a model that enables a transformative cycle, i.e., a model that takes account of improvements (such as the dropping costs of technologies) that are conducive to an increased ambition. Parallel discussions include how to better incorporate the relevant subnational levels so as to build political support to shape stronger NDCs. Interesting conversations in that direction are currently ongoing in the framework of several sectoral campaigns, among them the Alliances for Climate Action[21] and the abovementioned Race to Zero.

The length of the NDC timeframe has links with the Agreement's *enhanced transparency framework*. Strong reporting will inform whether countries are turning their commitments into on-the-ground action and will impact the behaviour of businesses, as they will more likely shift finance flows to green investments.[22] Very high standards in transparency have usually been a top priority for developed countries – and will likely be even more so this year, with the US back in the Paris Agreement. Together with the transparency discussion, however, parties need to closely address capacity-building (e.g., governance structures, participatory approaches that support the collection, management and communication of relevant data), crucial to ensure all countries are able to engage effectively in the new transparency requirements.[23] These issues are the object of ongoing conversations between the former Chilean Presidency (COP25) and the United Kingdom, which co-chairs COP26.[24]

Climate Home News, 4 December 2019, https://www.climatechangenews.com/?p=40851.

[19] UNFCCC, *Common Time Frame for Nationally Determined Contributions Referred to in article 4, Paragraph 10, of the Paris Agreement*, 6 December 2019, https://unfccc.int/documents/203505.

[20] Nathan Cogswell and Yamide Dagnet, "Insider: At COP25, Can Countries Put National Climate Plan on a Common Time Frame?", cit.

[21] Alliances for Climate Action (ACA) website: https://www.alliancesforclimateaction.org.

[22] Yamide Dagnet, "Insider: Why Transparency Is a Prerequisite for Delivering on the Paris Agreement", in *WRI Insights*, 20 May 2016, https://www.wri.org/node/44109.

[23] Yamide Dagnet et al., "Building Capacity for the Paris Agreement's Enhanced Transparency Framework. What Can We Learn from Countries' Experiences and UNFCCC Processes?", in *WRI Working Papers*, March 2019, https://www.wri.org/node/64906.

[24] UNFCCC, *April 28-29 Presidencies Consultations: Transparency and Common Time Frames*, 15 April 2021, https://unfccc.int/documents/273432.

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The impasse over *Article 6* on carbon markets is worth looking at in greater depth. Carbon pricing fits in the policy toolchest to achieve emission reductions: currently, 46 national and 35 subnational jurisdictions are covered by carbon pricing initiatives, varying greatly in their design, flexibility and popularity. In 2020, these initiatives would cover 12 gigatonnes of CO_2 equivalent ($GtCO_2e$), representing 22.3 per cent of global emissions of greenhouse gas (GHG).[25] The EU Emissions Trading System is set to be expanded this year; China has just launched its own trading scheme; Canada has established a carbon price; and the US has recently spoken out about the need for effective carbon pricing.[26] A parallel conversation has become prominent at the international level in the past year: the need for a carbon border adjustment mechanism and, more generally, the need to find a way to calculate the carbon embedded along global supply chains. Indeed, implicit or explicit cross-country divergences are likely to increase over time without proper coordination.

The debate on carbon pricing and markets is significant as the parties are in the process of submitting revised NDCs. Article 6 of the Paris Agreement (§6.2 and §6.4 in particular[27]) indicates that countries can use international carbon markets to achieve their emission reduction targets. Recent International Emissions Trading Association (IETA) modelling has shown[28] that Article 6 has the potential to reduce the total cost of implementing NDCs by more than half (~250 billion US dollars/year in 2030), or facilitate the removal of 50 per cent more emissions (~5 gigatonnes of carbon dioxide per year [$GtCO_2$/year] in 2030) at no additional cost.

In Madrid, however, parties were unable to define its governing rules. Other than intricate technicalities such as the transition of Kyoto Protocol credits, Article 6 involves politically sensitive issues such as a levy on transfers of mitigation outcomes to fund adaptation in vulnerable countries. Negotiators must guarantee high standards of integrity, avoid the double counting of emissions reductions (i.e., ensure that the same mitigation outcome is not counted toward more than one NDC) and guarantee there is an effective contribution to the Paris Agreement goals. Emissions traded must also be *additional*, meaning they should produce extra abatement compared to a scenario where that reduction would have occurred

[25] World Bank, *Carbon Pricing Dashboard*, https://carbonpricingdashboard.worldbank.org.

[26] US Department of State, *Briefing with Special Presidential Envoy for Climate John Kerry*, New Delhi, 8 April 2021, https://www.state.gov/briefing-with-special-presidential-envoy-for-climate-john-kerry.

[27] Article 6.2 establishes the potential for trading emission reduction credits across borders, between nations or jurisdictions. This can encourage the linking of carbon pricing approaches across countries and jurisdictions resulting in the reduction of emissions by a magnitude greater than what is possible solely domestically or nationally. Article 6.4 creates a new international mitigation mechanism to help countries reduce emissions and promote sustainable development. The mitigation engendered under this mechanism can also be used by parties other than the host party to fulfil their NDC. In other words, this provision allows for offsetting through the trading of emission reduction credits.

[28] Jae Edmond et al., "The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges", in *IETA Technical Reports*, September 2019, http://hdl.handle.net/10986/33523.

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anyways.

Challenges lie in the fact that NDCs can take very different forms, including relying or not on international cooperation through carbon markets. Half of NDCs (30 per cent of global emissions) rely to some extent on the use of carbon markets, which should push parties to resolve outstanding technical and political impasses of such instrument. At the negotiating level, however, there are different interests and needs among the many country groupings.[29] The EU aims for very robust accounting in trade dynamics so as to avoid double counting within the parties' targets. Many within the G77 group – in itself a very heterogeneous one – are looking at Article 6 as a source of revenue for adaptation and loss and damage investments. There are countries traditionally buyers of mitigation outcomes (e.g., Switzerland) and others that have benefited a lot from the Clean Development Mechanism (CDM) under the Kyoto Protocol and would like it to remain (e.g., Brazil, India, China, Saudi Arabia). At the time of writing, there are a number of forms of international market cooperation ongoing – be it through the linking of emission trading systems or through crediting systems. For these reasons, there is also a very different understanding on what the rules should be designed to deliver.[30]

A number of recent trends give hopes for some steps forward. First is the initiative of a number of countries (the so-called San José group[31]) that at COP25 set principles for high ambition and integrity in international carbon markets. Hopefully, in view of their stronger engagement and NDCs, the US, Japan and other potential buyers of credits could endorse those principles of integrity. In parallel to negotiations, piloting activities are now providing more insight on how international cooperation could yield robust emissions outcomes, a helpful background as negotiators try to operationalise Article 6.[32]

2. Incrementing and reorienting climate finance

The mobilisation of finance is essential for the implementation of the Paris Agreement, notably for addressing infrastructure deficits, supporting energy transitions and building resilience. Climate finance commitments are also an important symbol of trust between developed and developing countries.

Unsurprisingly, since well before covid-19, money has been a contested issue in the UN climate negotiations, with richer countries often falling short of the figures that developing countries claim they need. After the disappointing – or rather

[29] Chatham House, "Carbon Pricing and the Article 6 Negotiations" (audio), in *The Climate Briefing*, 23 November 2020, https://www.chathamhouse.org/node/24646.

[30] Ibid.

[31] Costa Rica-Dirección de cambio climático, *32 Leading Countries Set Benchmark for Carbon Markets with San Jose Principles*, 14 December 2019, https://cambioclimatico.go.cr/?p=6309.

[32] World Bank, *State and Trends of Carbon Pricing 2020*, cit.

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lack of – outcome at COP25 and the outbreak of the pandemic, older and newer discussions are finding space in the run-up to COP26: the composition, availability and accessibility of climate funds, the destination of money, the planning of financial flows, the debate around fiscal space and debt sustainability – the latter prominently dealt with in the G7/G20 spaces. These topics are now on top of the COP26 agenda and likely all the more so next year, as climate negotiations will be hosted by an African country.

In accordance with the principle of "common but differentiated responsibility and respective capabilities" set out in the UNFCCC, developed country parties are to provide financial resources to assist developing parties in implementing the objectives of the UNFCCC. A good place to start is to make good on old promises. Already at COP16 developed countries committed to a goal of mobilising jointly *100 billion US dollars per year* by 2020 to support the needs of most vulnerable parties. A credible delivery of such commitment, alongside ways to increase it through to 2025, are now an utmost priority. Developed countries were indeed already lagging behind the target when covid erupted.[33] Although the language of the climate accords makes it clear that the 100 billion US dollars may include finance from public and private sources, it does not specify the proportions nor indicate how different financial instruments should be counted – partly explaining why calculating such commitment remains the object of some contention.[34]

Relying on predictable finance has also not proven easy. If, on the one hand, developing countries need to understand what kind of support and time-horizons they can take into account while planning for their strategies, on the other hand developed countries have very near-term budget planning. However, and all the more so with the price of renewables plummeting around the world and the possibility for developing countries to "leapfrog" directly to lower carbon paths, finding ways to support developing countries adequately in the short- and medium-term is a non-deferrable priority.

The pandemic negatively affected both the demand and the delivery of climate finance in 2020.[35] What is more, developing economies were hit by large losses of revenue with knock-on effects for their fiscal and debt positions. As of September 2020, 54 per cent of low-income countries were deemed to be in debt distress or

[33] Climate finance for developing countries stood at 78.9 billion US dollars in 2018 according to the most recent OECD data available: Organisation for Economic Co-operation and Development (OECD), *Climate Finance for Developing Countries Rose to USD 78.9 Billion in 2018*, 6 November 2020, https://www.oecd.org/newsroom/climate-finance-for-developing-countries-rose-to-usd-78-9-billion-in-2018oecd.htm.

[34] Independent Expert Group on Climate Finance, *Delivering on the $100 Billion Climate Finance Commitment and Transforming Climate Finance*, December 2020, http://bit.ly/ClimateFinanceReport; and also Tracy Carty, Jan Kowalzig and Bertram Zagema, *Climate Finance Shadow Report 2020. Assessing Progress Towards the $100 Billion Commitment*, Oxford, Oxfam, October 2020, https://hdl.handle.net/10546/621066.

[35] Independent Expert Group on Climate Finance, *Delivering on the $100 Billion Climate Finance Commitment and Transforming Climate Finance*, cit.

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at high risk of debt distress.[36] Official development assistance has also declined (with the possibility of many programmes going underfunded) and with only 50 per cent apparently aligned to the Paris Agreement goal.[37] The recent Petersberg Climate Dialogue brought additional momentum to delivering climate finance ahead of COP26. The UK, which recently doubled its climate finance contribution, insisted that its fellow members in the G7 should set a similar benchmark.[38]

Mobilising resources commensurate with the quantum needs will require making all financial flows, public and private, "consistent with a pathway towards low greenhouse gas emissions and climate-resilient development", as stipulated in Article 2.1c of the Paris Agreement. Clearly, there is a new momentum in the engagement of the *private sector* in climate action. The COP26 private finance strategy[39] focuses on mobilising investors and improving reporting of climate-related financial information. Compared to Madrid, the determination to set up a sustainable financial system with the advancement of new tools such as sustainability investment criteria and climate-related disclosure principles is evident– and crucial to build the basis for a greener private sector.

However, private capital in general is currently not flowing fast enough to finance the low-carbon and climate-resilient transition, and is often not Paris-aligned – with a large volume still supporting high-carbon sectors.[40] Private finance for climate action also remains highly concentrated geographically,[41] especially towards advanced economies. In the framework of a global green recovery from the pandemic, this problem assumes even bigger connotations and requires practical solutions. Public efforts to mobilise private finance in developing countries have also stalled, especially towards adaptation: currently, only about 500 million US dollars (1.6 per cent) of adaptation finance comes from private sources, according to the World Bank.[42]

The direction of flows is also part of the conversation, in particular because *adaptation* is severely underfunded and its costs are quickly increasing – from the current 70 billion US dollars to a range of 140–300 billion by 2030 and 280–500

[36] Ibid.

[37] Clare Shakya and Ebony Holland, *Access to Climate Finance. Workshop Report*, London, International Institute for Environment and Development (IIED), March 2021, https://pubs.iied.org/10213iied.

[38] UK Government, *PM Remarks at the Petersberg Climate Dialogue*, 6 May 2021, https://www.gov.uk/government/speeches/pm-remarks-at-the-petersberg-climate-dialogue-6-may-2021.

[39] See more of the strategy here: Bank of England, *COP26 Private Finance Strategy to Drive Whole Economy Transition*, February 2020, https://www.bankofengland.co.uk/-/media/boe/files/events/2020/february/cop26-private-finance-strategy.pdf.

[40] Independent Expert Group on Climate Finance, *Delivering on the $100 Billion Climate Finance Commitment and Transforming Climate Finance*, cit.

[41] Clare Shakya and Ebony Holland, *Access to Climate Finance*, cit.

[42] Arame Tall et al., *Enabling Private Investments in Climate Adaptation & Resilience. Current Status, Barriers to Investment and Blueprint for Action*, Washington, World Bank, March 2021, http://hdl.handle.net/10986/35203.

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billion by 2050.[43] The importance of national-level adaptation planning processes is reflected in the Paris Agreement, which commits all countries to report on progress. By now 72 per cent of countries have adopted at least one national-level adaptation planning instrument, and most developing countries are now preparing National Adaptation Plans.[44]

However, the bulk of public finance currently goes towards mitigation,[45] with adaptation finance standing at approximately 20 per cent of overall climate-related flows.[46] That is why many are calling for more balance between mitigation and adaptation finance, suggesting that developed countries should aim for a 50:50 ratio in their public finance.[47] Cumulative investments on nature-based solutions – crucial for protecting against climate impacts – also lag behind needs according to UN Environment.[48]

Especially on adaptation, unbalanced *access to funds* is part of the problem.[49] Some climate financing comes with strict due diligence requirements on how it can be spent. The climate finance landscape is highly fragmented with over a hundred providers, each with different mandates and processes, which at the end is considered demotivating for local stakeholders[50] (partly explaining why such funding remains overwhelmingly accessed by the international intermediaries). The result is that local communities – on the frontlines of climate change impacts – rarely have a voice in the decisions that most affect them. Investing in resilience and local capability is also considered fundamental[51] so that, once funding ends, there is a robust understanding of climate risks at the local level. The newly born Taskforce on Access to Climate Finance[52] aims at addressing these complex access-related problems.

Beyond adapting to climate change, there is a need to compensate for its irreversible impacts. With average global temperatures already 1°C above pre-industrial levels, *loss and damage* from human-induced climate change are becoming more and

[43] UN Environment Programme (UNEP), *Adaptation Gap Report 2020*, Nairobi, UNEP, January 2021, p. 24, https://www.unep.org/node/28727.

[44] Ibid., p. 18.

[45] William Worley, "'Huge Gaps' in Financing for Climate Adaptation, UN Report Warns", in *Devex News*, 15 January 2021, https://www.devex.com/news/98918.

[46] Clare Shakya and Ebony Holland, *Access to Climate Finance*, cit.

[47] UN Climate Change Conference UK 2021, *Climate & Development Ministerial Chair's Summary*, 1 April 2021, https://ukcop26.org/?p=1626.

[48] UNEP, Adaptation Gap Report 2020, cit.

[49] Global Commission on Adaptation, *Principles for Locally Led Adaptation Action. Statement for Endorsement*, January 2021, https://www.wri.org/node/100243.

[50] Clare Shakya and Ebony Holland, *Access to Climate Finance*, cit.

[51] Chatham House, "Managing the Impacts of Climate Change" (audio), in *The Climate Briefing*, 27 April 2021, https://www.chathamhouse.org/node/25859.

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more visible. The topic is politically sensitive in negotiations because developing countries are disproportionately affected[53] by effects they made a very limited contribution to causing.

Such efforts are however harder to finance because of lack of measurement standards for damages, as well as political resistance from developed countries that already in the past feared liability and compensation claims.[54] Equity, social and intergenerational justice as well as historical responsibility matters are all at play in the loss and damage negotiations – an important part of the conversation indeed concerns ways to deal with displacement of people as they lose their livelihoods.

Some very limited steps forward were made after countries agreed to set up the Warsaw International Mechanism on Loss and Damage. At COP25 developing countries asked for the setting up of a technical advisory body under the UNFCCC to provide scientific and technical advice on loss and damage – successfully achieved with the agreement to set up a new Santiago Network on Loss and Damage. The UNFCCC secretariat has in the meantime conducted a survey to identify parties' technical assistance needs[55] but such a result is still inadequate from the perspective of the developing countries.[56] These topics are part of ongoing conversations – although similar bodies such as the Climate Technology Centre and Network could provide a model to build on.[57] Most importantly, at COP25 developing countries asked for funding, although this request did not go much beyond asking the Green Climate Fund to investigate the matter. The Climate Vulnerable Forum, comprising nearly 50 of the most vulnerable developing countries and chaired by Bangladesh, has for this reason decided to push for a political outcome on loss and damage at the upcoming COP26.[58]

The show of unity to address major imbalances of climate finance – particularly in the Climate and Development Ministerial convened by the UK Presidency[59] – as well as the steps forward witnessed thus far to alleviate fiscal pressures on developing countries[60] – are definitely a step forward ahead of Glasgow. Further developments

[53] An interesting ranking of most vulnerable countries (although not a comprehensive climate vulnerability scoring) is available here: David Eckstein, Vera Künzel and Laura Schäfer, *Global Climate Risk Index 2021. Who Suffers Most from Extreme Weather Events? Weather-Related Loss Events in 2019 and 2000-2019*, Bonn, Germanwatch, January 2021, https://germanwatch.org/en/19777.

[54] Saleemul Huq, "Dealing with Loss and Damage in COP26", in *The Daily Star*, 10 February 2021, https://www.thedailystar.net/node/2041965.

[55] UNFCCC, *Santiago Network Survey Summary*, 1 December 2020, https://unfccc.int/documents/267108.

[56] Climate Action Network et al., *Call for Action on the Operationalisation of an Effective Santiago Network on Loss and Damage*, April 2021, https://climatenetwork.org/?p=14626.

[57] Saleemul Huq, "Dealing with Loss and Damage in COP26", cit.

[58] Ibid.

[59] UN Climate Change Conference UK 2021, *Climate & Development Ministerial Chair's Summary*, cit.

[60] The IMF, multilateral development banks (MDBs) and the G20 have agreed on measures to create fiscal space including through the Debt Service Suspension Initiative (DSSI), the G20 Common

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are expected at the G20 Finance Ministers and Central Bank Governors meeting to be held in Venice in the summer. Compared to Madrid, furthermore, the marked change in attitude on the part of the US – which openly blocked advancements in the loss and damage mechanism at COP25 – forms the basis for stronger trust between developed and developing countries.

A number of the above-mentioned matters, however, will be mostly tackled at a political, rather than a negotiating level – such as the funding requests under the loss and damage process. It is therefore incumbent on the UK and Italy (respectively the 2021 chairs of the G7 and G20, and both co-chairs of COP26) as well as the US, to maintain this focus high in the discussions.

3. Ramping up global ambition

Constantly raising the level of ambition in the fight against global warming is a main component of the Paris Agreement. The first revision cycle is now underway, with the expectation that countries will submit revised NDCs containing details of climate change mitigation and adaptation actions ahead of COP26. The latest data on GHG emissions are not reassuring. The projected emissions gap between NDCs and 1.5–2°C compatible emissions paths in 2030 has increased over the last ten years (12–15 billion tonnes CO_2e for the 2°C path and 29–32 billion tonnes for the 1.5°C one), clearly emphasising the need to accelerate ambition.[61]

To address this gap, COP26 must gather and support revised pledges and set the way forward for higher levels of ambition by 2025. As a mid-term step through to 2025, the Global Stocktake in 2023 will assess efforts toward the Paris Agreement's long-term goals and will be informed by the 6th Assessment Report of the Intergovernmental Panel on Climate Change (IPCC).

Although many feared the pandemic would break the climate momentum, covid-19 actually is increasingly seen as an opportunity to set the basis for a climate-compatible economic development. Compared to 2019, major economic powers talk more openly of the risks of weak climate action and are setting more ambitious goals, also sustained by market forces.

In April 2021 the United States – the biggest carbon emitter in absolute terms after China[62] – became the last major economic power to submit a more ambitious national climate plan, aiming at achieving a 50–52 per cent reduction from

Framework for Debt Treatments beyond the DSSI, and the replenishment of the IMF's Catastrophe Containment and Relief Trust. Financial assistance to emerging and low-income countries from the IMF and MDBs also expanded in order to respond to the immediate effects of the pandemic.

[61] UNEP, *Adaptation Gap Report 2020*, cit.

[62] US Environmental Protection Agency, *Inventory of U.S. Greenhouse Gas Emissions and Sinks Fast Facts*, April 2021, https://www.epa.gov/node/202953.

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2005 levels in net greenhouse gas pollution by 2030. However, domestic hurdles – particularly in Congress – might impact the Biden Administration's plan and consequently its global standing. Building climate credibility within the US – traditionally very weak since well before Trump – is not easy. It would in any case be crucial also for the administration's global reach objectives now under construction, which particularly see Asia[63] and South America[64] as closer-term priorities.

On the other side of the Atlantic, the EU has committed to cut its emissions by at least 55 per cent by 2030, compared with 1990 levels. The bloc's climate law managed to turn the political commitment of net-zero into a legal one. In Germany, a new climate target of 65 per cent emissions reduction by 2030 was recently announced, as well as a new aim to reach net-zero emissions by 2045: a new standard at the G7 level. Throughout 2020 and most recently at the Leaders' Summit on climate in late April 2021, many other countries announced increased ambitions – including heavy emitters like Japan (-50 per cent by 2030) and Canada (-40/45 per cent by 2030).

The credibility of national frameworks to deliver on these pledges is fundamental, especially in more sceptical countries such as Brazil.[65] Although not a topic of specific negotiating tracks, the importance of setting climate change laws, strategies, effective institutional cooperation and adequate integration of climate into national budgeting processes are questions to be discussed ahead of and within the framework of COP26. Sectoral campaigns in this sense can foster exchanges and reciprocal learning – especially the Race to Zero mobilisation, the largest ever alliance committed to achieving net zero carbon emissions by 2050 at the latest.

Richer countries, albeit crucial, are clearly not decisive per se now and in the long run. In 2020 China and India together accounted for 36 per cent of global emissions. China is estimated to generate 40 per cent of the increase in emissions between 2020 and 2052 in a business-as-usual scenario, India 15 per cent and other middle-income and developing countries (excluding Russia) 35 per cent.[66] A trilateral US-EU-China cooperative action will become crucial – although collaboration on climate will increasingly intersect with geo-economic interests, in particular trade

[63] Christian Shepherd and Leslie Hook, "China Vies with US for Lead in Global Climate Diplomacy", in *Financial Times*, 16 April 2021, https://on.ft.com/3uYu6XM.

[64] Ryan Richards and Mikyla Reta, *Charting a New Course for U.S.-Brazil Action on the Amazon*, Center for American Progress, 13 April 2021, https://www.americanprogress.org/issues/green/reports/2021/04/13/498006.

[65] Jake Spring, "Brazil Cuts Environment Spending One Day After U.S. Climate Summit Pledge", in *Reuters*, 24 April 2021, http://reut.rs/3er2BPF.

[66] International Monetary Fund (IMF), *World Economic Outlook, October 2020: A Long and Difficult Ascent*, Washington, IMF, October 2020, https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020; Martin Wolf, "Action Must Replace Talk on Climate Change", in *Financial Times*, 4 May 2021, https://on.ft.com/3tnc93z.

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and technology.

The Italian G20 Presidency invitation to China and the United States as co-chairs of the Sustainable Finance Study Group is a first attempt to establish stronger bases for this triangular cooperation. Undoubtedly, both the US and the EU look forward to a constructive engagement with China (currently accounting for 28 per cent of global emissions): for the moment, despite international tensions on other fronts (e.g., the repression of the Uyghur minority), climate talks are advancing. Beijing, for its part, foresees its emissions to peak before 2030 and is confident it can achieve carbon neutrality by 2060 – but many aspects of this ambition are still to be clarified, especially as regards the coal reduction roadmap from 2025 on.

Decreasing reliance on coal – the single largest source of global temperature increase – represents a major challenge in the Asian climate change efforts particularly due to its price advantages and the relatively young age of some coal-fired plants. In 2020, China brought 38.4 gigawatts of new coal-fired power into operation. Even at the G7 level, while the acceleration of coal plant retirement is the dominant trend, Japan is the exception.[67] The Powering Past Coal alliance[68] works to tackle this problem, aiming at securing commitments from governments and the private sector since its launch in 2013.

Coherence in the domestic and foreign climate action should be strongly advocated for, especially among wealthy nations. Interestingly, the US has announced restrictions on overseas fossil fuel financing, including coal finance, through the US's export credit agencies. Biden and the EU will likely challenge countries that are still pursuing new coal investments overseas while, in the meantime, committing to net-zero. South Korea's announcement it would end financing coal-fired power plants overseas is for this reason an important sign, hopefully bringing Japan and China onto a similar pathway. President Moon Jae-in reiterated his intention to meet a 2050 carbon neutrality goal and South Korea has already reduced annual emissions during 2019–20 compared with 2018, when emissions peaked.

Expectations are now rising for other major global emitters to set their own credible near-term targets – particularly Australia and India. The latter, as part of its climate mitigation efforts, has set a target of installing 450 GW of renewable energy by 2030, and the new US-India Climate and Clean Energy Agenda 2030 Partnership is an important step on a credible low-carbon path.

[67] Chris Littlecott, Leo Roberts and Oyku Senlen, "Strong Currents: G7 Coal Transition Data Trends", in *E3G Blog*, 14 May 2021, https://www.e3g.org/news/strong-currents-g7-coal-transition-data-trends.

[68] A coalition of national and sub-national governments, businesses and organisations working to advance the transition from unabated coal power generation to clean energy. Find out more in the Powering Past Coal Alliance (PPCA) website: https://www.poweringpastcoal.org.

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Conclusions – Looking beyond 2021

Some of the knots in climate negotiations might not be fully untied in Glasgow. However, it is fundamental to make significant steps forward on each of them and avoid that some single topics – such as finance for the irreversible impacts from climate change or Article 6 – turn into politically polarised debates, as it happened in Madrid.

COP26 should serve to collect the strongest possible ambition. In the short term, priority should be given to maintaining momentum in the run-up to COP26, sustaining trust between developed and developing countries and forging new consensus to achieve global carbon neutrality by mid-century. This means allowing sectoral campaigns to grow and its members to share best practices, benefit from reciprocal information, experience and thematic expertise. It also means maintaining a coherent vision and action throughout the year. Italy and the UK, co-hosts of COP26 (and also leading the G7/G20 summits), will gather leaders for the opening day of COP26 on 1 November, hopefully maintaining a high-level political momentum following the G20 Summit ending on 31 October in Rome.

There is an immediate need to increase predictability and trust in current and future climate finance flows, strengthen country ownership and effectiveness, enhance local responsiveness and tackle important (and often overlooked) questions, such as adaptation. This would allow more equitable and inclusive participation and engagement of both party and non-party stakeholders in the transition process. Developing countries are looking for reassurance that developed countries will uphold their climate funding commitments and will make efforts to mobilise stronger private finance, also indispensable to seize the opportunities of a greener economy. Clearly, preparing the ground in the G7/G20 for the 100 billion US dollars and post-2025 climate finance is of utmost importance to restore minimum trust between negotiating blocs. London and Rome, guiding the most relevant dialogues throughout the year, are definitely best placed to push forward a call to arms on climate finance ahead of the negotiations in November.

Climate diplomacy, especially if jointly pushed forward by the US and the EU, should aim at reconciling narratives between internal and foreign action, especially on coal financing, and helping them overcome such flaws. Benchmarks set at the G7 level should be pushed through wider platforms and fora, and sustained with financial, technical and capacity-building support. During the year, inclusive interchanges on parties' needs (e.g., adaptation, loss and damage, finance, etc.) are important to enable more fruitful outcomes in Glasgow on other important fronts of the Paris rulebook – such as transparency and accountability.

This drive, however, should go well beyond 2021. Current circumstances offer opportunities to engage constructively with different country groupings and equip the global community for its first revision cycle (ending in 2023) when the level of ambition and accountability will be investigated. Three years of interesting

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G7/G20/COP alignments are on the horizon, with Africa and Asia set to lead the conversations ahead. Their strong engagement is fundamental, also considering their particular (although clearly heterogenous) demographic and energy demand trends, security and energy poverty concerns. Looking beyond 2021 means, once again, making steps forward on finance, in order to deliver unequivocal and incentivising signals that guide countries' efforts to prepare a subsequent round of stronger ambitious NDCs – key through to 2025.

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