POLICY BRIEFING: COP26 – WHAT'S NEXT?

What was agreed at COP26?

1. On 13 November the 197 signatory countries signed the Glasgow Climate Pact. The pact 'stresses the urgency of enhancing ambition and action in relation to mitigation, adaptation and finance in this critical decade to address the gaps in the implementation of the 2015 Paris Agreement.

2. The goals of the COP26 were to maintain the limitation of global warming to 1.5 degrees Celsius (1.5ºC) but it failed to achieve major goals such as ending fossil fuel subsidies, phasing out coal, putting a price on carbon, building resilience of vulnerable communities, and keeping the promise to mobilise $100bn climate commitment to support developing countries.

3. COP26 in itself cannot be considered a failure. It has acknowledged that more action this decade to 2030 was vital and has put in place the rules and systems to keep accountability and support increased ambition. It marks a turn in the global resolve to come together to combat change and some significant building blocks have been laid down:

- **Methane**: A pledge was led by the USA and the European Union, by which more than 100 countries agreed to cut emissions of methane - a greenhouse gas 80 times more potent than CO_2 - by 2030.

- **Coal**: Although the language was revised from 'phase-out' to "phase down" of coal use by China and India, the intention to end inefficient fossil fuel subsidies was maintained. This is the first time that fossil fuels have been explicitly included in a UN climate agreement.

- **Loss and damage**: COP26 mark the first-time action has been officially taken to respond to the call from vulnerable countries for compensation of the damage caused by the historical emissions of rich nations. The key request for a dedicated fund for loss and damage was not fulfilled, but a dedicated agency will be established to work out a path forward.

- **Carbon trading:** Countries have agreed on the rules governing international voluntary carbon markets should work (article 6 of the Paris Agreement). Countries with low emissions (including forest rich countries acting as carbon sinks) would be allowed to sell their exceeding allowance to larger emitters. Through this approach GHG emissions would undergo a strong decline, coupled with stimulation for innovative and cleaner technologies and an overall transition towards a low-carbon economy.

- **Emissions reporting rules and transparency**: The final parts of the Paris Agreement Rulebook on carbon accounting (see above), common Timeframes and transparency have been agreed. Climate plans will be assessed by the UN every year, instead of every five years, putting pressure on nations to commit more.

4. As part of the broader package outside the Glasgow Pact itself, a number of important decisions have been adopted amongst coalitions of support on coal, forests and cars and other alliances. These include:

- **Deforestation**: Over 120 countries, representing about 90% of the world's forests, have pledged to halt and reverse deforestation by 2030. Although this is not the first pledge of this kind, this time there is money to back it up.

- The **United States and China:** The largest two GHG emitters in the world, have signed a cooperation agreement to keep the 1.5ºC goal alive and committed to take steps over the next decade on a range of issues, including trees, cutting methane and emissions from transport, energy, and industry.

- **Mobilisation of private finance**: Nearly 500 global financial services firms agreed to align $130 trillion – some 40% of the world's financial assets – with the goals set out in the Paris Agreement, including limiting global warming to 1.5ºC.

- **Green transport**: More than 100 national governments, cities, states, and major car companies signed the Glasgow Declaration on Zero-Emission Cars and Vans to end the sale of internal combustion engines by 2035 in leading markets, and by 2040 worldwide.
  At least 13 nations also committed to end the sale of fossil fuel powered heavy duty vehicles by 2040.

- **Fossil fuels:** More than 40 countries, including major coal-users such as Poland, Vietnam, Ukraine, Indonesia, and Chile– agreed to shift away from coal in electricity generation. 11 countries (including Ireland, France, Denmark, and Costa Rica) created the Beyond Oil and Gas Alliance (BOGA, as well as some subnational governments to set an end date for national oil and gas exploration and extraction.

- **Private-public partnership alliances are building up between emerging and developed countries,** such as the South African Alliance, where technology know-how and finance from will help specific projects to help countries on specific projects to green their economy.

The Breakthrough agenda

5. The Breakthrough agenda, as part of the UN/UK Race to Zero, is an international clean technology plan to help keep 1.5ºC in reach and to make clean solutions the most affordable, accessible and attractive option in every sector of the economy by 2030.

6. The Glasgow Breakthroughs, a coalition led by the UK and signed by 42 world leading countries representing 70% of global GDP were the first set of global leader-led common targets under The Breakthrough Agenda. The commitments set *ambitious goals for 2030* to dramatically accelerate the innovation and deployment of clean technologies in five key sectors of the economy – clean power, zero emission road transport, near-zero emission steel, low-carbon hydrogen, and climate-smart sustainable agriculture.

7. The 2030 Breakthroughs is a parallel programme for corporations to make their commitments to halve their emissions by 2030. Over half the 30 sectors[1] that make up the global economy have now committed to this, and in each of these sectors at least 20% of the major companies by revenue are aligning around sector-specific 2030 goals. 20% of key actors within each sector is believed to be a critical mass sufficient to generate momentum within the sector to enable to break away from the business-as-usual path and together deliver breakthrough outcomes at pace, achieving 'breakthrough' ambition.

[1] The sectors having achieved this critical mass are power generation (21% of global revenue), medium- and heavy-duty vehicles (39%), buses (24%), food suppliers (for nature-based solutions and land-use, 28%), fashion (40%), cement and concrete (28), consumer goods (36%), retail (23%), residential AC manufacturers (24%), ICT (40%), Mobile and Telecommunications (33%), pharmaceuticals and MedTech (30%), and water (23%).

What happens next?

8. The 1.5ºC goal has only just been maintained, based on the long-term ambitions set by all the countries, and non-government actors. Although the long-term pledges indicate that the net zero target by 2050 will be reached, there still is a huge gap between these and the shorter-term pledges for 2030, by when global greenhouse gas emissions must be reduced by 45%. Emissions are currently still rising and are predicted to be 13.7% above the 2010 level in 2030 based on the current nationally determined contributions, and we are on course for a 2.4ºC global warming which would have disastrous consequences on our planet.

9. The Glasgow Pact urges all its signatories to provide tighter deadlines for updating their plans to reduce emissions and to report their progress towards more climate ambition next year, at COP27, in Egypt.

10. Developed countries are urged to at least double their collective climate finance for adaptation by 2025, and to urgently scale up finance.

11. A global stock-taking climate summit of heads of state will be convened in 2023. A task force will also be established to set clear standards to measure and analyse net zero commitments from non-state actors.

What does it mean for UK manufacturers?

12. There are strong signs that things are changing significantly, setting global trends which will undoubtedly affect global trading and commerce such as:

- **Annual reporting and tightening of commitments:** The fact that Glasgow Climate Pact requires its signatories to report and increase their commitments next year rather than in five years' time means that the pressure is maintained for governments to act on their commitments.

- **Widespread breakthrough corporate and sector alliances**: Private corporations and entire sectors have also supported in the UK/UN Race to Zero campaign and created coalitions for the 2030 Breakthroughs, and other alliances for cars, fossil fuels, or other adequately financed technology public-private partnerships to help specific countries. This momentum which will undoubtedly put our manufacturers at all tier levels in the first line to feel the impact of the rapid and profound global transformation in all major sectors from heavy-duty vehicles and buses, food, fashion, cement and concrete, consumer goods, retail, AC manufacturers, to electronics and pharmaceuticals and MedTech (and more to come).

- **Carbon trading**: After Chinas, EU's, UK's, California and New Zealand's experiences of their emissions trading schemes, rules governing international voluntary carbon markets have now been agreed, which will reduce the cap over time. Supply and demand for emissions allowances would lead to the establishment of a global carbon price that would tie the negative GHG emissions to polluters. This should positively impact markets in the UK, particularly for raw materials (metals and other materials).

- **A new way of lending**: The private finance sector has, through a phenomenal coalition representing 40% of all global financial assets, come together to un-mistakenly signal the new direction of lending. To obtain finance, companies will need to show how their planned investments are aligned with the net zero goal.

Our message to UK manufacturers is to make the commitment to reduce emissions without delay. There are steps that can be taken now, and Make UK is helping its members to take these steps.

Starting the net zero journey

A) Measure your carbon footprint:

13. This should not just be from your own businesses' emissions, but also from your value chain. This will be the baseline against which you will measure and report your progress over time.

14. If you do not measure this, you won't be able to show what you have done. Manufactures that do not know where to start, can get help either here with the 'My Carbon Footprint Toolkit' devised specially for Make UK members by our trusted partner Inspired Energy Plc.

15. Make UK's Sustainability specialists can be contacted at EHSMemberAdvice@makeuk.org to enquire about our services (to conduct a gap analysis with the internationally recognised specification for carbon neutrality, PAS 2060 standard) and our IEMA training courses on Sustainability for managers, Sustainability for workers or Leading with Environmental Sustainability and many more advanced courses including ISO accreditation.

16. Think about what you and your staff can already immediately do to reduce your energy consumption and waste. See our advice here. Read more in our 'Demystifying Net Zero' report. Energy savings are a good start. If you are a large company and already reporting for ESOS, you could identify the top three recommendations from the ESOS audit that would have the most impact in reducing your carbon emissions and act on these.

17. Make UK encourages its members to commit via the official UN/UK Race to Zero channel, with the SME Climate Hub being specially designed for SMEs. The commitment consists in halving your own emissions by 2030, reporting annually, and achieving net zero by 2050.

B) Put your net zero plan in place and start reporting.

18. Start engaging with your suppliers and customers to let them know what you plan to do and enquire about their own plans around net zero.

19. Adaptation: identify the risks you may be exposed to and start thinking how you may de-risk your business by building resilience to these.

    The eight top priority risks in the UK identified by the CCC are: water scarcity, flooding, overheating in buildings, storms, cold events, wildfires, and rising sea levels/coastal erosion. These risks have increased (e.g., flood maps are currently being revised) and your insurance premiums or mortgage conditions may be adjusted to these if your business happens to be more exposed.

    There are also the indirect, non-physical, or 'transitional' risks which include policy and legal risks (change of landscape), technology risk (technology shifts), market risks (supply chain disruptions), and reputational risks of not making the transition.

On Monday 22nd November, Make UK, in partnership with Inspired Energy Plc, will be publishing its Interim Roadmap to Net Zero for the Manufacturing Sector to help Make UK members and the wider manufacturing industry to transition to net zero.

Disclosure of climate-related financial information: Disclosure of climate-related risks and opportunities - aligned to the TFCD (Task Force on Climate-related Financial Disclosure) requirements - will become mandatory (subject to Parliamentary approval) for all large (listed and non-listed) private companies and LLPs from April 2022.

Non-mandatory guidance to support in-scope companies in their disclosure will be issued before the end of 2021, following parliamentary scrutiny of the regulations.

Manufacturers should prepare themselves by looking at the consultation proposals or at the TFCD guidelines themselves. Even if you don't have to disclose (e.g., you are an SME), prepare yourself to answer questions from lenders.

Make UK's asks to Government to support the manufacturing industry's transition to net zero:

A) Access to finance:

- Additional funding and an adapted fiscal/funding landscape to incentivise the adoption of low carbon (but high cost) processes e.g., replacing fossil fuels, raw materials efficiency, and electrification, tailored to the specific needs of manufacturing businesses
- Policy to prevent carbon leakage (e.g., preventing manufacturing companies relocating to countries where production costs are not impacted by emission constraints or customers choosing lower cost products from countries with less stringent environmental and sustainability standards)
- Safeguarding businesses against the erosion of the value of green investments due to the rapid obsolescence of disruptive technologies as these evolve into better performing ones by Government backing their lenders with a guaranteed investment value.

B) Access to a reliable energy supply at a reasonable price

- Energy and carbon pricing must be resolved and is conditional to the electrification of industry**.** Government must therefore put in place the right level of infrastructure and set a clearer and stronger industrial strategy and policy landscape.
- Bring UK energy prices at a par with their European counterparts (especially for trade exposed EIIs)
- For the smaller players in the intensive or high energy sector supply chains who do not benefit from the same compensation for carbon taxation, extra support (VAT relief)
- Working with Ofgem, network distributors, the BEIS and industry, identify and unpick the contradictions between both energy, carbon, and tax administration policies.
- Provide a clearer policy direction regarding hydrogen as an alternative fuel for industrial decarbonisation and other renewable energy sources such as solar energy.

C) Access to skills[2]:

- Filling the skills gap to meet the demand for more qualitied workers with green and digital skills, particularly innovation skills, effective management and leadership skills in sustainability, and the most needed green technical skills (e.g., resource efficiency, low-carbon economy, development of new and amended products).

[2] Reference: 'Unlocking the skills for a digital and green future' Make UK report, in partnership with Sage, 2021

- Government should implement a green skills tax credit to encourage manufacturers to prioritise the acquisition of green skills in the race to reach net zero.
- In addition, it must prioritise rapidly increasing provision of training at Level 4 and 5 to meet the green skills demand.
- Encourage the Institute for Apprenticeships and Technical Education (IfATE) and Skills Productivity Board to work in partnership with the National Manufacturing Skills Taskforce.
- Introduce a Help to Grow Green program for managers and leaders to support training in sustainability

The Glasgow Climate Pact has galvanised global efforts to act against climate change with urgency and will maintain the pressure to do so through transparent and annual reporting. It has signalled the mobilisation of green finance, the ramping up of EVs and of new green technologies, and the phase-down of coal, the commitment of major sectors to provide accessible and affordable low-carbon products globally by 2030, many more private-public partnerships facilitating green technology and knowledge transfer between countries, and taken a closer step towards a globalised carbon market.

As the UK's third most emitting sector and responsible for a sixth of the country's total emissions, the British manufacturing industry will have without a doubt a major contribution not only to the UK's – but to the global - journey to net zero. Provided the right support to the business environment is in place, net zero is an immense opportunity to be grasped by the manufacturing sector.

FOR MORE INFORMATION:

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