

POLICY BRIEFING: THE ROAD TO COP26



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INTRODUCTION

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 3800 signatories (pension funds, insurers, investment managers and service providers) globally with approximately USD 100 trillion in assets under management.

Responsible investment explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors in investment decision-making for the long-term health and stability of financial markets.

The PRI is seeking to support governments and policy makers to make commitments and implement policies that align with the goals of the Paris Climate Agreement, as well as the UN Sustainable Development Goals (SDGs) and the UN Guiding Principles on Business and Human Rights.

This briefing presents PRI's recommendations to ensure that the 26th UN Climate Change Conference of the Parties (COP26), in Glasgow in November 2021, marks a decisive shift to put the global economy on a pathway that maintains prosperity while achieving net-zero GHG emissions by 2050 and limiting average temperature rise to 1.5°C as set out in the Paris Agreement. In parallel, governments need to reform financial policy frameworks to embed key sustainability targets, including on climate, as outlined in PRI's G7 and G20 briefing available [here](#).

FROM NET ZERO COMMITMENTS TO CLIMATE POLICY ACTION

The COP 26 summit in Glasgow in November 2021 is expected to see countries agree to the next steps on the path to deliver net-zero global emissions by 2050. A significant acceleration of action is needed to if we are to meet the Paris Agreement goals. COP26, and the build-up to it, needs to signal a decisive shift towards the low carbon transition.

Investors increasingly recognise the threat posed by climate change to the global economy, and therefore to their ability to meet the needs of their beneficiaries over the decades to come. Many also recognise that the transition to net-zero emissions presents enormous opportunities for economic growth and investment returns. Investors also understand it is essential to engage with the companies they invest in, as well as the policy makers who set the rules and guide the institutions that govern economies, to ensure that both groups respond appropriately to the threats and opportunities involved.

While national policies promoting sustainable finance and investment have developed at an unprecedented rate, progress has been uneven among countries. Further international cooperation on best practice sustainable finance policies will be needed to support a rapid and just transition to carbon neutrality.

A sustainable transition is also inextricably linked with biodiversity. Policies promoting nature positive interventions and activities are part of the solution for climate change. The Convention on Biological Diversity COP15 will negotiate the Global Biodiversity Framework and policymakers should align these commitments with their net-zero strategies.

POLICY RECOMMENDATIONS

The PRI recommends that policymakers support ambitious commitments and take decisive action at COP26 to deliver a net-zero economy by 2050. The progress seen at the Leaders Summit hosted by President Biden needs to be sustained by active cooperation throughout 2021 - including at the G7 and G20 meetings, and the biodiversity COP - to build momentum and develop solutions as the basis for strong outcomes at the COP26 summit itself.

Policy reforms should include:

1. NEAR TERM ACCOUNTABILITY FOR NET-ZERO TARGETS

Action in the next five to ten years matters even more than mid-century net-zero targets, both for the prospects of future limiting temperature rise, and for financial markets.

As such, clear near-to-mid-term trajectories for national emissions reduction plans and Nationally Determined Contributions (NDCs) from leading economies are a top priority. Countries' 2030 NDC commitments should align with net-zero by 2050, as well as prepare and publish concrete steps and policy frameworks to significantly cut emissions this decade. Together with Vivid Economics, as part of the [Inevitable Policy Response](#) project, PRI has published net-zero roadmaps (available [here](#)) for China, the EU, Japan, the US and the UK. Near term accountability is also important for investors and companies' net-zero plans. For investors, PRI supports the approach set out by the [UN-convened Net Zero Asset Owner Alliance target setting protocol](#) which recommends a -16% to -29% emission reduction by 2025 on the 2019 base year. A guide to COP26 investor initiatives is available [here](#).

2. POLICY FRAMEWORKS THAT DELIVER ON THE PARIS GOALS

Putting a price on carbon is essential to realizing the net-zero transition. A carbon price will also need to be combined with regulatory measures (e.g. building and vehicle standards) to avoid a policy that disproportionately impacts those with lower incomes.

Key policy measures include:

- **A rising carbon price:** introduction of a carbon price collar, with a floor and a ceiling price that rises over time in OECD countries. By 2030 all OECD countries should have a floor price of between \$60~\$100 per tonne¹.
- **Carbon border adjustment mechanism:** targeted introduction of a Carbon Border Adjustment Mechanism in high carbon sectors to avoid the off-shoring of emissions and create incentives for other countries to accelerate the adoption of comparable pricing and regulatory frameworks.
- **Land use and deforestation:** set out plans to end deforestation and accelerate large scale reforestation and afforestation, and commit to scaling up public funding and expanding carbon markets to harness private forest finance flows. Publish strategies to deliver emissions reductions and carbon sequestration throughout the food and agriculture sector.
- **Fossil fuel subsidies:** set a clear timeline for the full and equitable phase-out by all G20 members of all fossil fuel subsidies, including the elimination of all subsidies for fossil fuel exploration and coal production, and an end to the public financing of fossil fuels

¹ Report of the high-level Commission on carbon pricing, N. Stern; J. Stiglitz (2018) [Report of the High-Level Commission on Carbon Prices — Carbon Pricing Leadership Coalition](#)

- **Sectoral reforms:** set clear timelines for foundational industrial reforms aligning key emitting sectors with net zero, including **transport** (phase-out of Internal Combustion Vehicles), **buildings** (phasing out fossil fuels, providing investment retrofits and introducing strict energy efficiency standards) and **industry** (net-zero strategies for hard-to-electrify sectors such as steel, cement, shipping, aviation and chemicals).

3. FINANCIAL SYSTEM POLICY CHANGE

To effectively re-orient economies and direct investment towards net-zero goals, governments need to reform existing finance and investment policy frameworks. Priority measures include:

- **Corporate ESG disclosures**, including alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
- **Stewardship**, or the use of influence by institutional investors to maximise the overall long-term value on which returns, and clients' and beneficiaries' interests, depend.
- **Investors' duties to incorporate ESG-related** considerations in their investment decision making, to provide sustainability-related disclosures and to report on their ESG incorporation policies and sustainability performance targets.
- **Taxonomies of sustainable economic activities**, defining common and clear criteria to classify projects or investments as green or sustainable.
- **National/regional sustainable finance strategies**, that encourage and enable the low-carbon transition and the delivery of the SDGs for the whole economy.

For further details see [PRI's sustainable finance policy](#) briefing for the G7 and G20.

4. DELIVERING A JUST TRANSITION

A fair transition will help deliver a fast transition. Policymakers, companies, and investors have a key role to play in ensuring that human rights and climate justice are upheld throughout the much-needed fast transition to a net-zero carbon economy. Governments need to include a just transition in long-term climate transition strategies and in roadmaps for green and sustainable finance. They can do so by:

- Collaborating on **just transition** plans with workers and communities reliant on the fossil fuel sector and other carbon intensive sectors, and ensuring meaningful social dialogue with trade unions and workers as set out in the ILO Guidelines for a just transition.
- Integrating **human rights due diligence** throughout climate solutions from policy to project-level and throughout supply chains, as set out in the UN Guiding Principles on Business and Human Rights and the OECD Guidelines on Multinational Enterprises.
- Ensuring **equitable distribution of access to energy and climate solutions** at an affordable price, and encouraging ownership and/or co-benefits of climate solutions by indigenous groups and disadvantaged communities.
- Ensuring rigorous rules for **public participation, social and environmental safeguards, and independent grievance mechanisms** for any climate solutions financed under Article 6 of the Paris Agreement.

These measures would help to establish clear near-term and long-term emissions reduction targets and plans for the real economy, and to build the foundations for a financial system that supports a sustainable and inclusive recovery from the COVID pandemic, aligned with a rapid and orderly transition to a net-zero carbon economy. Alignment with net zero and broader sustainability goals should be consistent and coordinated across government financial, economic and sectoral policies.

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The PRI has experience of public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of government policy makers on both financial sector and real economy climate change policy. Any question or comments can be sent to policy@unpri.org.