

ESG Series - What is COP26?

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As COP26 is making global headlines, what exactly is this gathering and what makes it different from other global summits in the past?

In this article, we will briefly discuss COP26 and its significance in tackling climate change and what it means for businesses worldwide.

What is COP26?

COPs stands for “Conference of the Parties”, a global climate summit organized by the United Nations with the goal of bringing all the countries together to tackle climate change. This year is the 26th annual summit taking place in Glasgow with the United Kingdom acting as president of the conference and therefore it bears the abbreviation “COP26”.

Why is COP26 getting so much attention?

Extreme weather events linked to climate change that include heatwaves, floods, tsunami, and forest fires have been intensifying worldwide. Climate change has

gone from being an uncomfortable low-level issue, to a life-threatening global emergency, in the past three decades. To tackle these challenges and provide a livable future for humanity, governments agree that urgent collective actions are required. COP26 is a critical summit for agreeing and implementing how countries can collectively limit global warming to 1.5 degrees, global emissions by half in 2030 and net-zero emission by 2050.

Historically, COP26 is unique because of COP21 also known as the 2015’s Paris Agreement in which countries at the Paris summit had committed to developing national plans to reduce emissions, and to review and update those pledges every five years, creating aggressive goals. These goals include working together to limit global warming to well below 2 degrees and aim for 1.5 degrees, to adapt to the impacts of a changing climate and to make money available to deliver on these aims. Under the

Paris Agreement, countries are to bring forward national plans on their emissions reduction which are also known as Nationally Determined Contributions, or NDCs.

It is estimated that almost 40,000 delegates registered for COP26 in Glasgow, making it the biggest COP in history.

Agenda at COP26

- Secure global net zero and keep 1.5 degrees within range and how the world can reduce emissions by half over the next decade and reach net zero carbon emissions by the middle of this century;
- Mobilize finance in which developed countries will raise at least US\$100 billion every year in climate finance to support developing countries;
- Adapt to protect communities and restoration of natural areas (i.e. forests and other critical ecosystems, and helping the world move towards sustainable agriculture and land use) in which countries are encouraged to create a summary of (i) what they are doing to adapt, (ii) the challenges they face and (iii) where they need help; and
- Work together by finalizing rules needed to implement the Paris Agreement which is a significant focus of COP26. COP26 also aims to build consensus on how governments, businesses and people can transform and find alternative ways on how we generate and consume power, grow food, develop infrastructure, and travel around the world.

What COP26 means for businesses?

COP26 will very likely have a great impact on businesses worldwide. Domestic policies will focus on national emissions reduction goals and spending on sustainable projects. The likelihood of removing fossil fuel subsidies may create challenging new dynamics for the oil and gas industry. On the other hand, public policies of advancing renewable energies and the development of carbon markets open new opportunities to both the public and private sectors. Given the domestic nature of these goals, many of the impacts on companies will be felt on a country-by-country basis.

Projects and fund raising (e.g. by way of bonds, stocks, funds) involving renewable energies, energy storage, hydrogen power, sustainable alternative fuels, carbon capture, electrification of transport, green mobility, and energy efficiency enhancement will see rapid growth. Meanwhile sectors involving power and utilities, cement, chemicals, coal, metals, automobiles, airlines and shipping may require transformation in response to global appeals for decarbonization.

What can businesses be doing now?

As we wait for what governments may do following COP26, the following are some key areas to address climate change for businesses to consider:

Auditing and compliance

Companies should take note of the increasing environmental obligations, and conduct audits on a timely basis to ensure compliance. Further, requirements in supply chains will change. Customers may require the suppliers

to prove the emission levels of their facilities and the sustainability elements in their raw materials. Manufacturers need to examine the natural resources being used, e.g. (i) how much water is needed to support the operation, (ii) greenhouse gas and carbon emission levels; and (iii) whether the environmental management systems are internationally recognised as being reliable and robust. The above will bring about the need to invest in sustainability projects.

Disclosure

Companies should consider how to share its environmental protection efforts with its employees, customers, shareholders and other stakeholders. If reporting is mandatory, the reporting should be accurate and should meet the legal requirements. Candid and timely disclosure does not only enhance transparency and reputation, but is also helpful for the company to seek funds from investors and subsidies from the government.

Business community

As the issue of climate change and ESG (Environment, Social, Governance) becomes more important, companies should benchmark what they are doing to tackle climate change with their competitors and observe whether there is an industry standard/approach emerging in this space.

Internal education

Companies should keep the board and senior leadership teams informed in its approach to ESG and environmental performance while taking ownership and responsibility for each step towards meeting its sustainability targets. Further, as a key element of COP26, green finance and green financial products are worth exploring as they may benefit businesses and the world in the long run. Companies should also avoid greenwashing and ensure their “green” claims are sound and backed by evidence.

Key takeaway

Overall, tackling climate change is a long-term commitment. Meeting the 1.5-degree goal will require a surge in political and diplomatic support to make up for the insufficient actions that characterised much of global climate policies in the past. COP26 will need to secure more ambitious pledges to further cut emissions, lock in billions in climate finance, and implement the Paris Agreement with the unanimous consent of the nearly 200 countries that signed it. The private sector is a critical part of such mission and will undergo “green” transformations for the sake of business viability and, more importantly, our next generations.

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