COMMENTARY

THE BUSINESS OF CLIMATE

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Marakon
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As global leaders gather in Glasgow at COP26 to try and secure global net zero by 2050, we recap the progress made since Paris, simplify what's on the agenda at COP, and at a high-level, share what all this might mean for business.

The 6th Report of the Intergovernmental Panel on Climate Change (IPCC) released earlier this year declared a "Code Red" for humanity and reiterated the need for urgent action to keep temperature rise below 1.5 degrees. Achieving this would require at least a 45% decline in emissions by 2030. However, the pledges made by 191 countries ahead of Glasgow collectively imply a rise in emissions by 16% by 2030, which is likely to warm the world by 2.2 degrees by the end of the century. We are not going in the right direction.

What's Happened Since Paris in 2015

- Developed market emissions are largely believed to have peaked as most commit to net zero by no later than 2050, including the US under the Biden administration. Australia was the last country to sign up earlier this year.
- Some countries have provided more detail on "how" they aim to get there (e.g., UK's net-zero strategy, EU's Fit-For-55) but the roadmaps have received mixed reviews so far.
- Emerging and developing country emissions now account for two thirds of global emissions which continue to rise as these economies press ahead with coal e.g., China is expecting emissions to peak in 2030 and is aiming for net zero in 2060. (India agreed to hit net zero by 2070 this week at COP26.)
- In 2009, developed markets agreed an annual transfer of $100bn to developing economies by 2020 to help them cope with climate change. This target is so far unmet, and is now expected to be achieved by 2023.
- Substantial investment and scaling of renewables along with their falling cost. Significant boost to the Electric Vehicles sector e.g., Tesla's market capitalisation alone now exceeds the combined market cap of the top 9 global automotive players.
- Increased incidence of extreme weather events including those in the US, Germany and Australia has led to more public awareness of climate change. Several protests and youth movements are demanding action on climate change e.g., Extinction Rebellion.
- Concerns rise around global energy security with the current energy supply 'crisis'; discussion on the role of fossil fuels in the near to medium term as renewable solutions gain scale

On the Agenda at Glasgow

1. **Prevention:** How can we limit the rise in global temperatures to 1.5 degrees agreed at Paris by securing net zero by 2050? How do we ensure material change begins sooner rather than later?

   a. *Pathway:* Setting of ambitious interim 2030 targets i.e., NDCs (Nationally Determined Contributions)

   b. *Levers:* Alignment on how countries will decarbonise e.g., phasing out of coal, investment in renewables and hydrogen, curtailing deforestation, pushing ahead with EV, use of negative emissions technologies such as carbon capture as a backstop, carbon trading markets

   c. *Key developments so far:* India pledges to get to net zero by 2070, deforestation deal (details to be ironed out), methane deal.

2. **Adaptation:** How can we help regions most affected by floods, droughts and extreme weather events adapt to protect their communities and natural habitats?

   a. *Saving lives:* Channelling funding toward building early warning systems, defences and resilient infrastructure and agriculture to save lives in most vulnerable regions

b. *Saving ecosystems:* Protecting natural habitats as a way to boost resilience to climate change e.g., mangrove forests planted on beaches act as natural storm and flood defence systems

3. **Funding:** How can we mobilise at least $100bn annually to help developing markets realise the first two goals (per UN estimates, actual funding needed is closer to $300bn)?

    a. *Uses of funds:* Improving access to finance for vulnerable communities and ensuring investments in R&D and innovation needed to transition to a greener economy

    b. *Sources of funds:* Mobilising funding from public and private sources such as governments, banks and insurers via loans, guarantees, export credits etc.

    c. *Key developments so far:* Glasgow Financial Alliance for Net Zero (GFANZ) coalition with assets under management worth $130tn of private capital pledges to hit net zero by 2050.

What This Might Mean for Business

1. **Opportunity to reassess resource allocation framework** as there is further clarity in the policies that will to be used to effect change e.g., penalising emitters, encouraging low-carbon sources, climate-related disclosures

2. **Greater investor confidence in green industries** as there is more certainty in the regulatory framework e.g., EV, hydrogen, climate adaptation, nature-based solutions

3. **Publicly listed high-emitting companies come under greater scrutiny**. Most plan for a green transition by shifting their portfolio and reskilling workers, whilst managing stranded assets. There may be a shift of brown assets from public to private hands, where the standards and transparency are arguably lower.

4. **Enhanced investor scrutiny on corporate net-zero targets and pathway** to achieve them e.g., greater push to have science-based, net-zero climate targets in line with the 1.5 degrees

5. **Significant boost to the Climate Financing market**, including financing for adaptation and mitigation
in vulnerable countries, in addition to investments to scale innovation in hard-to-abate sectors such as aviation, shipping, cement and steel

6. **Falling cost of capital for green companies** as higher ESG scores correlate with lower regulatory, environmental and litigation risks and as brown companies face more challenged access to capital

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About Marakon

Marakon is a strategy and organisational advisory firm with the experience and track record of helping CEOs and their leadership teams deliver sustainable, profitable growth. We get hired when our client's ambitions are high, the path to get there is not clear (or taking too long) and lasting capabilities are as important as immediate impact.

We help clients achieve their ambitions for sustainable, profitable growth through:

- Stronger strategies and advantaged execution based on:
  - A better understanding of what drives client economics and value
  - Insight into changing industry dynamics and the context in which clients need to succeed
- A stronger management framework to generate better ideas and link decisions and actions to value
- A stronger organisation with a more focused top management agenda and well-aligned resources
- A more confident and effective leadership team that's focused, decisive and strategic

We have a joint team delivery approach where client ownership and engagement is paramount. Partners are highly engaged in the work product and supported by strong analytical and industry relevant capability. We work as advisers and catalysts in close, trust-based relationships with top management teams.