# COP26 Glasgow

# Key Takeaways

November 2021

Carbon Market Institute

*business leading transition*

The UNFCCC's 26th Conference of Parties (COP26) brought together in Glasgow almost 40 000 people from national government delegations, civil society, business and finance. Due to take place in 2020, the COP was delayed one year by COVID-19. As a registered business observer group the Carbon Market Institute (CMI) supported business members attendance at the COP and engaged across various events, hosting three special COP26 Carbon Conversations.

COP26 was meant to be mainly an ambition COP focusing on boosting Nationally Determined Contributions (NDCs), most of which had 2030 timelines, pushing for mid-century Long-Term Strategies and building on climate finance commitments for assisting developing countries mitigation and adaptation efforts. However, the COP was also tasked with concluding outstanding elements of the Paris Agreement Rulebook unable to be agreed in 2018 and 2019 COPs. These included the rules for transparency and common time frames as well as for international cooperation and carbon markets under Article 6 of the Paris Agreement.

Rules on transparency and common time frames were crucial to the "pledge, review and revisit" Paris Agreement ambition ratchet mechanism which would suffer from limited accountability or comparability.

Article 6 of the Paris Agreement has been described as its "engine of international cooperation … vital because countries can cut emissions faster & deeper together than on their own". Research by the International Emissions Trading Association and the Carbon Pricing Leadership Coalition estimated that opportunities that could be unlocked through Article 6 have the potential to reduce the total cost of achieving NDCs by US $250 billion per year in 2030. If countries then re-invest these cost savings in additional decarbonisation efforts, it could boost reductions by a further 50%. Getting these rules right was vital, as the World Resources Institute noted: "depending on how [the rules] are structured, Article 6 could help the world avoid dangerous levels of global warming or let countries off the hook from making meaningful emissions cuts."

In this report, we outline our six key takeaways from the formal decisions agreed at COP26, as well as an Article 6 Rulebook Explainer, providing a high-level outline of the key elements of the rules for global carbon markets.

1. **COP26 boosted climate ambition but, recognising more action and ambition is critical this decade, ensured Australia and others will be under greater scrutiny at COP27 and COP28's global stocktake.**
2. **New rules for international cooperation and carbon markets, provide a platform for high integrity, transparency and comparability but will require corporate and national vigilance on integrity and emission reduction.**
3. **Global capital costs and risks are rising for carbon-intensive countries, companies and projects amidst deepening investor activity, corporate disclosure requirements and carbon trade instrument development**
4. **There is greater emphasis on the importance of protecting, conserving and restoring nature and ecosystems, including forests and other terrestrial and marine ecosystems in achieving net-zero emissions. Australia is well positioned to become a global leader in nature-based solutions development, knowledge brokering, finance and capacity building but needs to nurture its crediting mechanism integrity frameworks and have a more credible emissions reduction trajectory.**
5. **Whether its phase down or phase out, global focus shifts to managing the transition from fossil fuels and the need to do this in a "just" inclusive way.**
6. **Failure to deliver on public and private climate finance pledges remains a stumbling block with commitments to double adaptation funding and a "dialogue" on Loss and Damage barely keeping developing countries at the table; this issue to be central to COP27 and future progress.**

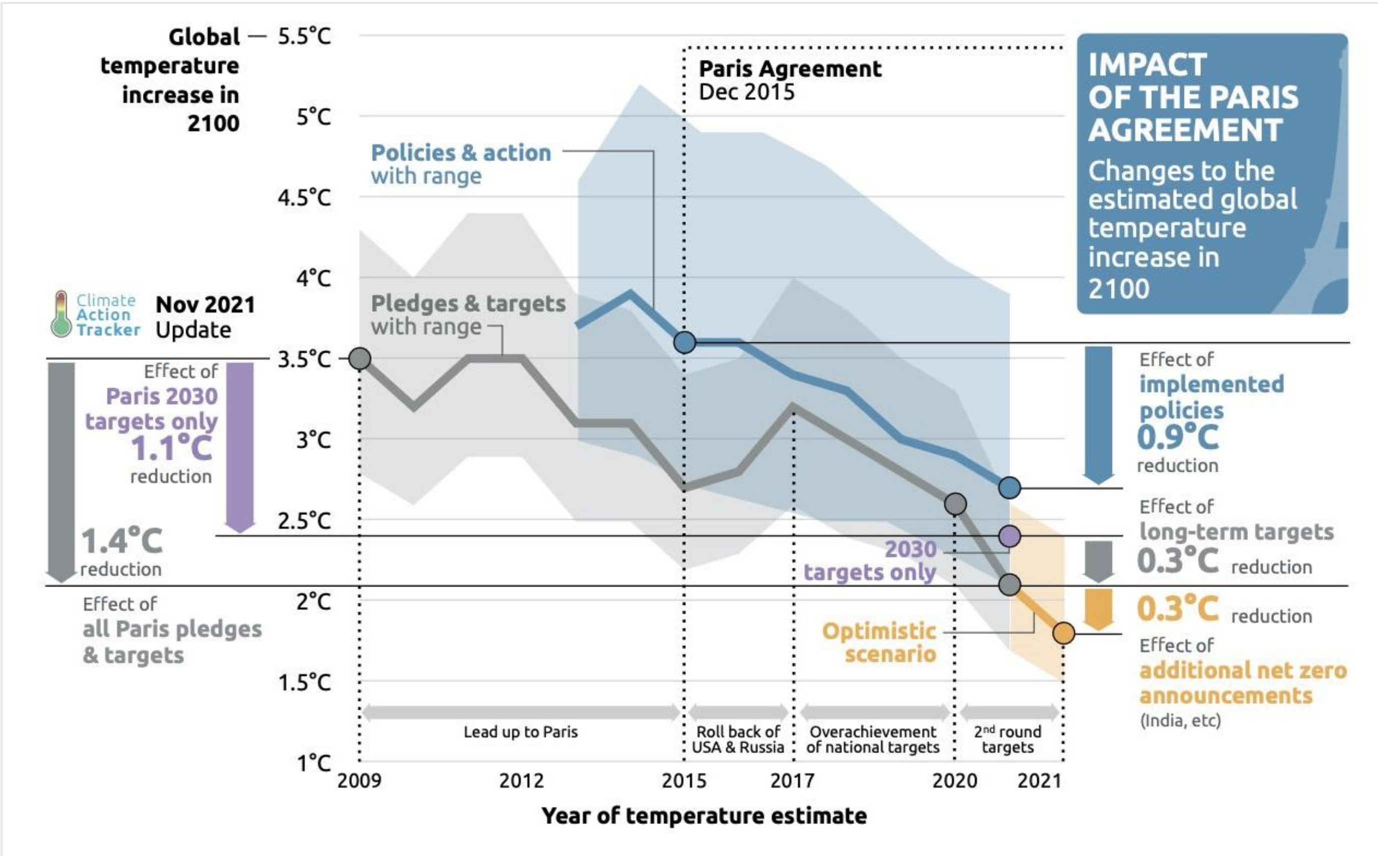
1. **COP26 boosted climate ambition but, recognising more action and ambition is critical this decade, ensured Australia and others will be under greater scrutiny at COP27 and COP28's global stocktake.**

Announcements at COP26 and the final decisions themselves allow a platform for action, with the spotlight now on new responsibilities and opportunities for Australian government and business. Many of these announcements included the enhancement of nationally determined contributions (NDCs) and the launch of a range of group pledges and initiatives, all of which served to deepen the focus on the Paris Agreement temperature goal to pursue limiting average global warming to 1.5°C.

Projections released by the International Energy Agency late in week one, and from the Climate Resource in week two of COP show that the potential longer-term global emissions trajectory has shifted from above 4°C (pre-2015) to now 1.8°C at their most optimistic. A review by Climate Action Tracker of existing 2030 goals and policies however, provided a more sobering assessment, showing we're tracking towards 2.4°C of warming (see Figure 1).

Undeniably we have made important progress on the original trajectory – but despite 90% of global emissions now being covered under net zero 2050 goals, action on the ground must be ratcheted up significantly and urgently. It's increasingly clear that stronger interim targets to drive decarbonisation must be developed and implemented this decade if we are to stave off the devastating climate impacts of greater than 1.5°C average global warming.

FIGURE 1




*GLASGOW'S 2030 CREDIBILITY GAP* REPORT, CLIMATE ACTION TRACKER 2021

We now move fully into a world aligned with the Paris Agreement, and political scrutiny will intensify on the revision and enhancement of NDCs in 2022, and on the need for more ambitious 2030 targets and the policies to get us there. Rules are in place for cooperative market-based approaches through Article 6, which provide the potential to unlock up to USD$250 billion in annual savings towards meeting NDCs by 2030. Reinvestment of those savings into enhanced ambition could more than double current levels of ambition currently on the table.

Of course, scrutiny will continue to come in more sophisticated forms, from civil society, business, and investors, as well as from other nations with whom Australia needs to retain strong aid, trade and diplomatic relationships. Australia updated its NDC with the net-zero by 2050 commitment, technology goal timelines and the *projection* of 35% reductions by 2030. The commitment of 26-28% remained. This has been widely criticised for failing to meet the pace of the rest of the developed world in setting stronger 2030 targets, underscored by the absence of a 1.5°C mention in the Australian Government's modelling for its net-zero 2050 long-term climate strategy 'The Australian Way'. This will be noted by Pacific leaders and other international observers.

Global climate ambition and action is moving quickly. Australia and its economy will increasingly be impacted by the policies of nations and other actors if it does not come to the table with a clear position that drives proactive leadership on climate change, rather than providing voluntary options only. For Australian businesses to accelerate, and manage risks, they will need to look to subnational and international governments, as well as finance, business and civil society vectors for the leadership and direction that is lacking elsewhere in our domestic policy landscape. Internal capacity building, as well as intergovernmental and cross-sectoral collaboration on common challenges will help business to remain in the slipstream of the global transition now decidedly underway.

*More detail on high level announcements, including Australia's involvement can be found in the appendix.*

**2. New rules for international cooperation and carbon markets provide a platform for high integrity, transparency and comparability but will require corporate and national vigilance on integrity and emissions reduction.**

Under Article 6 carbon market rules, COP26 has delivered a platform for greater cooperation and established a governance framework for international emissions trading with the capacity for high integrity. Booming global and Australian voluntary carbon markets will now need to appropriately align with these rules to ensure verified emission reductions are eligible for international trading. Indeed our existing and planned emissions trading and crediting verification frameworks, the Safeguard Mechanism backed by Australian Carbon Credit Unit registration and the Indo-Pacific Carbon Offsetting Scheme in development, could help establish international standards and norms of best practice.

Agreement was reached on all the major critical issues of double counting, corresponding adjustments, the transition of the Kyoto Protocol's Clean Development Mechanism (CDM) and levying a 'share of proceeds' from global market transactions to help fund global adaptation efforts. The full suite of Article 6 outcomes reached at COP26 (included much-needed definitions) have been outlined in CMI's Article 6 Rulebook Explainer. A Supervisory Body is to be established in 2022 and will be required to approve methodologies and verification frameworks.

For market participants, there have been two previously unresolved issues that might have impacted ongoing access to, and engagement in, global voluntary carbon markets. These have largely been resolved as below:

- The CDM will transition, but with significant wiggle room: certified emissions reductions (CERs) issued under the CDM may still be used towards NDCs under Article 6.4, provided that the project was registered during/after 2013. These transitioned CERs will not require a corresponding adjustment as they are pre-Paris Agreement, and they will be identified as pre-2021 emission reductions in the Article 6 registry. Conservative estimates indicate that that this might result in up to 300 million CERs being transferred to the new market.

  Given the increased civil society and investor scrutiny on the integrity of countries and companies' emissions reduction claims, it's unlikely that procurement of post-2012 CERs for current targets will be well-received, compared to post-2020 units that are more additional in Paris-era markets. COP observers are commenting that it's more likely that these units will get absorbed by the host countries to supplement their own immediate NDC commitments.

  Thankfully, this transition isn't open-ended. CERs may be used towards achievement of a country's first NDC only (for Australia this would mean before 2030), and any currently operating CDM projects can only generate CERs until 2025, at which point they will need to apply to transition to an approved Article 6 method if they wish to generate Paris-era A6.4 emissions reductions (A6.4ERs). On balance these measures allow for a substantial amount of pre-2020 credited activities to be recognised, but it will enable an orderly transition, as well as a clear pathway that will likely stimulate sizeable new investment in much needed emissions reductions and removal activities this decade.

- No Double Counting Allowed with requirement for Corresponding Adjustments: There have been ongoing questions about whether units that are generated in sectors not covered by a country's NDC can be freely traded in carbon markets, or whether the need for corresponding adjustments of units between registries would restrict market access to such units.

  The rules now in place require host countries to 'authorise' new Paris-era units for use either towards (inside) an NDC, or for a non (outside) NDC-related international mitigation purpose. Under Article 6 rules, business will be able to invest in emissions reductions abroad, and communicate that they are either contributing towards our domestic national emissions reductions targets, or independently claiming these 'international mitigation' units for their own corporate purposes. All such trades will now require corresponding adjustments to ensure accurate accounting, transparency and integrity (avoiding double counting by countries, or double claiming by other market participants). The exact interaction between Article 6.4 mechanism registries, international registries, and domestic registries under 6.2 bilateral/multilateral arrangements are for discussion in 2022 and decision at COP27.

Providing access to authorised 'international mitigation' units will also help to prevent private sector issues around 'double claiming' emissions reductions that are being 'counted' towards NDC commitments and ensure that such net-zero or carbon neutral claims made by business have integrity, are trustworthy and credible.

### A Risky Gap in International Crediting Remains

In a separate decision, countries decided that no requests for registration, renewal of crediting period and issuance of [CERs] occurring after 31 December 2020 may be submitted under the CDM. Instead, carbon project developers must make these requests to the new 6.4 crediting mechanism and its supervisory body. As the 6.4 mechanism, its secretariat and Supervisory body are yet to be set up (and is likely to take a few years to do so), existing CDM projects are now faced with a gap in credit issuance, meaning the financial sustainability and ongoing commercial operation of many projects may be at risk.

This not only applies to the economics of trading units for market participants, but also may impact critical finance flowing to communities and those on the ground undertaking projects. At present, the only detail on timing is that applications for a transition to new 6.4 methods must be made by the end of 2023 and provided to the 6.4 Supervisory body by the end of 2025, meaning the issuance of new credits would likely be in 2026 and beyond. Market participants are pleased that the uncertainty about whether a market will exist is now over, but obviously concerned by the long delay.

One interim solution may be to attempt a transition to crediting under other standards (e.g. Verra/Gold Standard), but again the numbers might not stack up given the difference in prices and costs It will be critical for negotiators in the lead up to (and at) COP27, to provide a clear pathway for issuance of new A6.4ERs for these projects (including timelines for new method approvals and the required registry, crediting and verification infrastructure), so that critical climate action this decade is not abandoned.

On balance these measures allow for a substantial amount of pre-2020 credited activities to be recognised, but it will enable an orderly transition, as well as a clear pathway that will likely stimulate sizeable new investment in much-needed emissions reductions and removal activities this decade.

### Increased Integration of Carbon & Co-benefits

In the past, carbon market participants have focused on the mantra that when it comes to emissions reductions, 'a tonne is a tonne'. With a swell of support for markets to contribute towards climate mitigation, adaptation and other sustainable development goals, the new rules of Article 6.2 and 6.4 mechanisms clearly note that:

- In 6.2, that ITMOs represent '*emission reductions and removals, including mitigation co-benefits resulting from adaptation actions and/or economic diversification plans or the means to achieve them, when internationally transferred*'; and
- In 6.4, that registration of projects provides information on '*how the activity fosters sustainable development within the host country*'.

These rules and guidance provide clarity that co-benefits will be critical as part of development of new emissions reduction activities, as well as in due diligence, valuation and reporting processes.

### Progress, work to do with integrity crucial

Whilst we finally have a rulebook for how carbon markets will operate, much of the technical and administrative details have been moved to a forward workplan. This includes discussions on whether emissions avoidance activities will be approved as a way of generating carbon credits under Article 6, alongside emissions reduction and removal activities (See section 6 below). These, and other issues will form a key part of discussions throughout 2022 and negotiations at COP27 in Sharm El-Sheikh, Egypt. Integrity will be a dominant focus for host country and voluntary market initiatives that will feed into the development of Article 6 market standards.

The San José Principles Coalition for High Ambition and Integrity in International Carbon Market was formed in Madrid at COP24 where the Article 6 Rulebook was to be concluded. At the end of COP26 the Coalition reframed their key asks highlighting the following actions and defining the main areas of integrity focus:

1. ***Applying corresponding adjustments for all compliance uses, regardless of their final use.*** This applies to international mitigation purposes such as the use of credits under the ICAO Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) and other similar mitigation commitments.
2. ***Applying corresponding adjustments to support voluntary corporate climate commitments*** in mitigation outcomes used by corporate actors for voluntary climate goals through international voluntary carbon markets, as also requested by participants in the voluntary market.
3. ***Supporting transparent and credible corporate claims***. In many cases, national governments will need to provide corporate claims guidance or other protections to support consumer understanding. In the absence of guidance on corporate claims such as "carbon neutrality," we stress that use of the voluntary market should not lead to displacement of ambition by host countries, nor to misleading claims.
4. ***Avoid transacting pre-2020 units***, including Certified Emissions Reductions (CERs) from the Clean Development Mechanism (CDM) and Assigned Amount Units (AAUs) from the Kyoto Protocol carried over into the new Article 6.4 mechanism, among others.
5. ***Engage with Parties and stakeholders that equally uphold the San Jose Principles*** in their participation in cooperative approaches.
6. ***Constructively engaging in the Article 6 technical work plan*** under the UNFCCC's SBSTA to finalize additional technical details before 2023.
7. ***Working to ensure the protection of human rights and the rights of Indigenous Peoples and other local communities*** particularly when engaging in carbon markets.

3. **Global capital costs and risks are rising for high carbon countries, companies and projects amidst deepening investor activity, corporate disclosure requirements and carbon trade instrument development.**

Ahead of COP26, a record 733 institutional investors with more than US$52 trillion in assets under management presented an ambitious statement to governments, calling for a range of measures to help avoid catastrophic temperature rise and manage climate risk, including ending fossil fuel subsidies, phasing out thermal coal-based electricity, and mandating climate risk disclosure. At COP, The Net-Zero Asset Managers Initiative released its first progress report, noting that signatories disclosed that 35% (USD $4.2 trillion) of their total assets under management is being managed in line with achieving net zero by 2050. A record 92 new asset managers representing USD $10.8 trillion in assets have joined the initiative, bringing the total to 220 investors managing USD $57.4 trillion. The Glasgow Financial Alliance for Net Zero (GFANZ) announced that over $130 trillion of private capital is now committed to driving a net-zero economic transition. These commitments, from over 450 firms across 45 countries, can help deliver the estimated $100 trillion of finance needed for net-zero by 2050.

These developments will be bolstered by the recently launched International Sustainability Standards Board (ISSB), which will drive globally consistent, comparable and reliable sustainability reporting approaches aligned with the TCFD. Australia's Investor Group on Climate Change has recently commented that this soon-to-be-released climate disclosure standard should be used by the Australian Government as a 'platform for a mandatory Australian disclosure regime'. Regardless of a mandatory regime, this imminent standard will allow sustainability reporting to make its way towards being on the same footing as financial reporting. This has since been complemented by:

- the statement from the Coalition of Finance Ministers for Climate Action, and Network of Central Banks and Supervisors for Greening the Financial System (NGFS) urging all finance ministries, central banks and financial supervisors to take action to implement economic policies and promote financial flows consistent with Paris; and
- recommendations made by the International Organisation of Securities Commissions (IOSCO - that regulates over 95% of the world's securities markets in 130 jurisdictions), on avoiding greenwashing in sustainability-related practices, policies, procedures and disclosures in the asset management industry.

The Reserve Bank of Australia and the Australian Prudential Regulation Authority have recognised the impacts of climate change on macroeconomic and financial stability, recently releasing a joint statement committing to monitoring ASX listed companies' management of climate risks. It signalled that related regulation is "inevitable" and will extend to monitoring the impacts of Australia's climate-related policies on the economic system. The Reserve Bank of India has made the same pledge, and the UK government is now mandating TCFD disclosures.

This is neatly summed up by GFANZ, which states that, '*every company, bank, insurer and investor will need to adjust their business models, develop credible plans for the transition to a low-carbon, climate resilient future and then implement those plans. Private finance can help fund private sector initiatives and turn billions committed to climate investment through public channels into trillions of total climate investment. But unlocking systemic change will require collaborative, ambitious commitments and near-term action across the entire financial system*'.

The reality that carbon is becoming a more crucial aspect of trade instruments was reinforced firstly by long standout Turkey signing the Paris Agreement citing concerns over the EUs Carbon Border Adjustment. There was further considerations from other jurisdictions but the biggest development was the US-EU Tariff Agreement on Steel and Aluminum. "The agreement ultimately to negotiate a carbon-based arrangement on steel and aluminum trade addresses both Chinese overproduction and carbon intensity in the steel and aluminum sector," White House National Security Adviser Jake Sullivan said, adding that the climate and workers can be protected at the same time.

These developments highlight the growing reality from the investment and trade community that capital is shifting away from carbon intensive companies, countries and projects towards assets and organisations that can clearly articulate a transition strategy that manages climate-related risks. Australian business and investors are not immune to these pressures.

4. **There is greater emphasis on the importance of protecting, conserving and restoring nature and ecosystems, including forests and other terrestrial and marine ecosystems in achieving net-zero emissions. Australia is well positioned to become a global leader in nature-based solutions development, expertise, finance and capacity building but needs to nurture its crediting mechanism integrity frameworks and have a more credible emissions reduction trajectory.**

Nature was high on the agenda at COP26, with the final cover decision including mention of both biodiversity and climate crises, and noting the need for better interlinkage between efforts to mitigate both. The final text also invited countries to submit views on enhancing climate action on land; set out forward work programs to strengthen ocean-based action (delivering an initiative of the Fijian COP23 Presidency) and carried forward the Koronivia joint work program on agriculture.

This formal acknowledgement at the end of negotiations was in addition to announcements earlier in COP, of the Glasgow Leaders Declaration on Forests and Land Use, the Global Forest Finance Pledge, the Indigenous Peoples' and Local Communities' (IPLC) Forest Tenure Joint Donor Statement, and the multilateral development banks' (MDB) Joint Nature Statement. What's more, we've seen a high-level increase at COP in the focus on nature in the context of agriculture and food& fibre trade, underpinned by the announcement of a roadmap for Forests, Agriculture and Commodity Trade, and a private sector-led Agricultural Commodities Companies Corporate Statement of Purpose, signifying the critical role the sector has in contributing to global climate and other sustainable development goals. These and other programs are highlighted in Carbon Brief's Key outcomes for food, forests, land use and nature in Glasgow.

The role of nature-based solutions (NBS) has always been critical for climate action, however the increased momentum around nature, and the integration with agriculture action puts Australia in a strong position to become a global leader, given its experience in project development, knowledge brokering, finance, capacity building and in public institutions, legal and MRV frameworks. The advent of the Article 6.4 and 6.2 rules and detail around method development shows that we need to continue to nurture and improve our crediting mechanism integrity frameworks and have a more credible emissions reduction trajectory which will be the bedrock of how carbon markets will operate.

To enable this however, we need to develop and deploy at scale the capacity, tools and technologies in data measurement, reporting and verification, that will enable emissions reductions and removals with high integrity, transparency, accountability and additionality. This same rigour will need to also be applied and reapplied to our methodologies, as well as the policy, market and financing frameworks to ensure our carbon farming industry continues to be Paris-aligned. This includes better quantification and valuation of co-benefits, and the integration of these into project activities.

For Australian business, the focus will need to be on ensuring the highest possible integrity in their offset investments, as civil society and financial regulators will now more closely scrutinise whether net-zero and carbon neutral claims - and the carbon project activities used to meet them – are aligned with the Paris Agreement. Corporate buyers will need to build internal capacity and the due diligence frameworks to critically analyse environmental integrity as well as co-benefit claims presented to them and understand whether activities invested in are ensuring human rights, the rights of Indigenous Peoples' rights, and embedding other safeguards.

### Emissions avoidance and conservation enhancement in focus

While a last minute flashpoint, COP26 excluded legacy pre-2020 REDD+ avoided deforestation credits but left open a pathway to inclusion of credits from post 2020 projects. COP decision text for Article 6 has broad, and relatively vague language that pushes discussion of this to 2022 discussions, and COP27 decision making. Article 6.2 text requests for the UNFCCC's Subsidiary Body for Scientific and Technological Advice (SBSTA) to consider "*whether internationally transferred mitigation outcomes could include emission avoidance.*" Article 6.4 text requires SBSTA to consider "*whether activities could include emissions avoidance and conservation enhancement activities.*"

In early drafts of the 6.4 text, "removals" were restricted to the agriculture, forestry and land-use sector. As reported by Carbon Brief, by the final decision, "removals" are more general and the reference to the land-sector has been removed. This could potentially now include other negative emissions technologies and not just land-use.

On this issue the Ecosystem Marketplace also notes *"The issue of reductions vs removals emerged in recent reports by the Intergovernmental Panel on Climate Change (IPCC), which has concluded that we must dramatically increase removals by 2050 to meet the climate challenge. Existing carbon credits tend to focus on activities that reduce emissions, activities that remove gasses were seen as a future activity. There is, however, an active debate among NGOs as to how to strike the balance between strategies that use ITMOs to support reductions and those that use them to support reductions.*

There is a significant need to scale up negative emission removals which provided a small percentage of credited Kyoto era activities under the CDM.  But as the Glasgow Climate Pact cover text reflects, the biodiversity "protect, conserve, restore" hierarchy as crucial in the achievement of net-zero emissions. Statements made from developing countries like the Philippines, show a desire to include REDD+ and other conservation activities within the realm of markets – and to provide a pathway for financing these critical climate mitigation efforts outside of existing inadequate funds.

This may impact the international exchange potential of existing Australian conservation activities, as well as implemented ERF methods like avoided deforestation, Indigenous-led savanna fire management activities, and other industrial avoidance activities.

With markets expanding and a lot of detail yet to be decided before A6 markets will become fully operational, increasing NDC and corporate commitments mean countries and non-state actors will be looking for secure, low risk, high quality sources of abatement. It is worth Australian actors looking at how they can invest now in local nature-based abatement activities with co-benefits, as demand for these will increase in voluntary markets throughout the next decade, during and after formal markets come online.

5. **Whether its phase down or phase out, global focus shifts to managing the transition from fossil fuels, decarbonising hard-to-abate sectors, and the need to do this in a "just" inclusive way.**

For the first time ever in a COP decision (section IV. 20), countries supported a stronger pathway away from the reliance on coal and other fossil fuel energy. In the closing plenary India demanded a change to the draft language, from a 'phase out' to a 'phase down' of unabated coal power and phase out of inefficient fossil fuel subsidies.

Although a bitter pill for many countries to swallow, it was moved through for the sake of the rest of the negotiated package. Many countries protested this move in their closing remarks, noting that the process for making this addition had not been consultative or transparent.

Despite this last-minute dilution, there is a clear trajectory, and a historic focus on transitioning from coal reliance. As an emissions-intensive, trade-exposed economy, Australia and Australian business will need to be more cognisant of the decarbonisation policies of our global trading partners and clarify our own energy transition pathways.

Of course these structural economic shifts take time, and it is critical that vulnerable communities and affected workforces are appropriately consulted, engaged and supported through a just transition.

Increasingly, political scrutiny will focus on Australia's response to this requirement to phase down in future NDCs and ambition pledges, and business will come under stronger scrutiny from civil society, investors and international trading partners that see Australia as misaligned with Paris in the medium to long-term.

COP also added a focus on collaborative approaches to supporting the energy transition for fossil-fuel dependent economies. The Global Coal to Clean Power Transition Statement formally launched at COP26, along with the Political Declaration on the Just Energy Transition in South Africa, provide models for how countries will be actively driving the transition.

Investor groups in Climate Action 100+ also announced a world-first collaboration with eight major diversified mining companies to progress the decarbonisation agenda for the sector. The initiative aims to set out a reliable standard for net zero for the mining sector which represents an estimated 4-7% of global emissions and includes companies whose operations cover approximately 8% of Australia's national emissions.

6. **Failure to deliver on public and private climate finance pledges remains a stumbling block with commitments to double adaptation funding and a "dialogue" on Loss and Damage barely keeping developing countries at the table; this issue to be central to COP27 and future progress.**

Discussion at and preceding the COP at the G20 meeting signalled a growing focus on the need to ensure climate adaptation efforts are sufficient to meet the inevitable physical impacts of climate damage. Developed countries conceded the commitment to mobilise USD $100bn of climate finance each year by 2020 for mitigation and adaptation measures in less developed countries was unlikely to be reached before 2023.

Adaptation finance constitutes an estimated 25% of climate finance, but consensus is forming that this split should in fact be 50:50. Australia announced an additional AU$500m commitment to adaptation finance, accompanied by Italy's additional $1.4bn p.a. over the next 5 years and Japan's $2bn, UK's additional £1bn, and more contributions from the likes of Norway, Spain, Canada and Norway, the US and others.

COP26 agreed a two-year "Glasgow Sharm el-Sheikh work programme" to define a new global goal on adaptation and developed countries pledged to "at least double" adaptation finance between 2019 and 2025.

Painstaking progress was made in acknowledging the loss and damage already being caused by warming. Despite considerable efforts from developing countries to establish a Loss and Damage financing facility, a two-year Glasgow Dialogue "to discuss the arrangements for the funding of activities to avert, minimize and address loss and damage".

As the need to channel funds and other resources towards climate adaptation will increase over time, the importance of non-state (private) financing mechanisms will also increase. Australian business has already indicated a strong intention to contribute to this, through initiatives such as the Indo-Pacific Offsets Scheme (IPCOS). This will see the establishment of an Article 6.2 compliant carbon market that invests in and develops regional emissions reductions projects that can also bolster adaptation capacity in Indo-Pacific countries.

Development of the IPCOS should also consider inclusion of dedicating a percentage of international trades for adaptation and "overall mitigation of greenhouse emissions". The Sustainable Development Mechanism to be established under Article 6.4 requires a contribution of 5% for the former and 2 % for the latter at issuance but such levies are only voluntary under Art 6.2 mechanisms like IPCOS.

Additional to the challenge of the shortfall in meeting the $100bn per year climate finance goal is the challenge of ensuring this finance can be accessed in a timely manner. There is a need to address the predictability, adequacy, and effectiveness of adaptation finance, and ensuring financing structures do not add to the debt burden faced by many countries on the climate frontlines. The decision not to provide some funding through the Green Climate Fund or Adaptation Fund collective mechanisms, but rather concentrate on bilateral funding, further exposed Australia to criticism.

Just as important is the channelling of resources and support to ensure capacity building in these countries. This will include technology and knowledge transfer, institutional strengthening, and developing the electronic infrastructures necessary to enable a smooth transition to Article 6 cooperation mechanisms. The Australian Government announced an additional $44m over 10 years towards developing inventories, carbon accounting, and other infrastructure development in the Indo-Pacific region, through IPCOS. The Santiago Network will begin operationalisation next year as well, which will aim to generate technical assistance to address loss and damage.

This trend is also seen elsewhere – the UK and Fiji launched a Taskforce on Access to Climate Finance, to smooth the path for countries seeking to access climate investment, working with five countries in the pilot phase (Fiji, Rwanda, Uganda, Jamaica and Bangladesh). Multiple investment vehicles are set to be launched to help finance the transition away from coal (such as the Energy Transition Mechanism Southeast Asia Partnership under the Asian Development Bank, and the Political Declaration on the Just Energy Transition in South Africa), and such initiatives can be expected to be expanded to co-financing investments in adaptation measures as well. Together with 44 other governments, the UK also pledged more than £3bn greener and more resilient agriculture in developing countries. This included a coalition of donors pledging more than USD $500m to advance climate smart innovations for smallholder farmers in sub-Saharan Africa and South Asia.

Ensuring that the voices and aspirations of local communities and Indigenous peoples in developing nations are heard and integrated into such efforts will be vital. The Australian carbon industry has growing experience in this including through the work of the Indigenous Carbon Industry Network. There is much also to be learnt from our Asia and Pacific neighbours, with deep knowledge in managing natural environments.

The focus on finance will intensify in the lead up to COP27 in Egypt in November 2022. Failure to credibly progress financial mobilisation, or enhance 2030 NDCs as requested, may well eclipse work programmes in other areas such as refinement of carbon market rules.

## APPENDIX: Key COP26 Announcements & Pledges

Accelerating the Transition to 100% Zero Emission Cars and Vans Declaration

Governments at national & subnational levels, automotive manufacturers, business fleet owners & operators, investors, financial institutions have committed to: work towards all sales of new cars and vans being zero emission (at tailpipe, doesn't include light vehicles e.g. motorbikes which constitute 70% of sales globally) globally by 2040, and no later than 2035 in leading markets; investors with shareholdings related to auto-emissions will engage with investees to accelerate this, and encourage organisations within which they have shareholdings to decarbonise fleets; financial institutions to make financial & capital products available to accelerate this transition.

**Supported by the ACT & Victoria as formal Signatories**
**NSW has indicated its intention to become a formal Signatory**
**Australia's absence noted**

Agricultural Commodity Companies Corporate Statement of Purpose

Working with governments, farmers, etc, accelerate sector-wide action, public-private collaboration, eliminating commodity driven deforestation. Will lay out roadmap by COP27. Priority areas: enabling policy environments, transparency on scope 3 emissions and indirect supply chains, and improving livelihoods for farmers.

**Not Applicable for Australia**

Breakthrough Agenda Statement

Launched at the Leaders' Summit, the Breakthrough Agenda aims to make clean technologies and sustainable solutions the most affordable, accessible and attractive option in each emitting sector globally before 2030. The Agenda has four key priorities, known as the 'Global Checkpoint Process':

- IEA (in collaboration with others), will assess global progress of making clean tech solutions more affordable & accessible in each emitting sector globally before 2030;
- Improved coordination between initiatives;
- Ministerial discussions on the State of the Transition; and
- Encourage new leaders-level commitments, launch new breakthroughs in areas not yet covered incl. aviation, land use, etc.

**Endorsed by Australia**

Clydebank Declaration for Green Shipping Corridors

Support the establishment of green shipping corridors – zero-emission maritime routes between 2 (or more) ports; aiming for at least 6 green shipping corridors by 2025; addressing regulatory barriers, incentives; consider the inclusion of provisions for green corridors in the development or review of National Action Plans; and more.

**Endorsed by Australia**

[Coalition of Finance Ministers for Climate Action, and Network of Central Banks and Supervisors for Greening the Financial System Joint Statement]
Finance ministries, central banks and financial supervisors need to take action within their respective fields of responsibility to implement appropriate economic policies and promote financial flows "consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" as set out in the Paris Agreement; dialogue & collaborative action at national & international levels, with finance ministers, central banks, etc; will identify importance of capacity building & training; strive to better reflect cross-cutting issues (ag, forestry, land use).

**Australia's absence noted**

[Forests, Agriculture and Commodity Trade Dialogue]
Promoting sustainable development through ag & trade, protecting critical ecosystems. Indicative roadmap sets out priority areas: trade and market development; smallholder support; traceability and transparency; and research, development, and innovation.

**Australia's absence noted**

[Glasgow Leaders' Declaration on Forests and Land Use]
Strengthening efforts to conserve forests & terrestrial ecosystems; build resilience & rural livelihoods, empower communities, etc; develop/re-design agricultural policies; align financial flows with goals to reverse forest loss & degradation. The 137 endorsers represent 90.76% of forest cover.

**Endorsed by Australia**

[Global Action Agenda for Innovation in Agriculture]
Increase investment in agricultural research & innovation for climate-resilient, low-emissions technologies & practices; showcase successful business models; and promote public-private partnerships.160 allies including World Bank, World Food Program; Rainforest Alliance, ADB, Rabobank – and 20+ investors, funders & initiatives, aiming to mobilise over US$5bn for agricultural financing.

**Australia confirmed as a formal 'Ally'**

[Global Coal to Clean Power Transition Statement]
Transition away from unabated coal by 2030 for developed & 2040 for developing countries in a way that benefits workers & communities, with affordable, sustainable, reliable energy; scale up deployment of clean power generation, energy efficiency & support for other countries; cease issuance of new permits for new unabated coal projects. Dozens of countries, subnationals & organisations have signed.

**Supported by the ACT**
**Australia's absence noted**

[Global Forest Finance Pledge]
Collectively provide US$12 billion for forest-related climate finance between 2021-2025, in OD- eligible countries; focus on Indigenous land rights, sustainable supply chains with traceability & integrity (incl. through crediting & standards); finance for smallholders; leveraging private capital; and more.

**Australia's absence noted**

Green Grids Initiative: One Sun, One World, One Grid Declaration
Investing in a more interconnected global grid, working with governments, regulators, financiers, institutions, companies, legislators and researchers; creating long-distance cross-border transmission lines; technology RD&D; helping vulnerable communities gain access to clean energy; developing financial instruments, market structures etc. to attract capital.

**Australia confirmed as a formal 'member'**

Global Methane Pledge
United States, the European Union, and partners formally launched the Global Methane Pledge, an initiative to reduce global methane emissions to keep the goal of limiting warming to 1.5 degrees Celsius within reach. A total of over 100 countries representing 70% of the global economy and nearly half of anthropogenic methane emissions have now signed onto the pledge.

**Australia's absence noted**

International Aviation Climate Ambition Coalition
Supporting an ambitious long-term aspirational goal consistent with Paris temperature limits, and in view of the industry's commitments towards net zero CO2 emissions by 2050; expanding and strengthening CORSIA (including corresponding adjustments) and its ambition; promoting sustainable aviation fuels that align with SDGs including food production, land use & water supply; promoting development & deployment of zero-carbon aircraft;  reviewing progress of these commitments (accountability).

**Australia's absence noted**

International Public Support for the Clean Energy Transition Statement
Prioritise support fully towards clean energy transition, enhancing private sector finance; end new direct public support for the international unabated fossil fuel energy sector by the end of 2022, *except in limited and clearly defined circumstances* that are consistent with a 1.5°C warming limit and the goals of the Paris Agreement; calling for multilateral & international bodies, in particular in the OECD, to review, update and strengthen their governance frameworks to align with the Paris Agreement goals.

**Australia's absence noted**

International Sustainability Standards Board
A new standard-setting board, to develop a global baseline of sustainability-related disclosure standards providing information about companies' sustainability-related risks and opportunities.

**Australian involvement not applicable**

IPLC Forest Tenure Joint Donor Statement
Recognise & advance the role of Indigenous Peoples and local communities as guardians of forests and nature, particular focus on strengthening land tenure systems, protecting the land and resource rights of Indigenous Peoples and local communities; effective participation & inclusion of Indigenous peoples. Collective pledge of US$1.7bn between 2021-2025, channelled at capacity building, protecting rights, conflict resolution mechanisms, and more.

**Australia's absence noted**

MDB Joint Climate Statement

Contribute to aligning financing flows with the PA, & developing ambitious NDCs & LTSs; increase the level of **private** capital mobilised, using platforms, investment vehicles, blended finance instruments etc; promote NBS & biodiversity; exploring the potential establishment of a joint MDB LTS Facility; cost effective & equitable approaches to decommissioning coal; MDBs are supporting their client countries to design, pilot and implement carbon pricing, including carbon taxes and fossil fuel subsidy reduction.

**Australian involvement not applicable**

New Mission Innovation Missions

Mission Innovation's second phase has been launched with four new missions, aiming to drive catalytic research and investment; development and demonstration of clean energy technology solutions; and public-private innovation/R&D alliances in collaboration with Bill Gates' Breakthrough Energy. Committed to by 22 countries as well as the EU, these new missions include:

- Cities: 50 large scale demonstration projects of urban decarbonisation will be created.
- Carbon Dioxide Removal Technologies: aiming for 100 million tonnes CO2 removal per year globally by 2030, including via RD&D and pilots activities. **Australia supports via CSIRO**
- Net zero Heavy Industries: incl. steel, cement, chemicals; further info in 2022 **Australia is a co-lead**
- Biorefineries: bio-based alternatives for steel, cement, chemicals etc: further info in 2022.

Political Declaration on the Just Energy Transition in South Africa

Declaration from South Africa, United Kingdom of Great Britain and Northern Ireland, the United States of America, the Republic of France and the Federal Republic of Germany, and the European Union: partnership to support SA's transition of electricity system, protecting vulnerable workers & communities, mobilise US$8.5bn over next 3-5 years, combination of appropriate financial instruments, which may include but is not limited to multilateral and bilateral grants, concessional loans, guarantees and private investments, and technical support to enable the just transition, with a view to longer term engagement.

**Australian involvement not applicable**

Supporting the Conditions for a Just Transition Internationally Statement

Support for workers in the transition to new jobs; promote social dialogue for locally driven just transition plans; enabling frameworks and wider economic and industrial support for workers, enterprises, communities and countries to create sustainable, competitive economies; local inclusive work; looking at the broader flow on impact on supply chains; human rights, slavery, child labour; include information on Just Transition efforts, where relevant, in national Biennial Transparency Reports.

**Australia's absence noted**

U.S.-China Joint Glasgow Declaration on Enhancing Climate Action in the 2020s

Commitment to work together and with other Parties to strengthen Paris Agreement implementation; accelerate climate action and cooperation aimed at closing the gap, including accelerating the green and low-carbon transition and climate technology innovation; cooperation on regulatory frameworks, environmental standards, maximising societal benefits, electrification, circular economy, technology (incl. CCUS/DAC); cooperate to enhance methane emissions reductions and drive down deforestation.

**Australian involvement not applicable**

for more information please contact

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CMI is an independent industry association and centre of excellence with a 2050 vision of a prosperous, climate resilient, net-zero emissions world:

- we speak for business leading the transition to a net-zero emission economy, sharing knowledge, building capacity and catalysing opportunities;
- we are the stewards of Australia's carbon market building integrity and related effective policies, while supporting their continued evolution and integration with regional and global markets; and
- we champion the UNFCCC Paris Agreement and the emerging framework of climate and net-zero emission goals and mechanisms for increasing ambition, international cooperation and investment.

Carbon Market Institute