KPMG

COP25: Key outcomes of the 25th UN Climate Conference

Find out what was agreed at COP25 and what this means for business

December 2019

Background

Recognition of climate impacts is growing

The 25th UN Climate Conference – known as COP25 – took place in Madrid against a backdrop of growing recognition of the impacts of climate change and the need to cut greenhouse gas (GHG) emissions.

Over the last year, climate change has become an increasingly central concern not only for governments and society, but also for businesses. The scientific consensus on the causes and effects of climate change has hardened and the impacts have started to become more evident, from more frequent and more extreme hurricanes and typhoons to devastating wildfires and record temperatures in the Arctic.

Climate change is increasingly a topic for civil protest with the rise of movements including Extinction Rebellion and the teenage climate campaigner Greta Thunberg being named *Time* magazine Person of the Year[1] after inspiring strikes by school students worldwide.

Avoiding catastrophic climate impacts requires deep and rapid decarbonization

The Paris Agreement of 2015 set a global target to limit global warming to 1.5 degrees Celsius higher than pre-industrial levels in order to avoid potentially catastrophic climate impacts. To do this, a major and immediate transformation, unprecedented in history, is needed, according to the Intergovernmental Panel on Climate Change's (IPCC) 1.5 degrees Celsius Report[2] published in 2018.

The UN's Environment Programme[3] says that hitting the 1.5 degree Celsius target requires a cut in GHG emissions of 7.6 percent each year between 2020 and 2030.

The World Resources Institute[4] says "making this monumental shift will require substantial new investments in low-carbon technologies and efficiency."

Investors are beginning to act

In response, some investors are putting increasing pressure on the companies they own to reduce their emissions and those of their supply chains.

Climate Action 100+,[5] representing 370 investors with US$35 trillion assets under management, has had significant success in engaging some of the world's largest emitters of GHGs to commit to net zero emissions policies.

The Principles for Responsible Investing[6] (PRI) predicts that the largest carbon emitters could lose 43 percent of their value, or US$1.4 trillion, by 2025 as governments around the world introduce tougher climate policies in what it calls "an inevitable policy response" as the realities of climate change become increasingly apparent.

And CDP[7] has put the spotlight on the power of supply chains by identifying a massive one billion metric tons of emissions to be saved if key suppliers to the world's biggest corporate purchasers increase their renewable energy use by only 20 percentage points.

What was COP25?

The Conference of the Parties (COP) is the annual meeting of the nations signed up to the UN Framework Convention on Climate Change (UNFCCC). Its purpose is to advance global action to tackle climate change. This year's conference, the 25th (hence COP25) was held in Madrid, Spain, due to cancellation by the original location, Chile. However Chile remained the presiding nation at the conference.

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[1] https://time.com/person-of-the-year-2019-greta-Thunberg

[2] https://www.ipcc.ch/sr15

[3] If current trends persist, global temperatures can be expected to rise by between 3.2 and 3.9 degrees Celsius this century, which is expected to bring wide-ranging and destructive climate impacts. Source: https://www.unenvironment.org/resources/emissions-gap-report-2019

[4] https://www.wri.org/blog/2018/10/8-things-you-need-know-about-ipcc-15-c-report

[5] http://www.climateaction100.org

[6] https://www.unpri.org/inevitable-policy-response/forecast-policy-scenario-equity-markets-impacts/5191.article

[7] https://www.cdp.net/en/articles/media/supply-chains-hold-the-key-to-one-gigaton-of-emissions-savings-finds-new-report

What happened at COP25?

Credit: UNFCCC / Flickr

Why was COP25 important?

At COP21 in 2015, 195 countries signed up to the Paris Agreement, which committed them to keep global temperatures "well below" 2 degrees Celsius above pre-industrial times and "endeavor to limit" them to 1.5 degrees Celsius. In addition, the industrialized countries agreed to pay US$100 billion a year by 2020 to help developing countries to decarbonize their economies.

COP25 had an important role to play in bringing the 2015 Paris Agreement into force and paving the way for more ambitious carbon reduction commitments from governments at the next conference (COP26 to be held in Glasgow, UK). In 2020, nations are due to submit new or updated national climate action plans, referred to as Nationally Determined Contributions (NDCs).

COP25 aimed to develop guidelines on how international carbon markets will work (Article 6 of the Paris Agreement). Other focus areas were adaptation to climate impacts, loss and damage suffered by developing nations due to climate change, and finance for decarbonization.

What happened at COP25?

This year’s COP was the longest on record, over-running by almost two days. It was also widely seen as one of the most fractious and ultimately disappointing in terms of the progress it made. A ‘High Ambition Coalition’ of the European Union, the UK, many smaller nations and business called for stronger action but were opposed by a group of high emitting countries.[8]

In the end, the nations did agree to bring improved emissions reduction plans to COP26 in 2020 after up to 80 countries announced their intentions to do so. (The COP26 host, the UK, is one of a growing number of countries to have set out an ambition to achieve net zero GHG emissions by 2050).

But there was disagreement on the robustness of rules for setting up an international carbon market (Article 6), with some countries objecting to moves to avoid the double counting of emissions to disallow carbon credits from the previous Kyoto Protocol system.

In the end, rather than agree a weakened system, the issue was delayed until next year’s talks. While this was seen as disappointing by those with higher ambitions, it is significant that delegates preferred to delay rather than sign off on a weakened deal. Pressure will grow over the next year for all nations to sign up to a more ambitious international carbon trading system that only uses new carbon credits.

There was also an impasse on how to compensate countries already suffering from the impacts of climate change (the issue known as “loss and damage”). Some developed countries are keen not to be held responsible for climate-related damages, which could reach around US$150 billion a year by 2025.[9]

The outcome of COP25 therefore pushed a number of important decisions into the following year and increases the pressure on the UK to come up with results at next year’s meeting.

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[8] https://edition.cnn.com/2019/12/15/world/cop25-climate-change-intl/index.html
[9] https://backend.orbit.dtu.dk/ws/files/103262442/Adaptation_Gap_Report.pdf

KPMG view: What does COP25 mean for business?

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1. Business still needs to decarbonize

The lack of agreement on rules for international carbon markets will disappoint many companies that are looking for clear guidance and drivers to decarbonize their businesses.

However, the fact that nations chose to postpone the decision rather than accept a poor outcome improves the chances for a stronger deal in 2020. In the meantime, public calls for stronger government action on climate change are only likely to grow worldwide.

Also a number of governments, most notably the EU (and as host of next year's talks, the UK) are stepping up their own policy ambitions for carbon reduction and these will have to be implemented through regulation that impacts business. Businesses therefore cannot assume from the deadlock in Madrid that they can relax their efforts to decarbonize.

The amount of climate regulation and carbon reduction targets around the world continues to increase, even in countries where national governments do not have high ambitions. In many of these countries, progress is being driven by cities, states and local authorities. This means businesses will have to navigate an increasingly fractured regulatory landscape that will encompass multiple carbon markets, possible carbon border taxes in Europe and diverging standards around the world.

2. The science is settled – and increasingly accepted

There were no arguments about whether climate change was real, or man-made, in Madrid. Every year, more evidence emerges. One impact of this is that public and policy pressure on businesses to act has increased and widened. It is not only just the power utilities and fossil fuel producers that are under scrutiny for their GHG emissions, but also other sectors, particularly agriculture, transportation and consumer goods producers.

3. Data points the way to more targeted pressure from investors

A combination of growing amounts of data and improvements in the technology that interprets it means that investors are increasingly focused on targeting the companies responsible for the most emissions through initiatives such as Climate Action 100+. Meanwhile, companies that have signed up to initiatives such as the Science Based Targets[10] and RE100[11] will increase pressure on their suppliers to cut their own emissions.

4. Public expectations of businesses – and governments – are growing

Another notable feature of COP25 was the presence of protestors, from indigenous people, youth climate strikers and other environmental groups. Growing public unhappiness with the effects of climate change – especially among the Millennial and Gen Z demographics – may increasingly direct consumer choices in future and have consequences for companies in a number of sectors, especially electricity and fossil fuel producers, meat producers and beverage makers. For a growing number of sectors, ignoring climate change is not an option – customers demanding change may abandon brands that they perceive as not taking sufficient action.

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[10] https://sciencebasedtargets.org

[11] http://there100.org/re100

A clear direction remains despite disagreement and delay

On the sidelines

As ever, there were many announcements around the conference, which suggest that businesses and investors recognize the urgency of the situation and the need to act, and that they are becoming disillusioned and frustrated by the policy gridlock.

The landmark announcement at this year's summit was the EU announcement[12] that it would set its own ambition for net zero GHG emissions before next year's talks. There are hopes that the EU's so-called Green New Deal will galvanize ambitions around the world.

The Science Based Targets initiative revealed that 686 of the world's largest companies have joined the initiative and 285 have carbon reduction targets in line with the Paris Agreement 2 degrees Celsius ambition or better.[13] As those companies put those plans into action, pressure to cut emissions will cascade down through their supply chains and their value chains.

With the US government planning to withdraw from the Paris Agreement next year, the CEOs of 75 companies and the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), which represents 12.5 million workers, released a joint statement[14] in support of the US remaining in the agreement and calling for a just transition that helps workers in high-carbon industries.

Investors, under the aegis of The Investor Agenda, asked world governments to step up their ambitions to address climate change, including phasing out coal, putting a meaningful price on carbon, ending fossil fuel subsidies and strengthen their carbon reduction commitments.[15]

Conclusion

A clear direction remains despite disagreement and delay

Aligning 195 countries around a global plan to address climate change will always be a monumental challenge. Geopolitical realities mean that the UN climate process will likely remain a fragmented stop-start affair with disappointment and frustration among the moments of hope and celebration.

Three things have been made clear at COP25.

Firstly, the global climate process and the Paris Agreement are still alive despite the setbacks and predictions of its demise.

Secondly, there is a growing disconnect between what is required to address climate change and what many governments are offering to do. Widespread public feeling that governments must do more is not yet being fully reflected in policy. As the impacts of climate change become ever more apparent and alarming, governments that are currently seen as lagging may be forced to implement more stringent policies more rapidly in future.

Thirdly, climate policies are starting to diverge with a clear direction being set in certain parts of the world. Countries that have committed, or intend, to reduce their carbon emissions to net zero by 2050 now account for some two-fifths of global gross domestic product (GDP). This trend of decarbonization is likely unstoppable.

For more information, contact sustainabilityservices@kpmg.com

[12] https://ec.europa.eu/info/sites/info/files/european-green-deal-communication_en.pdf
[13] https://sciencebasedtargets.org/wp-content/uploads/2019/12/SBTi-Progress-Report-2019.pdf
[14] https://www.unitedforparisagreement.com
[15] http://theinvestoragenda.org/wp-content/uploads/2019/12/191201-GISGCC-FINAL-for-COP25.pdf

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