CLIMATE ACTION | #4 Watch Out | 14 November 2021

COP26: Gradual tightening of climate targets

- **COP26 ends in Glasgow with emission cut commitments exceeding those made in Paris as part of COP21**
- **We expect gradual tightening of climate norms to continue across countries going forward**
- **Companies will need to accelerate green spending while large emitters are at risk of further impairment in value**

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COP26 final statement reiterates temperature goal: The COP's statement acknowledges that human activities have caused 1.1°C of global warming and reaffirms the 2015 goal adopted in Paris to limit the rise in global average temperature to 2°C above pre-industrial levels and to further make efforts to curb this rise to 1.5°C. The 1.5°C scenario requires world carbon emissions to reduce by 45% over 2010 levels and the world to reach net zero emission by 2050. The COP26 statement invited all countries to do more to achieve the desired reduction.

Green finance by developed world falls short: The final statement recognises the need for supporting the developing world, both financially and technically, to reduce emissions but falls short of country-specific commitments. However, it acknowledged the efforts being made by the Standing Committee of Finance to determine the needs of developing countries and emphasised the need to mobilise climate finance from "all sources" beyond US$ 100bn per year. As per media reports, developing countries led by India are demanding annual financing of as much as US$ 1tn.

Sunset for coal: The COP26 statement called upon countries to transition towards low-emission energy systems, accelerate the phase-down of unabated coal power and phase out inefficient fossil fuel subsidy.

Impact on listed equities: Given the huge gap between the required reduction in carbon emission and current trajectory of announced cuts, coupled with a lack of adequate financing for the developing world, we believe the pressure on listed entities to do more will intensify. We also believe countries will be urged to tighten emission targets gradually till the world as a whole attains the 2°C trajectory at the least.

Pressure on all companies to reduce scope 2 emission (related to purchased power) will force them to increase capex on clean tech, energy efficiency and purchase of renewable power. We believe large emitters such as coal, refiners, steel and cement will likely see gradual impairment in value while companies that provide energy efficiency and clean technology services will gain. Please read our note **Clean your way up** of 9 June 2021 for a detailed analysis.

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Note: Recommendation structure changed with effect from 21 June 2021

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