

COP26: What are the takeaways for business leaders in Asia?

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Along with the rest of the global business community, I watched the proceedings at COP26 in Glasgow with keen interest. Expectations were running high ahead of the event and debate will continue over whether official talks at COP26 accomplished enough. However, momentum has shifted, and the climate commitments launched in Glasgow will reshape the agenda for global business.

Just prior to the event McKinsey set out our thinking on nine requirements for solving the net-zero equation, and ensuring an orderly transition. Looking at the results of COP26 through this framework provides a useful scorecard for business leaders in Asia to see what has been achieved and what more needs to happen.

Physical building blocks

1. Technological innovation

Innovation in technology is a key requirement for the transition. There were two agreements during the summit that could be transformational.

The Breakthrough Agenda saw more than 40 nations agreeing to ‘make clean technologies and sustainable solutions the most affordable, accessible and attractive option in each emitting sector globally before 2030.’ The first five breakthroughs will be clean electricity, electric vehicles, green steel, hydrogen, and sustainable farming.

Mission Innovation saw 22 governments and the European Commission committing to four new ‘Missions’ to catalyze investment to accelerate technologies which will: facilitate urban transitions; eliminate emissions from industry; enable carbon dioxide removal; and produce renewable fuels, chemicals, and materials. This combines with three Missions first announced in June 2021, on power systems, hydrogen, and shipping. These technologies have the potential to revolutionize sectors that account for over half global emissions.

2. Ability to create at-scale supply chains and support infrastructure

Widespread agreement here was lacking. However, the agreement on carbon markets creates a strong incentive structure to transition supply chains and infrastructure. It will allow countries that reduce emissions beyond their targets to sell carbon offset credits to other countries.

3. Availability of necessary natural resources

Nature-based solutions to the climate crisis were much discussed. The Glasgow Leaders’ Declaration on Forests and Land Use was the first major agreement announced. Some 137 countries covering 91 percent of the world’s forests agreed to work together ‘to halt and reverse forest loss and land degradation by 2030’. Put simply, we cannot get to net-zero without nature-based solutions.

Economic and societal adjustments

4. Effective capital reallocation and financing structures

While an overall transferal mechanism from developed to developing countries was absent, some models did emerge. The deal under which the US, European Union, and Britain will provide South Africa with £8.3 billion of concessionary finance to help switch away from coal provides a promising model that could be extended to other countries. Moreover, in Asia, the Energy Transmission Mechanism launched by the Asian Development Bank is also a template.

5. Management of demand shifts and near-term unit cost increases

The focus at COP26 was on the supply of energy generated from coal. There was limited work undertaken on the shifts in demand and how near-term unit cost increases can be managed. But the Global Coal to Clean Power Transition Statement was signed by more than 40 countries, including new commitments from Indonesia, Singapore, and Vietnam.

6. Compensating mechanisms to address socioeconomic impacts

The overall deal called on developed nations to ‘urgently and significantly scale up’ the financial resources available for adaptation, with the goal of at least doubling it from 2019 levels by 2025. Nevertheless, the amounts that have been pledged fall far short of what the developing nations say is needed for them to make the transition.

Governance, institutions, and commitment

7. Governing standards, tracking and market mechanisms, and effective institutions

The creation of the International Sustainability Standard Board by the IFRS (International Financial Reporting Standards) is the first step towards the unification of competing sustainability measuring metrics, which stakeholders have been crying out for for years. As this will be a global standard it will be influential.

8. Commitment by, and collaboration among, public-, private-, and social-sector leaders globally

This was perhaps the strongest outcome of COP26, with many new coalitions of stakeholders forming. The surprise US/China announcement to boost climate cooperation set the tone, as did the pledge by the US and more than 100 other countries to reduce methane emissions by 30 percent by 2030, compared with 2020 levels. Collaboration between governments and companies was also seen in the agreement on automobiles, where global automakers and 30 different countries agreed to phase out gasoline car sales, while making all new vehicles zero emission by 2040 or sooner.

9. Support from citizens and consumers

Pressure from civil society and consumers was a driving force behind COP26, as seen by the 100,000 people braving the cold, wet Glasgow streets to demonstrate during the event. I believe COP26 wasn’t a cop-out; and I heard real resolve emerging from the proceedings.

This initial scorecard shows that COP26 made progress in solving the net-zero equation and ensuring a more orderly transition. Gaps remain and a huge amount of work is needed, but policy makers have moved in the right direction.

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