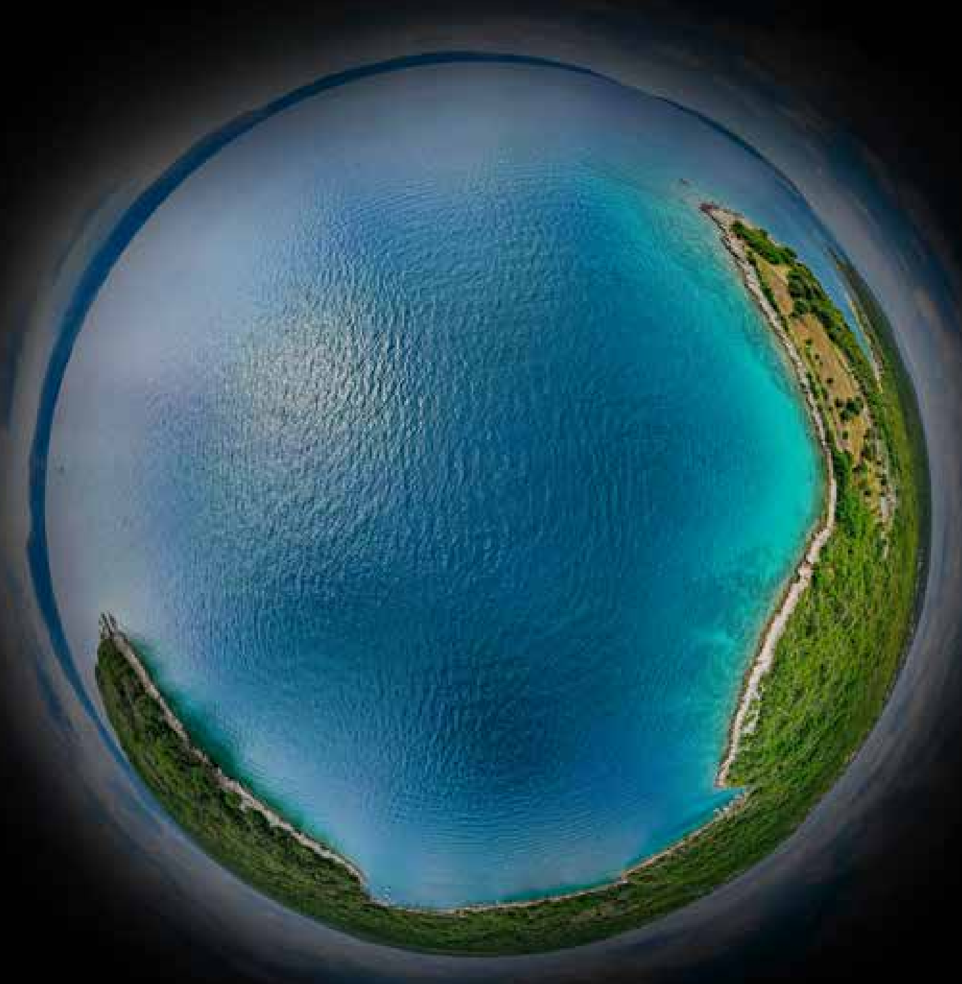
Deloitte.



2021 United Nations Climate Change Conference

Key decisions and takeaways

November 2021

2021 United Nations Climate Change Conference

As most of you are aware, the UK hosted the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow from 31 October 2021 to 13 November 2021. The COP26 summit ("the Summit") brought parties together to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change.

The stakes and expectations from the Summit were higher than ever before, with participating nations looking forward to:

- Operationalising the Paris Agreement, implying doubling down on emissions reduction targets for 2030 and 2050
- Adapting actions for communities and natural habitats
- Accelerated financing efforts by developed countries, as well as,
- A stronger collaboration between governments, businesses, and society at large

As the Summit came to a close, a fair number of decisions have been taken, but how do these outcomes translate for you and your organisation?

Here is an overview of some of the key takeaways of the Climate Pact, the commitments made by India, and certain action items that you as an organisation could take and/ or be prepared for.

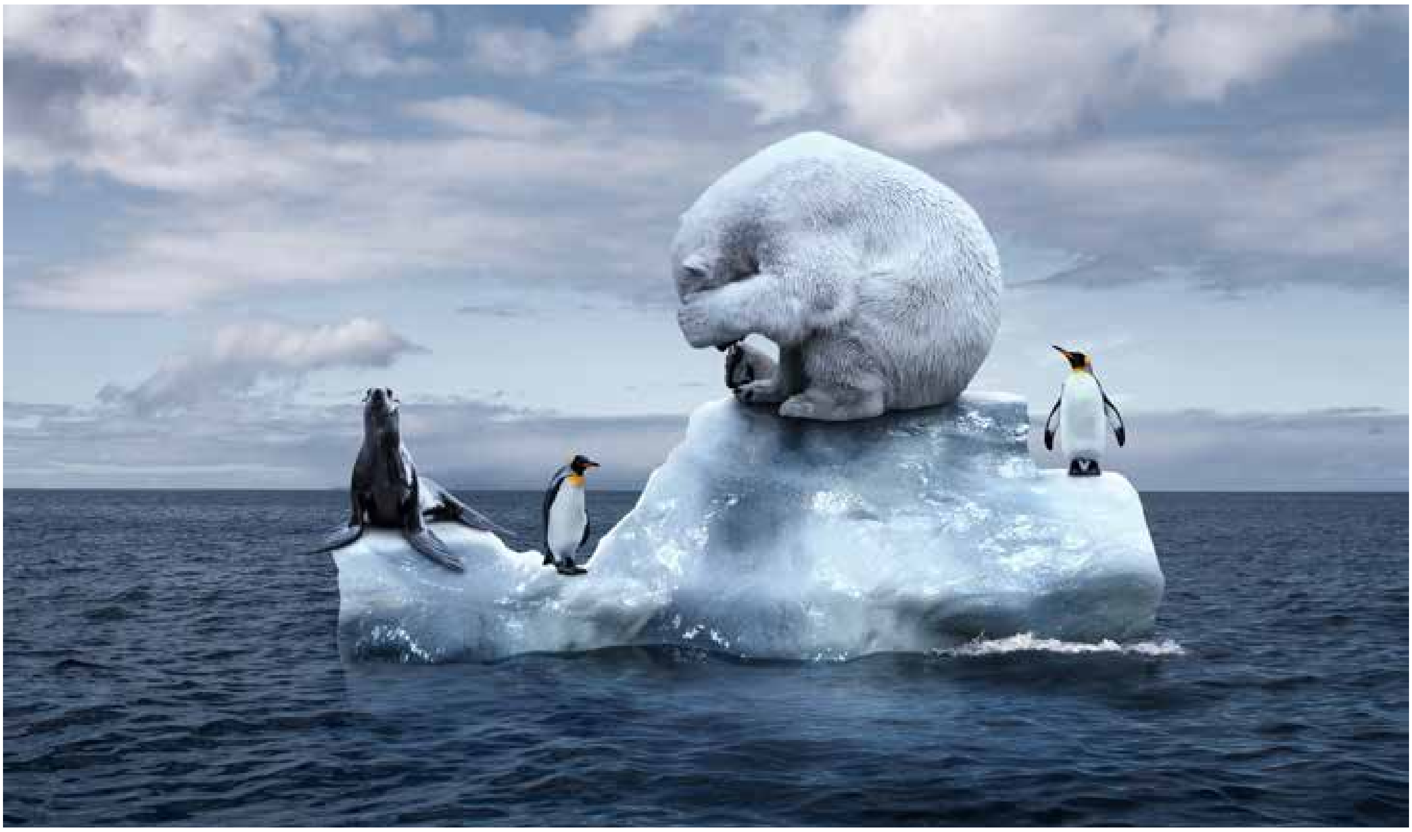
Key takeaways of the Glasgow Climate Pact

- **Availability of finance for adaptation and mitigation (pending action since 2009)**
  Both mitigation and adaptation require funding. In 2009, developed nations agreed to arrange US $100 billion per year to accelerate and support interventions across geographies. The Glasgow Climate Pact, though not perfect, has made significant steps to resolve this shortfall. It includes an unprecedented goal for developed countries to double the funding provided to developing countries for adaptation, by 2025. The new climate finance delivery plan promises to deliver US $100 billion by 2023.

  Moreover, a few decisions have been taken towards the Global Goal on Adaptation (GGA). COP26 has established a two-year Glasgow-Sharm el-Sheikh work programme as an enabler for methodologies, data, indicators, etc. along with a request to parties on "Adaptation Communication" before COP27, which is scheduled to be held in Egypt. Only 88 countries have developed such communications before COP26.

- **Instituting responsibility of developed countries towards the "loss and damage" caused by rising temperatures**
  For the first-time "loss and damage" has been called out as a clear requirement for disaster aid stemming from the rising global temperatures. The "loss and damage" fund, once operationalised, should help pay for irreparable losses, such as the disappearance of national territory, culture, and ecosystems.

- **Adoption of the Paris Agreement Article 6 rulebook (with a focus on carbon markets, transparency, and establishing common timeframes; issues that were left unresolved at the last session of the UN climate talks in 2019) and regimented/ structured updates of Nationally Determined Contributions (NDC)**
  With the adoption of the 'Article 6' rulebook, three types of international cooperation have been published, namely:
  - Article 6.2 provides guidance on bilateral or multilateral approaches encompassing linkages, crediting mechanisms, accounting for Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), as well as for voluntary carbon markets with corresponding adjustments (CA).
  - Article 6.4 covers modalities and procedures for a multilateral crediting mechanism, which can be technically qualified as a successor of the Clean Development Mechanism (CDM).
  - Article 6.8 provides a framework for non-market approaches.



The rulebook is expected to enable the implementation of international carbon markets to achieve NDCs without compromising integrity. A comprehensive capacity building of developing countries has also been agreed upon.

Although the communication of revised and updated NDCs has not yet been made rigid, parties have been encouraged to submit their NDCs for 2035 by 2025 and for 2040 by 2030; essentially nudging them to adhere to a five-year discipline.

COP26 was also able to continue with the long-term ambition of keeping the global temperature rise below 1.5-degree Celsius, even though the phase out of fossil fuels could not be agreed upon.

> "We can now say with credibility that we have kept 1.5 degrees alive. But its pulse is weak, and it will only survive if we keep our promises and translate commitments into rapid action."

Alok Sharma (appointed by the UK government to preside over COP26)

Adaptation

1. End of deforestation by 2030: 110 world leaders have promised to end and reverse deforestation by 2030, in the COP26 climate summit's first major deal. Pledged funds US$ 19.2 billion.

- Reverse deforestation by 2030
- US$ 130 trillion through 45 countries

2. GFANZ announced on 3 November 2021 that over 450 financial institutions across 45 countries have pledged over $130 trillion of private capital to transition the global economy to net-zero by 2050.

Carbon markets

3. Article 6 Rulebook has been finalised for robust transparent and accountable carbon markets providing necessary domestic carbon market opportunities to all countries.

- Article 6 rulebook
- National commitments
- Voluntary carbon markets
- ITMO transaction

4. Permission to carry forward 120 million Kyoto instruments. Eligible for first cycle of national commitments, leftover volumes will lapse.

5. Voluntary carbon market instruments will play a definite role. Appropriate structures can be developed for avoidance of double accounting.

6. ITMO instruments may be considered outside of tax considerations, but there could still be transaction fee (similar to UN Adaptation Levy) in pursuant to paragraph 36 of chapter VII (Ambition in mitigation and adaptation actions).

1.5-degree targets

- Coal for energy
- Decision to reduce / remove subsidy on fuels

7. Responsible use of coal has been pushed into the final decision (Indian position). The final decision replaces phase down instead of phase out for coal. Subsidies to be withdrawn.

Additional decisions on the sidelines of COP26

01

Deforestation and reversal: Nearly 100 countries including Brazil, Russia, China, and the United States have agreed to end deforestation and trigger the reversal of natural carbon sinks by 2030.

02

Reduction in methane emissions: More than 100 countries have agreed to cut GHG (greenhouse gas) emissions due to methane by 30 percent, by 2030. Both China and the United States issued a joint declaration towards deeper emission cuts. China has proposed to develop a plan to reduce methane along with the phase down of coal from 2026 onwards.

India at COP26

The Government of India made its pledge towards achieving “net zero” by 2070. There were several significant commitments made, including increased contribution of renewable sources to meet its energy demand. India has also offered to support Small Island Developing States (SIDS) through an advanced satellite-based, weather data sharing platform.

Net-zero

India will achieve a net-zero emissions by 2070.

India’s per capita emission is 1.9 tCO2e compared to 15.5 and 12.5 tCO2e for the US and Russia, thus the economy may require additional time to peak its environmental footprint.

Decarbonisation of power sector

India originally announced 175 GW of solar and 60 GW of wind, which was further revised to 450 GW of renewable by 2030.

To further improve upon its global commitments, India has announced a 500 GW of renewable energy by 2030 which is expected to decarbonise 50 percent of the Indian power sector.

Revised NDC

India has revised its nationally determined contributions.

India now intends to reduce its GHG emission intensity by 45 percent from the earlier 33 – 35 percent by 2030.

India is unlikely to reach its emission peak before 2040.

Absolute target

India will reduce/ remove 1 billion tCO2e from its emission basket/ BAU by 2030.

Multiple sectoral approaches will be reviewed, and deeper actions will be taken through regulatory and voluntary measures to engineer solutions to meet this commitment.

Supporting SIDS

ISRO will build a special data window for SIDS to keep them updated about the adverse weather events as well as coral-reef monitoring.

India along with China, Brazil and South Africa have asked for US$ 100 billion climate finance support.

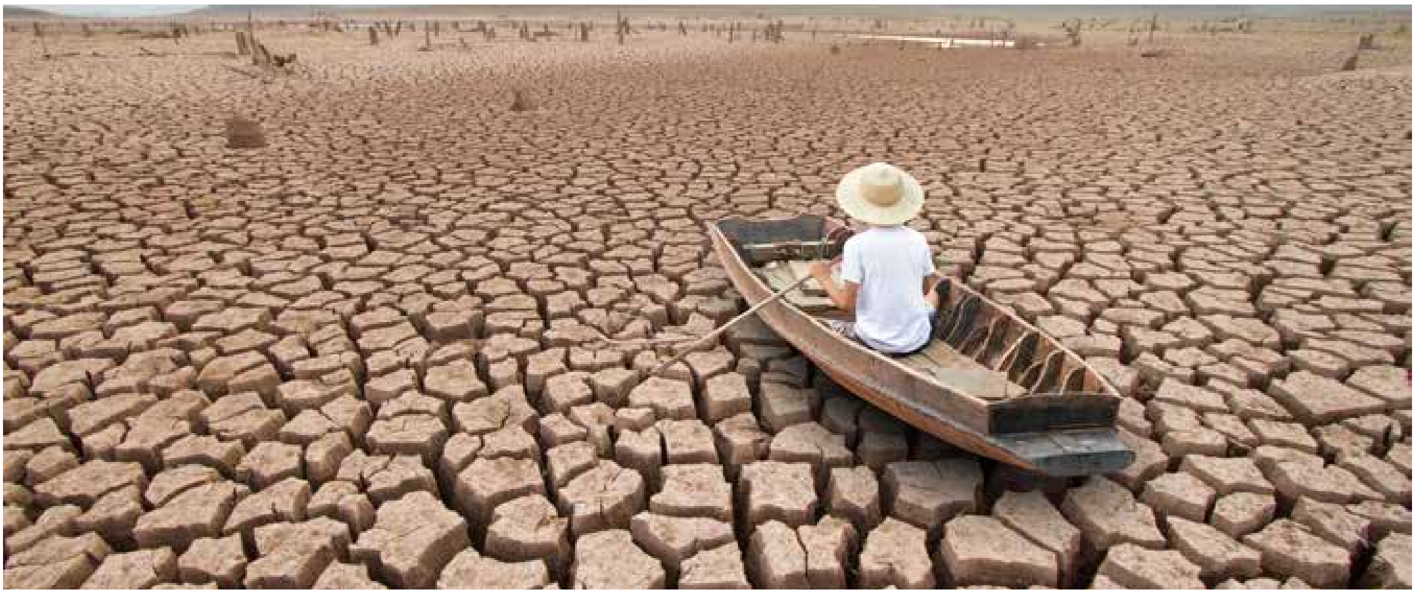
In the economic future Deloitte has modelled, if India and the rest of the world do not significantly reduce emissions (relative to current levels), the result over the next half-century would be climate change induced economic losses to India of almost $35 trillion in present terms. This lost economic potential would total 12.5 percent of GDP in 2070 alone.

The alternative, however, shows that rapid decarbonisation could yield economic gains of US$11 trillion (in present value terms) for India's economy by 2070.

Deloitte's report titled 'India's turning point', released in August 2021

Possible implications for your business

- The revised NDC may result in an early cascade of targets across multiple sectors in India. Demand side energy efficiency among industries, through the ongoing PAT (Perform, Achieve and Trade) scheme, may recalibrate the process of identification of Designated Consumers (DC) for deeper emission reduction opportunities, through reduction in specific energy consumption.
- Early launch of initiatives around demand response through distribution utilities, for which pilots have been conducted. This may also trigger opportunities of smart device manufacturers in the country. The necessary amendments in *Eco Niwas Samhita* have been recently introduced by the Ministry of Power, Government of India.
- The power sector will present multiple opportunities towards larger capacity addition through renewable sources of energy (predominantly solar), both grid-connected and decentralised, paving the way for smart grid projects. The Ministry of Power has already initiated 14 smart grid pilot projects through Smart Grid Task Force in 2019.



- Domestic manufacturing capacity of solar cells in India is close to 3 GW per year, which has resulted in large imports. A large renewable energy target may trigger certain policy changes including revision in customs duty to encourage domestic manufacturing.
- Domestic carbon markets are expected to be revived with a definite role for voluntary carbon market instruments after due authorisation from the competent authority.
- Kyoto instruments (CERs) will be eligible for the initial NDC compliance purposes. This may result in improved recovery for project proponents and aggregators holding on to such compliance instruments.
- Private sector investment will be available to support decarbonisation by 2050. Glasgow Financial Alliance for Net Zero (GFANZ) members have pledged availability of US $130 trillion towards green finance.
- Clean transportation is expected to get a boost as the UK agenda for COP had a clear call out for 4C's i.e. Coalitions, Coal, Cars and Cash. The introduction of new technologies in the transportation sector, including BeVs and fuel cells, may make it easier to raise funds.
- Voluntary decarbonisation through voluntary programmes like RE100, SBTi, etc. will get the necessary attention and much needed boost by businesses and society.
- Financed emissions (essentially Scope 3) of investors through equity, quasi equity and debt across industries will reduce over a shorter period; this can significantly accelerate achieving emissions peak for developing countries.
- Lastly, the next NDC revision of India may introduce additional/ new sectors to improve upon its decarbonisation journey.

The imperative to curb emissions and operate more sustainably is now a regular topic for discussion across boardrooms throughout the globe. Businesses are no longer immune, with investors increasingly measuring environmental performance alongside financial performance. Customers are demanding sustainability strategies with real substance rather than superficial branding exercises.

No one is immune to the impact of climate change and addressing the climate crisis can create huge opportunities for economic growth. However, in a recent series of interviews we conducted with select companies in India, the findings[1] revealed that not enough companies (in India) have voluntarily set net zero goals; and more than half of the companies define their targets within a limited boundary. In many cases climate programmes remain siloed with companies primarily focusing on their operations, coupled with low supplier and customer engagement.

There is strong evidence today that more sustainable companies are often the more successful ones. However, businesses need to take bold action now. At Deloitte, we have set a bold target to reach net zero emissions by 2030. We are also empowering our professionals and connecting with the broader ecosystem to create solutions that facilitate the transformation to a low-emission economy in Asia Pacific and globally.

[1] Source: 'Goal 13 Impact Platform': How companies are managing the transition to a low-carbon, resilient and valuable future

If you need specific support or have additional queries, feel free to reach out to:

Uday Bhansali
President - Financial Advisory
Deloitte India
udaybhansali@deloitte.com

Nikhil Bedi
Partner - Financial Advisory
Deloitte India
nikhilbedi@deloitte.com

Inderjeet Singh
Partner - Financial Advisory
Deloitte India
inderjeets@Deloitte.com