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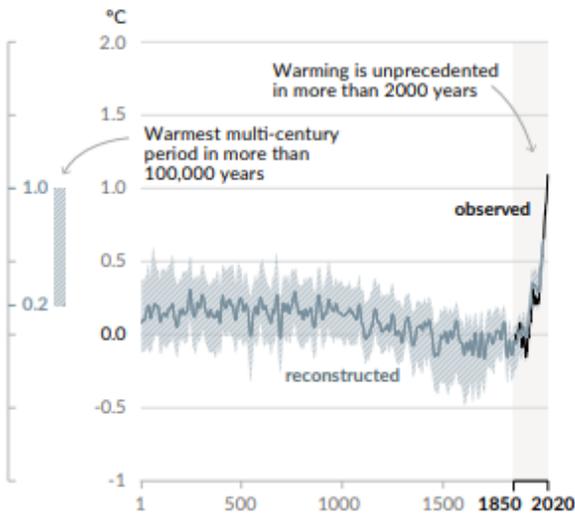
UN Climate Change Conference (COP 26)

On October 31, representatives from almost 200 nations will convene in Glasgow, Scotland at the UN Climate Change Conference (COP 26) for the first five-year review of the landmark Paris Climate Agreement. Of course, this review was supposed to take place last year, but 2020 had a way of changing even the best-made plans. For many Americans, the term “Paris Climate Agreement” may have a slightly divisive connotation. The United States originally signed the Paris Agreement in 2016 under President Obama. In 2017, President Trump announced his intention to withdraw from the agreement. The withdrawal took effect in 2020. It didn’t last long, as President Biden re-signed the instrument to bring the United States back into the Paris Agreement on his first day in office earlier this year.

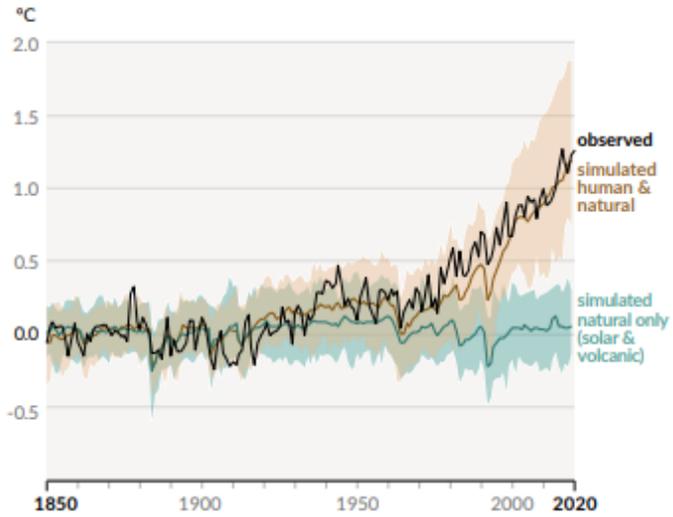
So, what is the Paris Agreement? The Paris Agreement is an international treaty on climate change. It is called the Paris Agreement or Paris Accord because it was initiated as part of the 21st Conference of the Parties (COP 21) meeting held in Paris in 2015. The COP is the decision-making body of United Nations Framework Convention on Climate Change (UNFCCC), and its 197 members meet every year to review the implementation of the Convention, which itself was entered into back in 1994. In essence, it acknowledged that despite scientific uncertainty, there was a climate problem and member nations were bound to act in the interest of human safety by addressing it. The significance of COP 21 and the Paris Agreement was that it was the first time that a group of nations agreed to binding efforts to combat climate change and its effects. The specific goal was to work together to limit global warming to below 2 degrees Celsius and preferably below 1.5 degrees relative to pre-industrial levels (i.e., 1850).

Changes in global surface temperature relative to 1850-1900

a) Change in global surface temperature (decadal average) as reconstructed (1-2000) and observed (1850-2020)



b) Change in global surface temperature (annual average) as observed and simulated using human & natural and only natural factors (both 1850-2020)

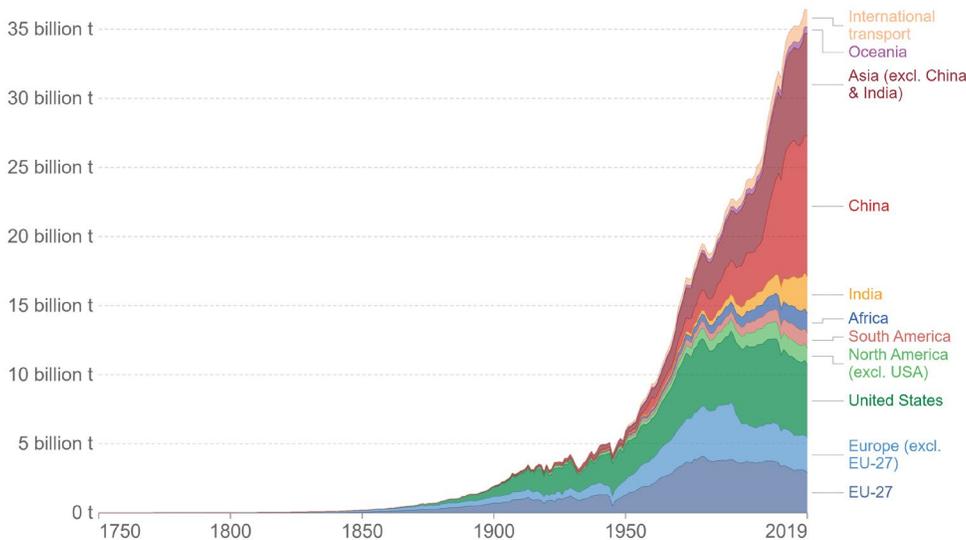


[IPCC AR6](https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_SPM.pdf); https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_SPM.pdf

To achieve this objective, a path toward achieving net zero greenhouse gas emissions would be required by 2050. For reference, global emissions are currently about 50 billion tons of CO₂ equivalent. Parties to the Paris Agreement are committed to put forth Nationally Determined Contributions (NDCs) that represent their best efforts on climate change and to review, detail, and strengthen these plans on a 5-year cycle. As an example, when President Biden re-signed the United States into the Paris Agreement, he identified a 50% to 52% reduction in emissions by 2030 (relative to 2005) and 100% pollution-free electricity by 2035 as part of the U.S. NDCs.

Annual total CO₂ emissions, by world region

Our World in Data



Source: Global Carbon Project
OurWorldInData.org/co2-and-other-greenhouse-gas-emissions • CC BY
Note: This measures CO₂ emissions from fossil fuels and cement production only – land use change is not included. 'Statistical differences' (included in the GCP dataset) are not included here.

Source: [Our World in Data](https://ourworldindata.org).

COP 26 will be held in Glasgow, Scotland, from October 31 to November 26. This COP meeting marks the first of the important five-year review cycles post Paris Agreement, and as such, is a key event for global climate policy. Since COP 21, the Intergovernmental Panel on Climate Change (IPCC), the officially recognized climate science advisor to the UN/COP, has produced research that suggests a now irrefutable connection between anthropogenic (i.e., originating with humans) activities and rising temperatures. Additionally, IPCC studies show current emissions trends place us well behind the 2050 net zero global emissions pathway needed to achieve the 1.5-degree target. In light of this, COP 26 will be focused on finalizing the Paris rulebook and accelerating efforts toward net zero with more specific and ambitious national plans. It is no coincidence that there has been a flurry of climate-related announcements in recent weeks and months by various governments as COP 26 approaches. Countries that represent more than 70% of current emissions have already announced net zero ambitions (2050-2060). In most cases, the details around these ambitions are fairly sparse. Leading up to and during COP 26, expect more discussion regarding clean energy and transportation transitions, agricultural reforms, efforts to restore nature, and financial assistance programs from developed nations toward emerging nations.

While it remains to be seen if there will be specific and meaningful developments as a result of COP 26, it should make clear that processes are in motion to address climate change and the need for energy transition. As these processes mature, announcements should become more specific and as they do, they could become increasingly impactful for businesses and investors. The challenges of net zero and energy transition are immense. This will be on full display at COP 26 as policymakers meet during a period of likely record high European power prices, due in part to the intermittency of renewable power sources and inadequate supplies of traditional fossil fuels. Over 80% of current primary energy demand is met by fossil fuels (BP Statistical Review of World Energy) and transitioning away while continuing to meet near-term needs will not be easy. Investors are already increasingly focused on positioning for this climate and energy transition related risk as evidenced by the rise of Environmental, Social and Governance (ESG) aware funds and mandates, which often place a high degree of emphasis specifically on the “E”. Of course, there will be significant opportunities for investors within the energy transition. In recent weeks, UBS/Aurora Energy Research, Jefferies, and Goldman Sachs have all published reports indicating that trillions of dollars will need to be spent each year to meet net zero objectives by mid-century. Businesses on the right side of this potential spending wave could see spectacular growth.

COP 26 should be an important reminder that climate change and energy transition can be amongst the most influential market drivers for the next 25 years. For more information on this topic, please email us at contactus@sbhic.com.

Reference:

Paris Agreement Signatories: https://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXVII-7-d&chapter=27&clang=en

Key aspects of Paris Agreement: <https://cop23.unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement/key-aspects-of-the-paris-agreement>

President Biden on Paris Agreement and NDCs: <https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/22/fact-sheet-president-biden-sets-2030-greenhouse-gas-pollution-reduction-target-aimed-at-creating-good-paying-union-jobs-and-securing-u-s-leadership-on-clean-energy-technologies/>

UNFCCC: <https://unfccc.int/process-and-meetings/the-convention/what-is-the-united-nations-framework-convention-on-climate-change>

IPCC Assessment Reports: <https://www.ipcc.ch/>

COP 26: <https://ukcop26.org/>

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