

Glasgow Bound: Great Expectations for COP 26

Featuring:

Gonzalo Munoz, High Level Climate Champion for COP and co-founder of the Glasgow Financial Alliance for Net Zero

Adam Bass (00:03):

This is MSCI perspectives your source for insights for global investors and access to research and expertise from across the investment industry. I'm your host Adam Bass. And today is October 28th, 2021. On today's program it's hard to overstate the importance and global focus of the two week long UN conference on climate that kicks off just a few days. After this episode goes live. Political leaders, industry leaders, and investors, they will all converge in person as well as virtually in Glasgow, Scotland. And while this conference known as COP happens every year, except last year, of course, all eyes will be watching this 26 meeting. It's the follow up to the session in 2015, that gave us The Paris Agreement. It's a year where the effects of climate change have become all too real across the globe. And it's a year where the pandemic continues to show all of us that like it or not. We're all in this together.

Adam Bass (01:09):

In this first of our three episodes focused on COP26, we look ahead to what we might expect from the conference with particular emphasis on investors. For this, we had the privilege to speak with Gonzalo Munoz, he's the high level climate champion for COP mandated by the government of Chile. Since being appointed right before COP25, Gonzalo has brought his passion, his commitment, and his infectious optimism to the process. He's worked hand in hand with the likes of Nigel Topping and Mark Carney. And they've reached many milestones together, including the creation of the Glasgow Financial Alliance for Net Zero, better known as GFANZ. I started our conversation well at the beginning, I wanted to get a sense of how one comes to be a high level climate champion.

Gonzalo Munoz (02:02):

Well, it's, it's kind of funny because I've been engaged in, in, in let's say environmental related topics from the private sector for at least two decades, but COP25 in Madrid was my first COP ever. I have only attended one COP in my life and that was in Madrid. And I attended that one as a high level champion. So when my government and, Panera appointed me, there was a need of creating some sort of innovation. And, and in order to do that, they brought this person that never attended that COP, but has been working on environmental and some climate related topics for quite a long time, this topic and the process captures you. Like it's really hard to now just go back to the old times or even in my case to the winery, because it's really a topic that takes you totally.

Adam Bass (03:01):

I know we're supposed to be talking about climate, but I believe he just said something about running a winery.

Gonzalo Munoz (03:08):

We started that company 22 years ago and, and it's been still running called Vineyard Polkura. So we sell mostly Syrah in different countries of the world. And I, love to spend as much time as possible, but the one who runs it on a daily basis is, my friend Sven when we meet in person or we can prepare a new conversation when you have a bottle. And I have another one and with toast,

Adam Bass (03:35):

I would love that I would truly love that. We're getting back to COP. So COP26 was supposed to be last year and it didn't happen because of the pandemic. Of course. Do you find that a positive that we're actually still getting all these people together to talk, or is it somewhat distressing that almost 30 years later, maybe we're not that far along?

Gonzalo Munoz (03:59):

Well, that's a complex question because it has many aspects on it. The first one is to be realistic on the level of challenges that we're facing. So every morning I wake up very realistic and I decide to operate as an optimist during the whole day, because this is the only thing I can do. And that's my best way to really add value with the time that I have in, in this such fragile life. The reality is that when you think about global problems, it needs to be solved at a global level. And in that sense, we've seen magic happens like The Paris Agreement. It's a beautiful piece of work that I have no doubt in 300 years from now, people will go back and say, that was really improbable and was amazing. What we achieved in 2015. There has been a lot of critical situations happening around the materialism, but we are seeing also learnings from that and the importance of having this capacity of coordinating action at a global level, but also the importance of bringing the so-called non-state actors, the sub national government.

Gonzalo Munoz (05:18):

So the secretary general, the United Nation is now talking about the importance of moving towards the new multi-stakeholder inclusive multiculturalism. In this almost three years, that I've been in the role I learned to value and understand the role of this conversations. How much they help us to build the right narrative, the right metrics, the process methodology that is needed to deal with one of the most challenging crisis of human history.

Gonzalo Munoz (05:46):

Even like the trajectory they have to follow will be the most epic challenge that we will ever face, because it's not about few smart, talented people, whatever reaching the moon in this case will require all of us and the best part of it that we are finally closing the negotiation process. And by Glasgow, I think that we will need to shift towards the implementation phase, which is far more exciting. And that needs by all means the engagement of all actors of society in a spirit of radical collaboration. So we are exactly in that moment, when we, I think that we have to value the importance of having had those 27 versions, where even the voice of the small ones were properly considered. And now that creating the conditions for moving to a body that will be, and must be much more about implementing the agreement.

Adam Bass (06:42):

And when he says all of us and all actors of society, he truly means all.

Gonzalo Munoz (06:49):

Honestly, I'll never stop being surprised how powerful the voice of Kiba of Marshall Islands can be in a cup. And you can imagine that Marshall Island that maybe have 80,000 in evidence in many aspects of the global economy might be perceived as irrelevant in this discussion is so important.

Adam Bass (07:11):

It was difficult not to be swayed by Gonzalo's optimism, but to tell the full story, I did have to bring up the latest report by the IPCC that's the UN intergovernmental panel on climate change. The secretary general of the UN called this August report, a code red for humanity Gonzalo's reaction.

Gonzalo Munoz (07:34):

Honestly, the main takeaways of the report is, this is nothing really, I mean, not relevantly new from what we receive in October 2018. So, one of the important things is like this reached global media in a way that it happened. It didn't happen in the past. Probably it was quite related to the climate anomalies that happened during those same, let's say two weeks was, kind of a script of a film. Like, I tend to imagine that if there is some sort of collective intelligence in the world that being would've thought like, okay, this people are not understanding what can I do? Okay. I'll send a lot of climate events happening in very weird places and with a very strong intensity. And at the same time, of course, I will send them this scientific report.

Gonzalo Munoz (08:35):

So put everything together to see whether they finally understand that this is exactly one of the last alarms in terms of our capacity of reacting and solving the crisis. But then I think that when it comes to the report itself, there are three key messages and findings that are absolutely clear, and that we should be all taken into consideration first that this is crisis a human indulged climate crisis. And that is absolutely indisputable. Second, that climate change is now affecting every region or our planet is not just about what happens in the polls or in the small islands. And then that some strong and rapid reductions in greenhouse gas emissions are needed to curve global warming. And if we do so, we might stop the crisis and have quite short period of time. If we want to keep the option of the 1.5 degree to stay alive, we need to do it now and, and understand that every single idea of not acting is much more expensive of any idea of acting and solving the crisis.

Adam Bass (09:46):

And indeed a lot of those things have certainly captured the attention, not only of governments and the general public, but businesses as you, as well as the investment industry, which maybe it's just from being on the inside here. But we as an industry definitely seem what I would actually call abnormally focused on the conference this year. I hadn't seen this even in 2015 with Paris.

Gonzalo Munoz (10:11):

Well, I think I'm totally aligned with you in terms of, we are seeing this abnormal focus from the finance sector, and that is exactly what needs to happen. Not only for the sake of the finance sector, but for the importance that finance represent for mitigating and also adapting to the climate crisis. I remember how proud we were in September 2019 by the Secretary- General's climate summit. When we launched the climate ambition Alliance, putting together the commitments of Net Zero by 2050 from states on one side, but also from non-state actors, we had at that time 90 something business under the business ambition for 1.5 degrees and a bit more of two point, I would say 2.4 trillion

committed under the Net Zero asset and owners alliance. And we were celebrating. I mean, that was a really big achievement. Remember a little bit, a little less than one year before in October 2018, we received the 1.5 degree report from the I P C, but a series of factors have contributed for the awareness of the private sector about the real threat of the climate crisis, for sure.

Gonzalo Munoz (11:27):

All global mobilizations, why the use are sending a clear signal to business about what the future consumers and employees were thinking about their responsibility. Then of course, everything related to the increase of climate impacts all over the world has also made the climate crisis a reality. They are all clear consequences of for businesses because it, it increases the level of risk of every type of economic activity.

Gonzalo Munoz (11:54):

Then we have the COVID crisis that also played a critical role for all of us to understand that we are much more vulnerable than what we ever thought, and that every leader that didn't follow science behaved a lot worse than those that rapidly follow science in all the aspect that science was referring to.

Gonzalo Munoz (12:16):

And finally, of course, businesses are also hearing what the government say. And the fact that now nine of the 10 major economy has said their net zero target by mid-century as the latest is sending a real clear signal to all businesses, all of this combine, of course, with the reality that in many sectors markets are already shifting towards the net zero economy. And we now can see how renewable energies are more competitive than coal in many countries or transport is truly moving towards electric mobility shows that there are real business opportunities for those who take the lead.

Adam Bass (12:56):

You mentioned action needs to be the watch word at COP. So let's operationalize that a little bit. What does the world need to achieve in Glasgow?

Gonzalo Munoz (13:08):

We now need to finalize the Paris rule book. So in order to really move from a negotiation body to an implementation body, the first thing to that needs to happen is to close properly. Everything that is related to the negotiation. And therefore, I understand that part of the success of COP will be related to finalizing the Paris rule book.

Gonzalo Munoz (13:31):

Then I think that Glasgow need to show, we can still reach 1.5 degree goal. Seeing the summary of the NDC report share by the UNF two C last month. Even if we still need some major elements clear, we won't close the gap to reach 1.5 degree in Glasgow, but we need to show that we can still make it. And this is where the role of businesses see these regions and investors. It's absolutely critical because at the end, what happens is that the NDC report is not necessarily showing, the change, the innovation, the level of awareness, and even the exponential trajectories that some even business models are showing. You don't necessarily see at the NDC report, the level of commitment that we have over

already inside the, the financial institutions that now have 90 trillion dollars committed to this trajectory.

Gonzalo Munoz (14:23):

Where is it in the NDC? You probably don't see it. There there's been massive progress in the last two years from all of these actors. And we're bringing many of them to Glasgow to show national governments that they have the support and that we can accelerate this transition. In the next years.

Gonzalo Munoz (14:41):

We, of course also need to increase our work on adaptation. That's why we launched the race to resilience as a sibling campaign, to race to zero and raise to resilience with the goal to protect 4 billion of the most vulnerable people of the world by 2030. And in Glasgow, we will be able to show how more than 1500 organizations are now committing to deliver on this goal and to reporting a regular basis under progress. But nothing of this is possible without finance. We now know for a matter of trusting the process, of course we must see in Glasgow that developed countries are capable of delivering on the promise to raise at least a hundred billions in climate finance per year. So, and we need to show how we're shifting from the billions to the trillions, that today are invested in an intense carbon economy toward a resilient and net year future. And the movement we've seen this year in the finance sector is being absolutely critical for this.

Adam Bass (15:47):

This led very nicely to a topic raised by MSCIs CEO, Henry Fernandez on our last episode. The fact that the power of capital and the important role of investors, when it comes to battling climate change, that will all be front and center in Glasgow. We wondered how significant this was in terms of change of emphasis.

Gonzalo Munoz (16:11):

Well, I think that the, the UK co presidency has been really clear that that non director action, including finance, won't be a side show, but absolutely central to the agenda. Glasgow. Of course, there is a relevant discussion about carbon markets and the importance of integrating that extra element to how we understand the economy and the, and even the role of capital. But now the way this summit is organized over the fortnight delivery places are focused beyond the negotiations. A focus on the real economy transformation that is therefore needed to keep the 1.5 arrive alive and achieve net zero. So it will be two days off the political leadership, the political message, and then immediately going to finance because the central role of finance in the summit, we understand is a reflection on how this sector has moved to the center of the agenda on climate, which is a testament to Mark's leadership and, and the work of the private sec finance hub focusing all minds around the risk return reporting framework.

Adam Bass (17:23):

Mark is Mark Carney, the UN special Envoy on climate action and finance, as I mentioned at the top of the show, Mark Gonzalo, along with Nigel Topping himself, a high level champion for climate action launched The Glasgow Financial Alliance for Net Zero. This past spring, I wanted to get a better sense of GFANZ, as well as the role it would play at COP26.

Gonzalo Munoz (17:48):

Well, I think that it will be central because it's putting together all the efforts from the private sector when it comes to finance, committing to concrete action in the short and long run building on what we started back in 2019. So the follow me your mind with this trajectory, it was 2.4 trillion in September 2019. Then in December 2020, we launched the net zero asset manager's initiative. And, at that time, the net zero said, owners Alliance grew, I believe from two, 2.4 trillions to some something re around four or 5 trillion in assets under ownership. But then when we launched the Net Zero manager's initiative, we thought it were going to give like, well put together like 5 trillion. We get nine in the first day. So between the two of them, we had like about 13 trillion committed from asset managers and asset owners.

Gonzalo Munoz (18:52):

We were partying. We couldn't believe the level of commitment that we had less than one year ago. Then Mark came and we said, okay, let's put together all of this. And with his brilliant leadership and commitment, he decided to, to lead the, this big coalition of also other actors or the financial institutions. And we started working with third initiative was the commercial banks. And in April, this year, we launched the Net Zero banking Alliance. And then we launched the net zero insurance Alliance. And then as you know, we launched the net zero financial service providers just a few weeks ago. All of that together now represent more than 90 trillion dollars. All of that together committed to this trajectory towards the net zero world by 2050 at the very latest, this is massive. It's massive in terms of the commitment it's massive in terms of the money change from a place where it was creating the problem to one where the commitment is to start solving the problem.

Gonzalo Munoz (19:54):

Let me explain that with one very concrete example, like in December last year, one pension fund from Canada, decided to commit and join the net zeros at owners Alliance. They immediately send this letter to all of their invest around the world, mostly in case utilities and many of them in the global south. So the CEOs of these companies called me and say, what is this about? I mean, we're receiving a letter from our main shareholder saying that we need to join net zero and have in a very short period of time. It was like they were giving them like six months to have a plan aligned with science to support the commitment from the pension fund.

Gonzalo Munoz (20:38):

I had a call with all of them, and then immediately they realized that it wasn't about their scope one and two only. It was also about their scopes three. So what it meant that they had to start having a conversation with all of their value chain. So one commitment from a pension funding, Caroline, December last year in less than six months, started a conversation with utilities and from utilities with thousands of SMEs in the global south that are now joining the race to zero through the SME climate hub.

Adam Bass (21:14):

Rachel Dratch she's an alum of the American comedy sketch show Saturday Night Live. Well, she had a character in the early two thousands named Debbie Downer. The gag was that Debbie could turn any situation, no matter are how happy or hopeful into a downright depressing one. By this point in the conversation, I was really starting to see myself a little bit like Ms. Downer. As you'll hear in my follow up to Gonzalo's Canadian pension fund example. Despite some of these examples that you're talking about, these concrete actions, when you get especially politicians together, but even some CEOs in a large gathering like this, you hear them say all the right things, right? But that doesn't necessarily

translate into action. Given your background, given your involvement and your passion here, I'm curious what your reaction is to statements like that one.

Gonzalo Munoz (22:12):

I mean, I think that it's right in terms of the risk, that it's always a risk with politician, as well as business and investors and leaders around the world, that this is why it is so important to understand that the only way to deal with the climate crisis is to engage all act society in a transparent, credible, accountable way for the three campaigns rates to zero rates, resilience, and G defense. We operate by the logic of the three, the four piece they have to pledge. And that's one part of it. And they have to pledge through an initiative that has been validated by the F P group. Then they have to plan and they have to plan according to science. So it has to be validated by based target. Then they have to proceed. They have to show not what they're going to do in 2049.

Gonzalo Munoz (22:54):

They have to show very rapidly we're doing today and what we, they will be doing mostly in this critical decade. And at the end, the fourth piece is, is they have to publish at this once per year. That is also a relevant element that it's related to what I mentioned before, in terms of that we are moving towards what, the Secretary-General calls a new inclusive multiculturalism with a whole of society approach and where we all need to be accountable to our commitments and plans.

Gonzalo Munoz (23:24):

It's also something relevant to take into consideration that it's okay to have doubts every kind of question is healthy because it helps for us to strengthen the criteria and the methodology. But also it's quite normal that many people would not have still the capacity of seeing everything that is happening in different sectors of the economy. Nigel and I, with our team, we had the blessing of being running this agenda. And honestly it's absolutely over any type of imaginary that we will have had in the past. I mean, it has over past every level of idea that we had when we, when we designed this agenda, when we designed these campaigns,

Adam Bass (24:11):

Which brings us to my last question, which is actually looking forward another year to COP27. What to you seems realistic about where the world is by then, what are we talking about next year?

Gonzalo Munoz (24:29):

Well, for COP27 we'll know it's going to be in Africa. So should definitely have a clear message on global solidarity and how the world is engaging with Africa to deal with all the, aspects of the climate crisis in a, in such a diverse continent that is suffering of many of the expressions of the climate crisis. And then of course, finance mobilization and resilience will be at the core of the African COP. We have no doubt about it. So we, are really preparing part of what we're doing for Glasgow to be really properly available for the next presidency to take into account and use those tools in order to implement climate action in the African continent.

Gonzalo Munoz (25:13):

Also by the end of 2022, we should see a substantive progress, not only on commitments, but how this massive moment of the financial sector is having the cascading effect in key sectors of the economy.

As I explained, with the Canadian Pension Plan, and we really expect that some of that will also be able to be reflected in the African economy.

Gonzalo Munoz (25:34):

So my role as a high level champion will finish at the end of Glasgow. So, then it would come to another high level champion from Africa to join with my dear friend and brother Nigel Topping. The two of them have a long term legacy that will secure all the progress that we have made in the last three years in place due to the extra year that we have together. So I do expect that Nigel working with the African high level champion will also be securing all of this concrete action to just in only increase in time. So I do expect that at COP27, we will be able to see how this massive moment of climate action will keep growing, regardless from the leadership role I had. And the privilege that had to play during this three years, I do expect that this will continue growing and then moving very properly into the facial implementation.

Adam Bass (26:39):

And it's, clear from just spending this, hour with you, that clearly Chile was right to take a chance on what you referred to as an outsider, as their champion, your passion, your commitment, and your effectiveness is over these last three years, it's been an incredibly eye opening conversation for me. And, just, I want to wish you the best of luck at COP26 and one last pitch. If I can, one day, I would love to raise that glass with you, and hopefully in celebration of even further accomplishments.

Gonzalo Munoz (27:18):

Thanks so much. Look forward to that, hoping that we can start celebrating, from next year on the 7.4 percentage of reduction of emissions that we require year per year. So we might have the possibility of toasting every year. If we reach the 7.5 percentage of reduction in emissions. Thanks so much for this conversation has been brilliant and look forward to a great moment in Glasgow.

Adam Bass (27:47):

That's all for this week. Our thanks to Gonzalo and to all of you for listening next up on perspectives. We're on the ground in Glasgow with reports on COP26 sessions, discussions, and maybe even some peaks behind the scenes with MSCI's, head of ESG research, Linda-Elling Lee until then I'm your host, Adam Bass. And this is MSCI perspectives. Stay safe, everyone.

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