

Who's Feeling the Heat After COP26?

Featuring:

Oliver Marchand, Head of ESG Research, MSCI

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 November 25th, 2021. It's Thanksgiving here in the US and for others around the world, it's a break from US colleagues.

Adam Bass (00:26):

On today's program, we'll examine the Glasgow Climate Pact, that's the formal outcome from COP26, which is of course the two week UN climate conference earlier this month, you may have heard something about it. The Glasgow Pact was written and agreed to by diplomats from around 200 countries so there's a lot that's in the pact and a lot that's not there for people to both work on and argue about before COP27 happens next year in Egypt. Now one of the COP26 attendees was MSCI's head of climate research and COP veteran, Oliver Marchand. I started my conversation with Oliver by diving right in. I asked him how he would describe the conference and more importantly, his take on what came out of it.

Oliver Marchand (01:20):

Well, if you're asking, did we get what the world needed? The answer is totally, absolutely clearly no. We did not get what the world needed. The world needs a credible path towards 1.5 degrees, limiting warming to that level is absolutely necessary and we're very far away from that. But I think a lot of people don't necessarily assess the process by that goal because that's going to take a lot of time but they actually look at the process and they ask themselves the question, what can a UN conference even deliver? And how much progress have we made since the last conference or at least since Paris. And I think we can say that there is a lot of progress that has been made even though it's not sufficient.

Adam Bass (02:13):

Oliver is a scientist but as we move beyond this first measured assessment, his enthusiasm for the process became much more apparent.

Oliver Marchand (02:24):

From previous years, I'd known that climate change conferences organized by the UN, the COP conference of parties, as it's called in UN speak, were quite large undertakings, very large events that can be overwhelming. But I think I can safely say that even with that knowledge, getting into the middle of all of it was really overwhelming for the first days of the conference.

Adam Bass (02:55):

Let's qualify some of this. According to Oliver, you might normally expect maybe around 20,000 people at this kind of conference over two weeks. Now that's pre-COVID. Keep in mind, COP26 had nearly 40,000 attendees.

Oliver Marchand (03:16):

Yeah, it can be quite overwhelming but for a, let's say a climate change geek or a climate change activist, very interested people, of course this is super, super interesting and super exciting because you sort of know that every person that's there shares your passion for solving the climate crisis and this whole feeling around seeing so many people that want to help overcoming this crisis in the best possible way is it creates a lot of energy I think. I think we've really come to the point where all nations sort of have understood that we need to at least start putting aside national interests for the good of everyone. I think there's a lot of bad mouthing corporate influence, maybe all producing nations influence, talking to people on the ground. I think that influence is kind of starting to wear down for the good of creating a 1.5 degree path.

Adam Bass (04:24):

Of course, agreeing on the destination is not the same as agreeing on the right way to get there. That energy that Oliver mentioned, the passion, it was expressed in many different ways.

Oliver Marchand (04:38):

I had the chance to really talk to negotiation teams. For example, I talked to the head negotiator of the Cameroon team and it was just really striking to see the level of emotion that any discussion with him had. African countries really feel very betrayed by the developed worlds, they're only responsible for 4% of the emissions but when you look at any kind of development of heat graph, you see that they're taking the first impacts very heavily on climate change. They're furious and it's just different to see that in a report or to talk to someone who's trying to fight for his country.

Adam Bass (05:27):

And that goes to obviously a large theme that was coming out as the conference was going on, as well as afterwards, this divide. There's almost no other way to say it, between the richer countries who have done most of the polluting, gotten rich off of fossil fuels and the poorer ones who like you said, are suffering more than others.

Oliver Marchand (05:49):

That is one of the major debates. And that is in my view, one of the big failures of the Glasgow Climate Pact. We have to remember that since the year 2009, the developed countries have been trying to gather a 100 billion US dollars per year. And remember, this is a fraction of the money that is being poured into subsidies for fossil fuels worldwide. They've been trying to gather that to support the low carbon transition in the developing nations. We don't have that money together yet. It's sort of stuck at a level of 85 billion per year. And the second point is loss and damage. Loss and damage is a term that refers to an ask of the developing nations, especially the very vulnerable coastal nations that when a disaster hits and that disaster's related to climate change, they would like after the disaster to get some compensation for the damage and the loss that had been inflicted onto them by the emitters basically.

Oliver Marchand (07:08):

And developing nations agree, there needs to be a loss in damage mechanism but there was basically no result except saying next year are going to get this loss and damage thing going. And of course the developing nations are put under a really horrible dilemma and the dilemma is, should they be a blocking point in these negotiations because they find those two points, for example, non-acceptable or should they be at least supportive of an agreement and then move the whole process forward? It's really, there's no wrong or right. I think you can see by the interventions at the very final plenary sessions that most countries have agreed, we need a Glasgow Climate Pact no matter all of the deficiencies that may be in there.

Adam Bass (08:04):

That as we've heard already was a theme that Oliver came back to many times as we spoke. It's the notion of progress not perfection, of not letting the perfect be the enemy of the good. Choose whatever cliché you prefer but the more he spoke, the more it made sense. It's easy to be disappointed by the fact that this was the 26th UN climate conference and we will need a 27th at least. But think about the fact that you've got nearly 200 countries, not to mention non-state actors, investors and others, all determining that this is important, that we will come together and try and solve this problem year after year. It can change how you assess surprises, something such as the last minute change to the pact that happened in terms of addressing the issue of coal and fossil fuel subsidies.

Oliver Marchand (09:01):

The much debated language here on coal and fossil fuels basically was this last minute change proposed by India and China of changing a phase out of coal and fossil fuel subsidies into phase down. Some people argue that that was a really an awful move by the two countries because there was sort of agreement on that no new language would be introduced two days before the last day of the conference. Introducing this new language really was sort of outside of the rules but I think we have to understand this clause in the context of UN negotiations. In the UN, sovereignty, basically meaning that each country can do whatever they like is the overarching principle. Now putting any language in a UN agreement that would determine which forms of energy are to be employed and which ones not, was unthinkable before of the Glasgow Climate Pact so even putting that in there is really significant.

Adam Bass (10:20):

But Oliver believes the pact contains a portion of even greater significance.

Oliver Marchand (10:26):

There is now a yearly review cycle of the nationally determined contribution. Each country, they have to improve their ambition and resubmit their targets every year. And that is significant because I think that was sort of a common understanding that there are always four not so important climate conferences, for example, the next one in Egypt. And then there's one really, really important one like this one in Glasgow.

Adam Bass (10:55):

That is a big deal. It means that countries will have to examine and state their efforts to reduce emissions and adapt to the impacts of climate change not just every five years. They'll have to do so every year. Also, it's not just restating goals.

Oliver Marchand (11:14):

There are many, many, many specifics in the Glasgow Climate Pact around reporting and transparency. And that's really great because we at MSCI, we know very well from analyzing all of the world's NDCs in great detail, we know how difficult it is to make sense of all of these unstructured documents. And I think it's great that we're moving towards a more systematic and more standardized reporting and analysis framework.

Adam Bass (11:51):

COP26 also brought certain topics and certain new participants onto the main stage. As we heard from Linda-Eling Lee on our last episode, discussions in Glasgow included the effects of methane and the importance of biodiversity, both of which may sound like new areas of climate change, especially for those who are newer to the conversation. I asked Oliver why methane emissions are as important as carbon.

Oliver Marchand (12:23):

You have to understand that methane is one of the seven very important greenhouse gases. It's depending on what timeframe you take around 20 to 80% more potent than CO₂. In that sense, it's really important. The big difference is that methane is not a stable gas like CO₂. Methane of a period of let's say around 30 years, it dissolves, it partially dissolves to CO₂. And what's important is that the short term warming is largely influenced by methane. Now it's really great that we have, I think on an international level, we are considering this topic. The agreement is really striking. It's over a 100 countries that have signed the methane pledge and the methane pledge basically says that those countries that have committed to the pledge want to reduce the methane emissions by 30% until the year 2030. The potential benefit of that is around 0.2, 0.3 degrees of warming by the year 2040. It has a really strong, short term effect and it may be a key element in what is called keeping 1.5 alive.

Adam Bass (13:43):

And that conversation on methane leads very nicely, I think, into another area that was a newer discussion, I think, for a lot of people and that is around biodiversity and the importance of biodiversity when it comes to climate change. Can you walk us through some of what was discussed there or more importantly, what is the relationship there to climate change? And why is that a focus?

Oliver Marchand (14:14):

Climate change is one of the reasons for why we're in the so called sixth mass extinction period. We observe record breaking species lost all around the planet. And the way that plays out is for example, by cutting down tropical forests, which are very well known to have huge biodiversity and exchanging it with agricultural farmland, which has very low biodiversity. It's related to biodiversity in the oceans, for example, where rising temperatures yield to coral bleaching, which in effect leads to biodiversity loss. And the problem with biodiversity is that it is just in itself, such a complex topic. First of all, it's hard to measure. It's very diverse in its nature and so then the question is, where is biodiversity loss happening? But then there's also the question, what is the cause? What is the trigger for this biodiversity loss? In itself, it's such a complicated topic and I think it's good that people are focusing on biodiversity and trying to make it more measurable.

Adam Bass (15:34):

And the new players on the stage of course are finance and private industry in general, both of which are always hungry for the kind of measurements Oliver just mentioned.

Oliver Marchand (15:44):

I think all around the world, when you look at corporates, they're actually asking for more clarity on the low carbon transition. They're oftentimes asking for an official carbon price. They're actually oftentimes asking for clear regulation. They're asking for subsidies for renewable energies. They're asking for decarbonization pathways and clear plans so that they can adapt to that and they can do better planning and basically save the economy a lot of money by going strategically and in the right direction.

Adam Bass (16:20):

As for the finance or investment industry, well they, we, paid very close attention to COP this year and COP paid very close attention to the investment industry. The, even a finance day, which to Oliver had some personal significance.

Oliver Marchand (16:38):

I started Carbon Delta in 2015, a startup company here from Zurich, Switzerland, where the main idea was to create climate value at risk and applied temperature rise as quantitative metrics built from big data. And the interesting thing is that I remember that when we were admitted to our first startup program, the judges told us, "Look Oliver, we sense that you have a lot of energy and that you know what you're doing but to be honest, we don't at all understand what you're trying to do." Now six years later, we're in a situation where climate value at risk and implied temperature rise are very well known in the industry. The concept has really become mainstream as ways to measure climate risk and climate impact. And you would find those terms referenced multiple times throughout the world climate summit and the GFANZ, the Glasgow Financial Alliance on Net Zero, had been launched.

Oliver Marchand (17:54):

And part of GFANZ is the promotion of these kinds of metrics to basically make the TCFD requirements, the reporting requirements for the financial industry and corporates more concrete. It's really mind blowing. When it comes to GFANZ, we were kind of joking while we were in Glasgow saying that, "Maybe there may even be some members of the GFANZ alliance who maybe haven't fully understood that for being a member, you have to agree to a pretty aggressive net zero strategy that includes your whole entire value chain." Basically these members of GFANZ have basically agreed to putting in net zero target to all of their products, which for banks would mean at every loan would be net zero, for asset managers would mean that every fund that they offer is net zero, for asset owners mean that every dollar that they invest, they would invest in a net zero kind of way, for insurers it would mean that every insurance that they sell can be qualified as a net zero insurance. I think it's quite far reaching,

Adam Bass (19:12):

As I mentioned at the top of the show, opinions differ about the Glasgow Climate Pact. And while there are others who might agree with Oliver's guarded optimism, they don't think action is happening quickly enough. One angle some of these folks have chosen is to take to the courts.

Oliver Marchand (19:31):

I think overall there are probably around 3,000 lawsuits related to climate change. Many of them are local law questions that we don't have to talk about here but there are around probably 20 to 30 very high level citizens suing their government for not doing enough about climate change. We have one very interesting case in the Netherlands where the highest court of the Netherlands did basically agree with the case that the Dutch government isn't doing enough about climate change. There's a very interesting case in Germany now, which where in Germany, the activists were able to learn from the previous cases so the cases are being managed more professionally and basically they have a set of 20 people. It's almost a class action lawsuit where 20 people from very different backgrounds come together.

Oliver Marchand (20:25):

Sometimes, there's a pharma, there's someone living on an island, there's an elderly person. And they all have their different ways how climate change is impacting their lives. And it'll be really, really hard for the court to say that none of them are clearly affected by climate change. And that brings us to a strand of research that has advanced, it's called attribution science, where we're now able to run thousands and millions of climate scenarios with and without climate change and we can totally estimate the probability difference of any kind of event with and without climate change and can sort of attribute the impact that climate change has. And I think that makes a huge difference because it's sort of a scientific stamp on the logical relationship between somebody's life and climate a change.

Adam Bass (21:28):

Which brings us to the other push, the push of young people. We all know Greta of course but much like the frustrated voices from countries that contributed the least to the problem but are feeling the larger impact, younger people much in the same boat have been calling for faster change. There were nearly 100,000 people at the demonstration in Glasgow during the conference and while security and COVID concerns kept them a good distance from the conference grounds, the reality and the power of their message was not lost to those inside.

Oliver Marchand (22:05):

There's almost no one at the conference that didn't reference the young generation. And I think they have ample reason to refer to them because climate change not only is a geographical unfairness, it's also an intergenerational unfairness. We're basically putting the burden of solving the climate crisis to future generations. The most memorable moment was when Frans Timmermans, the main EU negotiator in the final plenary session wanted to speak very early on. And you could sense both. You could sense the general tension that he had around maybe some countries not agreeing and just reminding everybody, look there are national interests and we all get that and we all have that but please don't put your national interests before the global interests.

Oliver Marchand (23:02):

And the second thing was, he really made it very personal. He picked up his mobile phone and he held it up and he said, "This is a picture of my grandson that I received from my son this morning. I keep looking at it. And in the year 2050, he's going to be 30 years old and I might not live to 2050 but he's going to have to deal with the situation." And just the way he said it and the way he expressed that this was really personal, I think that's the best reflection for just communicating how very, very important it is to most people that are trying to solve the climate crisis in those kinds of negotiations, that it's about future generations.

Oliver Marchand (23:54):

Rule number zero for me with climate change is that we have no other choice but to do the best we can to improve the situation as best as we can. I think we can all safely say that we really, we did try our best. We went to COP, we tried to contribute in the best way. And I think we need to move this UN process forward. It's the only thing we have and so we need to improve it in the best way that we can and continue the dialogue and continue the process and accelerate the process. That's the best thing we can do.

Adam Bass (24:41):

That's all for this week. Our thanks to Oliver and to all of you for listening. Next up on Perspectives, we get specific about how some of the issues raised at COP matter not only to everyone that lives on the planet but more to the point to investors and the companies in which they invest. Until then, I'm your host, Adam Bass and this is MSCI Perspectives. Stay safe, everyone.

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