

State of Play



4 November 2021

Our Investment Specialist, Simon Durling, shares his thoughts in our latest update. As most of the world's leaders congregate for the 26th Climate Change summit in Glasgow, this week's State of Play looks at what the event is, why it is being held, and why any agreements reached there may prove to be important to investors.

What is climate change and what are the consequences?

You may have heard climate change being spoken about on numerous occasions by politicians, scientists, and other experts, but wondered what exactly it is and why it is deemed so important? The definition of climate change is probably best summed up by the United Nations: 'Climate change refers to long-term shifts in temperatures and weather patterns. These shifts may be natural, such as through variations in the solar cycle. But since the 1800s, human activities have been the main driver of climate change, primarily due to burning fossil fuels like coal, oil, and gas'

They go on to explain the process of climate change - 'Burning fossil fuels generates greenhouse gas emissions that act like a blanket wrapped around the Earth, trapping the sun's heat, and raising temperatures. Examples of greenhouse gas emissions that are causing climate change include carbon dioxide and methane. These come from using gasoline (petrol/diesel) for driving a car or coal for heating a building, for example. Clearing land and forests can also release carbon dioxide. Landfills for garbage are a major source of methane emissions. Energy, industry, transport, buildings, agriculture, and land use are among the main emitters'

COP26

So, what does COP26 stand for? COP is the Conference of Parties established in 1995 by the United Nations as the overall decision-making body of the United Nations Framework Convention on Climate Change (UNFCCC). The United Kingdom (UK) won the right to hold the 26th event in 2019, to be hosted in Glasgow last year, however, due to the pandemic it was postponed for a year. The conference is being held at the Scottish Event Campus in Glasgow, which has a 3,000 seat auditorium alongside a 14,300 capacity arena, ideal for large events like this one. Glasgow has a proven track record of hosting international events coupled with the city's commitment to sustainability having set its own ambitious targets to become carbon neutral by 2030. Last year Glasgow was awarded the status of 'global green city' by the Global Forum on Human Settlements.

Who is attending COP26 and what do they aim to achieve?

Glasgow is hosting more than 120 world leaders supported by a cast of government ministers and thousands of officials tasked with working through a complex web of challenges, targets, and commitments in an attempt to reach agreement on what action needs to be taken and by when. In addition to the numerous politicians in attendance, different multi-national corporations and organisations will be represented as the momentum for a more sustainable way of living becomes the primary goal not just for countries around the world, but also for companies and individuals alike.

Prior to the event beginning on 31 October, Boris Johnson, the UK Prime Minister, may have been disappointed by those who decided to decline the invitation to attend. According to the World Resources Institute, China produces approximately twice the emissions of carbon dioxide (CO₂) compared to the next biggest, the United States (US). President Xi of China has chosen not to attend in person, instead opting to address global leaders by video link. He joins President Putin of Russia, the world's fourth largest emitter, President Raisi of Iran, the world's sixth largest emitter, and President Bolsonaro of Brazil, the world's 13th largest emitter, in declining invitations to attend the conference in person. The Prime Minister will be hoping that the 12 days planned for the event will help bring about compromise, commitments, and importantly agreements leading to real change. However, reaching agreement will not be easy as previous climate summits have proved.

Slow progress

The past decade has been the warmest on record, and the majority of all governments globally agree collective action is urgently needed. However, progress since the UNFCC was formed in 1995 has been painfully slow as every country around the world has a slightly different perspective on what needs to be done depending on where they are on the economic development journey, the long-term cost of changes agreed and the makeup of their economy both now and in the future.

The first major agreement reached was the Kyoto Protocol which was adopted on 11 December 1997 in the Japanese city. In short, the Kyoto Protocol operationalised the UNFCCC by committing industrialised countries and economies in transition to limit and reduce greenhouse gases (GHG) emissions in accordance with agreed individual targets. Owing to a complex ratification process, it only came into force on 16 February 2005.

The next major progress point was in Paris in 2015 at COP21 when agreement was reached to limit global warming to well below 2 degrees Celsius but preferably to 1.5 degrees Celsius, compared to pre-industrial levels. To achieve this long-term temperature goal, countries aim to reach global peaking of greenhouse gas emissions as soon as possible to achieve a climate neutral world by 2050. The Paris Agreement was a landmark in the multilateral climate change process because, for the first time, a binding agreement brought all nations into a common cause to undertake ambitious efforts to combat climate change and adapt to its effects.

Why do countries disagree on who should pay for change?

The developed countries around the world like those in the European Union, the US, and the UK are arguing for collective action which must include the biggest emitters of greenhouse gases, like China, otherwise any agreements reached, and subsequent action taken, will not be enough to avoid a predicted long-term disaster. However, developing countries make the point that the UK began the industrial revolution over 150 years ago and others, like the US, which quickly followed, became rich, in the process polluting our planet for much longer than other countries. Why should a developing nation pay the same proportionate price when their contribution to the build-up of greenhouse gases over the last century or so is much less? The irony of climate change is developing countries tend to pollute less per head of population and are not responsible for most of the emissions in the past, but they experience some of the worst effects of climate change, often causing enormous economic damage.

The other barriers to agreement are about how you measure change and progress. One country may well make significant changes by outsourcing certain polluting activities to another country and then importing the product, therefore no longer being responsible for the greenhouse gases produced in the manufacture and distribution of the same product. Surely, whilst this can be viewed as a success for one country and demerit mark for the other, it is simply a poor outcome for the world in which we live collectively. Collaboration is needed between richer countries who can afford to help poorer countries to make changes faster to achieve real progress.

So, why are the outcomes in Glasgow so important to investors?

If you watch the news, currently dominated by the events in Glasgow, it would be easy as an investor to feel bewildered by the complexities, the politics and the gesturing of leaders demanding urgent action, and wondering what this means. What are the potential impacts of agreements or commitment to action on investment markets? Why are the outcomes directly correlated to the potential future value of your investment portfolio?

Climate change agreements tend to be large scale commitments by countries around the world to a specific target to help achieve real progress. However, the devil is always in the detail when it comes to your investment portfolio. Investors of all shapes and sizes are increasingly aware that, as well as investing for their future or that of those they represent, they can direct their money to support change for the better on issues many of us feel strongly about, from climate change to building a fairer society. The investment industry is on a journey to help achieve a more sustainable future through developing frameworks and rules designed to shift behaviour and attitude of companies around the world to operate in a more sustainable way. Sustainable investment has also come to play an increasingly important role in public policy, adding to its rise as a powerful and positive influence around the world.

Companies listed on the stock markets around the world know that the popularity of their company and the demand and value of the shares are directly linked to their current behaviours and more importantly their future plans. Those companies who have embraced change earlier than others will likely benefit in this change in momentum and probably an increase in their share price. Governments as well as investors are tending towards looking at investment through an ESG lens. The United Nation's 17 Sustainable Development Goals (SDGs) are a uniting focus for this and represent desirable outcomes for the world that most of us can get behind.

Separately, in pursuit of the necessary changes on climate change each government may provide certain incentives, changes in legislation or penalties for inaction, directly affecting the marketplace, sector or industry that a company operates within. These changes can be dramatic and implemented sometimes without warning thus triggering rapid swings in share values depending on whether the rule change benefits the company or not. So, for investors, discussions in Glasgow really matter, not just now but in the future.

Inaction is not an option

There is no country that can claim its own sacrifices are more worthy without the sacrifices of other countries. We live in an interdependent world and rely on each other for trade, co-operation, collaboration and progress. If indeed our planet needs saving, we cannot do so alone as only collective agreement and action can achieve success. Climate action requires significant financial investments by governments and businesses. But climate inaction is vastly more expensive in the long run with the added potential catastrophic consequences many centuries from now.

The world's most famous naturalist, Sir David Attenborough has urged COP26 climate summit delegates to 'turn tragedy into triumph' and tackle climate change. He said people were 'the greatest problem solvers to have ever existed on Earth' and called on leaders to think of the younger generation as they work to address climate change. 'If working apart we are a force powerful to destabilise our planet, surely working together we are powerful enough to save it', he said, before concluding, 'In my lifetime I've witnessed a terrible decline. In yours, you could and should witness a wonderful recovery'.

Ralph Waldo Emerson, the 19th century American essayist and poet captures our collective responsibilities in protecting the future of our planet perfectly – 'We do not inherit the Earth from our ancestors, we borrow it from our children'.

Find out more!

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Note: Data as at 2 November 2021.



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