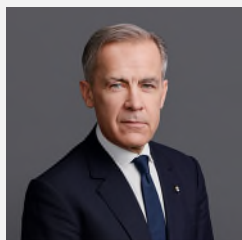


Amundi World Investment Forum

Alternative Roads: Mirage or Regime Shift?



MARK CARNEY
*UN Special
Envoy for
Climate Action
and Finance*

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COP26: Make-or-break moment

The Amundi World Investment Forum (AWIF) was held virtually in mid-June 2021. This year's theme was "Alternative Roads: Mirage or Regime Shift", aiming to explore and interpret the characteristics of various changes and opportunities brought to the market since the pandemic. The forum focused on geopolitics, monetary policy, inequality and climate issues, and invited several key professionals in industry to provide insights on the market.

This article focuses on the Keynote Speech given by Dr. Mark Carney, UN Special Envoy for Climate Action and Finance. Dr. Carney is an economist and banker who served as the Governor of the Bank of England from 2013 to 2020, and prior to that as Governor of the Bank of Canada from 2008 until 2013. He is a long-time and well-known advocate for sustainability, specifically with regard to the management and reduction of climate risks, and is currently the United Nations Special Envoy for Climate Action and Finance.

On the road from COP21 to COP26, what has changed since the Paris agreement?

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The Paris Accord has played a seminal role in creating the possibility of a sustainable future. There were many innovations in the Paris Accord, in particular, setting the clear objective of less than two degrees warming, voluntary country plans that were objectively added up to assess what would happen if countries met their commitments and bringing the involvement of the private sector and non-state actors on a level that had never been seen before. This ensured that the solutions to this enormous problem are bottom up as well as top down.

All of these innovations will be crucial to the prospects of success in Glasgow. For example, since Paris, the concepts of net zero, Paris-aligned and a one and a half degree objective have moved from the climate cognoscenti into the mainstream. This has been essential to making the sometimes-fuzzy concept of sustainability concrete. Net zero is now an organizing principle that cascades down from the global to the country and the company.

Many companies are responding with net zero commitments and to varying degrees specific plans and actions. An essential role for finance will be to distinguish between those that are becoming part of the solution and those that remain part of the problem. The sobering reality is that the problem of climate change grew after Paris and countries did not live up to their plans. Consequently, by last year, it was estimated that the world's temperature would rise above three degrees by the end of the century.

This only underscores that we must invest and grow to get to net zero. The scale of that investment opportunity is increasingly understood, for example, we will need to more than double energy infrastructure investment to an estimated three and a half to five trillion dollars every year for the next 3 decades.

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What should we expect from the upcoming COP26 in Glasgow?

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Well, the overarching objective is to keep one and a half degrees within reach. All countries are being urged to come forward with ambitious 2030 climate plans and long-term strategies to reap net zero carbon emissions. Our objective is to create a race to the top. There has already been important progress. When the UK assumed the presidency, in partnership with Italy, countries covering 30 percent of global emissions had net zero targets. Today, that figure is at 70 percent.

The most recent International Energy Agency (IEA) scenario assessment of country policies captures the importance of this recent momentum. Even if all of the objectives announced to date were fulfilled, temperatures would rise by an estimated 2.1 degrees by the end of the century. However, the IEA cautions that on stated policies, the increase would still be 2.7 degrees. In other words, there is still a large gap between ambition and action. Ambition on climate mitigation is directly connected to the other COP26 objectives, namely adaptation, collaboration and finance. All countries should step up to help societies and economies adapt to climate change through ambitious adaptation plans and there is an imperative to massively scale adaptation finance for emerging and developing economies. On collaboration, in order to finalize the Paris rule book, such as Article 6, greater collaboration is needed amongst policymakers, business and civil society. Lastly, finance starts with securing a 100 billion a year commitment from donor countries and to show that finance, both public and private, will flow for climate action to support those developing nations most affected by climate change.

These priorities are essential to raise ambitions of countries, especially emerging and developing countries. We expect huge involvement from the private sector anchored in the race to zero. Of course, as with country efforts, without a quantum leap in private finance all will be for naught.

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What are the roles of policymakers and companies, and most specifically the financial sector?

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For COP26, we are working to ensure that the financial sector has the information, the tools and the markets so that every financial decision takes climate change into account. A world in which climate change is as much a determinant of value as a company's creditworthiness and the macroeconomic environment.

Our private finance strategy rests on four pillars: comprehensive climate reporting, transformation in climate risk management, mainstreaming of climate returns and create new markets to mobilize private capital at large scale to emerging and developing countries.

Improving the quantity, quality and comparability of climate-related disclosures requires fully implementing the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations that were only a concept five years ago in Paris and just delivered to G20 leaders three years ago in Hamburg. Developed by the market for the market, the TCFD has become the gold standard for climate reporting. Demand for this disclosure is enormous with every major systemic bank, the world's largest insurance pension funds and asset managers calling for TCFD disclosure.

The road from Paris to Glasgow has been long winding and it is sometimes rocky but over the past year that path has begun to straighten and our pace has accelerated a market in the transition to net zero is now being built on the foundations of reporting, risk management and returns. The focus and purpose of private finance is encouraging greater ambition from governments. The more credible and predictable climate policies, the more that the financial system will anticipate future measures and encourage companies to accelerate adjustment. We need to grow to shrink emissions with the adoption of clear objectives and the COP 26 framework for private finance in order to ensure that every financial decision takes climate change into account, we can turn this existential risk into the greatest commercial opportunity of our time.

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