POLICY BRIEFING:
THE ROAD TO COP26 (US)

3 NOVEMBER 2021

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

POLICY BRIEFING: THE ROAD TO COP26 (US)

INTRODUCTION

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 4,000 signatories globally (comprising pension funds, insurers, investment managers, and service providers), with approximately US$120trn in assets under management.

Responsible investment explicitly acknowledges the relevance to the investor of environmental, social, and governance (ESG) factors in investment decision-making for the long-term health and stability of financial markets.

The COP 26 summit in Glasgow in November 2021 is expected to see countries agree to the next steps on the path to deliver net-zero global emissions by 2050. Investors are increasingly supportive of policy actions to reach net zero and are ready to contribute capital and collaborate with policy makers to design and implement policies that facilitate investment flows at scale.

As the world's largest responsible investor network, the PRI is working to help investors protect portfolios from risks and identify opportunities in the shift to a low-carbon global economy, including through policy engagement. Ahead of COP 26, the PRI is seeking to support governments and policy makers to make commitments and implement policies that align with the goals of the Paris climate agreement.

This briefing, which is one of a series of climate policy country briefings, presents the PRI's recommendations for priority climate-related policies for the US that would help leverage investors' interests in supporting the US's path to carbon neutrality. If acted upon effectively, these measures would help cement the country's role as a global leader in climate action.

FROM NET-ZERO COMMITMENTS TO CLIMATE POLICY ACTION

On the day of his inauguration, President Biden rejoined the Paris Agreement and set the goal of creating a net-zero economy by 2050. The US's nationally determined contribution to the Paris process set an interim target for the US to reduce emissions approximately 50% by 2030 on its way to a clean electricity sector by 2035, and to net zero by 2050. US leadership is critical in bringing the world together around the shared goal of limiting the damage done by climate change and to taking the collective action necessary to do so. However, to meet the US's stated goals, and provide convincing leadership for the rest of the world, concrete, near-term decarbonization policies are needed.

Investors globally recognize the importance of major economies urgently establishing targets and plans to deliver emissions reductions in line with the goals of the Paris Agreement. As analysis from the PRI's Inevitable Policy Response project shows, a delayed, disruptive, and disorderly policy response to climate change risks undermining the value of financial assets as well as increasing the difficulty of reducing emissions at the required rate. On the other hand, timely and ambitious action creates certainty, helping businesses and investors to seize the opportunities for growth and job creation that are provided by the sustainable and low-carbon industries of the future.

For these reasons, investors are increasingly supportive of policy action to reach net-zero and stand ready to contribute capital and collaborate with policy makers to design and implement the concrete and actionable policies needed to facilitate low-carbon investment flows at scale.

POLICY RECOMMENDATIONS

Ahead of COP 26, the PRI recommends that economic, environmental, and financial policy makers and regulators support ambitious action to facilitate zero-carbon investment flows and help achieve the US's 2030 target of a 50-52% reduction in emissions against the 2005 baseline as well as the mid-century net-zero goal. Mutually supportive policy and regulatory reforms should include: (1) action to reduce emissions in power, transport and industry; (2) building support for carbon pricing mechanisms; (3) improving the underlying financial regulatory frameworks to better facilitate investors' allocation of capital to support the path to net zero; and (4) a focus on creating a just transition to a sustainable economy that supports workers and communities in danger of being left behind.

1. ACTION BY CONGRESS, FEDERAL AGENCIES, STATES AND PRIVATE SECTOR TO REDUCE EMISSIONS IN POWER, TRANSPORT AND INDUSTRY

Meeting the US's 2030 emission reduction target will require immediate and sustained efforts by Congress, the federal government, leading states, private sector actors, and civil society. These reductions will need to come primarily from the highest emitting sectors of the US economy – electricity, transport, and industry – the first two of which are projected to account for 80% of 2030 emission reductions.[1]

Research by Vivid Economics as part of the PRI's Inevitable Policy Response project, the PRI's net-zero roadmap for the US, and reports by America's All In[2] and the Rhodium Group[3], provide policy recommendations to achieve necessary reductions in these key sectors. Together, these recommendations represent economically and technically achievable near-term actions to help set the US on a pathway to carbon neutrality by 2050, consistent with broader development goals. To provide clear market signals that support consistent capital investment, the PRI makes the following recommendations.

[1] America is all in report (2021) all-in-climate-strategy-report2021rd3-3.pdf (americaisallin.com)

[2] America is all in report (2021) all-in-climate-strategy-report2021rd3-3.pdf (americaisallin.com)

[3] https://rhg.com/research/us-climate-policy-2030/

Congress should:

- **Pass a 10-year extension of existing clean energy tax credits**, including the Investment Tax Credit (ITC) and Production Tax Credit (PTC), providing a direct payment option for smaller companies and, more broadly, for situations where tax equity may be limited.[4]
- **Provide funding and tax incentives for cross-state transmission infrastructure** to build a grid capable of fully utilizing America's vast renewable energy resources. Granting further authority to the Federal Energy Regulatory Commission and streamlining the permitting process are vital to the build-out of transmission capacity in line with a carbon-neutral grid by 2035.
- **Offer incentives for transportation electrification,** including expanded tax credits for the manufacturing and purchase of zero-emission vehicles, and funding and permitting support for the planning and construction of electric vehicle charging networks.
- **Fully fund a clean energy and sustainability accelerator** to crowd in private finance for distributed energy, low-carbon infrastructure and building retrofits.[5]
- **Rapidly phase out fossil fuel subsidies**, utilizing savings as a pay-for for expansion of carbon mitigation programs, such as carbon capture tax credits under Section 45Q of the tax code, and long-duration energy storage deployment.
- **Require all construction projects utilizing federal funding to consider climate impacts** across project design, planning, construction, maintenance, and decommissioning, to reduce the carbon intensity of construction as well as the emissions generated through lifetime use.

Federal agencies should:

- **Set emission performance standards** for all new and existing fossil fuel power plants, requiring an 80% reduction in emissions by 2030 compared with 2005 levels.
- **Establish a zero-emission vehicle standard** for passenger vehicles to achieve a 100% zero-emission car and light duty fleet by 2035, and a zero-emission heavy duty fleet by 2045.
- **Set ambitious Corporate Average Fuel Economy (CAFE) standards** for model year 2024-2026 and continue to ratchet up standards beyond 2026.
- **Fully enforce the new Biden administration regulations** on methane emissions for oil and gas infrastructure, and work across government and industries to reduce methane emissions from the highest emitting sources including legacy oil and gas infrastructure, flaring, agriculture and landfills.

---

[4] See https://www.congress.gov/bill/117th-congress/senate-bill/985/all-info for example legislation allowing for direct payments of certain related tax credits

[5] See https://coalitionforgreencapital.com/nearly-250-groups-urge-congress-to-include-green-bank-in-infrastructure-bill/

States should

- Establish clean energy standards and/or utility decarbonization targets, whether through legislation or executive action, that mandate 100% clean electricity by 2035.
- Establish zero-emission vehicle standards for sales of passenger cars by 2035 and 2045 for heavy duty vehicles.
- Reduce methane emissions in agriculture and industry by 40% from 2013 levels by 2030.

The private sector companies should:

- Establish net-zero goals and interim near-term benchmarks using science-based targets and report regularly on progress.

2. BUILD SUPPORT FOR CARBON PRICING

When designed and supported by the right enabling conditions,[6] a price on carbon is the most direct and efficient way to reduce emissions. Carbon pricing policy instruments include carbon taxes, emissions trading (or cap-and-trade) schemes, and hybrids of either. For example, California's carbon trading scheme provides a floor and a ceiling on carbon prices that rise over time. Carbon pricing can be used to directly support a just transition.

Carbon pricing should not, however, be seen as a silver bullet but should instead be designed to work alongside other policy instruments. Where carbon pricing can unintentionally act as a regressive tax on lower earners, regulation can take the form of technology phase-outs and performance standards to more directly moderate the transition.

The PRI welcomes actions by individual states to set carbon prices and binding clean energy standards in the absence of Congressional action. Washington State's new carbon pricing law and the 11-state Regional Greenhouse Gas Initiative (RGGI) provide two successful models for how states can act now to begin pricing carbon emissions. To provide clear market signals that disincentivize carbon emissions and support consistent capital investment in zero-carbon energy, the PRI recommends:

- The federal government conducts a technical feasibility study into the establishment of a national carbon pricing scheme. Scenarios should include the establishment of emission baselines by sector and the interoperability of a national scheme with existing regional and state initiatives.
- RGGI states provide modelling and comparable historical data to non-RGGI states on prior successes of emissions reduction efforts.

[6] These could include electricity market reform as well as the commercial availability of zero-carbon substitutes, whereby the additional price on carbon drives fuel and/or technology switching.

3. IMPROVE FINANCIAL REGULATION FRAMEWORKS

To effectively re-orient economies and direct investment towards net-zero goals, governments need to reform and improve existing finance and investment industry regulatory frameworks. The PRI welcomes the Biden administration's Executive Order on Climate-Related Financial Risk to begin pricing climate risk into federal agency budgeting, procurement, contracting and planning.[7] Further collaboration by regulators and government bodies to improve standards and regulations should be a priority to encourage private and international capital to integrate climate change and sustainability factors into decision-making and to support the US's transition to net-zero. In March, the PRI published a US policy briefing providing considerations for US regulators to enhance the ability of investors to identify, assess and take action on ESG-related risks and opportunities. To support US investors as they seek to limit contributions to carbon emissions, the PRI recommends:

- **New regulations to clarify institutional investors' duties to incorporate climate-related considerations** in their investment decision making, and a requirement that investors disclose their ESG incorporation policies and performance targets and progress.
- **The introduction of a stewardship code** to encourage and guide investors to use their influence (including exercising voting rights and filing shareholder resolutions) to maximize the overall long-term value of their portfolios, mitigate their exposure to climate-related risks, and accelerate the business transition to net zero.
- **Establish mandatory and standardized corporate climate disclosure requirements**, including alignment with the recommendations of the TCFD to enhance transparency on the financial impacts of climate-related issues on investees and support the efficient allocation of capital in the transition to a net-zero economy. US regulators should collaborate across agencies and internationally to support and contribute to global efforts at creating a consistent sustainability reporting framework across corporate and financial markets around the world.

The PRI's report, A toolkit for sustainable investment policy and regulation (part 1), presents further information on the core attributes of a sustainable investment policy framework.

4. ENABLE A JUST TRANSITION TO SUSTAINABLE ECONOMIES

While a rapid reduction in emissions is not without its challenges, the transition to net-zero offers far greater opportunities for workers, with resilient jobs in a more equitable and sustainable economy. Emphasizing inclusivity in the net-zero transition can help accelerate climate action and optimize its benefits. Workers, communities, and countries that helped power societies' development since the industrial revolution should not be left behind as the world moves towards clean energy. To fully account for those adversely affected by the low-carbon transition, the PRI recommends:

[7] See https://www.whitehouse.gov/briefing-room/presidential-actions/2021/05/20/executive-order-on-climate-related-financial-risk/

- **The creation of a federal office for the just transition,** building on President Biden's establishment of the Interagency Working Group on Coal and Power Plant Communities and Economic Revitalization.[8]
- **Provide funding for states to develop state-wide and county-specific transition plans** for workers in fossil fuel-heavy industries to fully prepare for retirement, health care, education and retraining needs.
- **Commit to global climate financing, including at a minimum the pledge for US$100bn climate finance each year from developed to developing countries,** exercising the US's international influence to mobilize and hold accountable other developed countries.[9]

CLEAR POLICY ACTION INCREASES INVESTOR CONFIDENCE

While climate change poses significant risks for society and the economy, the net-zero transition also provides opportunities to build the industries of the future, supporting sustainable development and prosperity. Investors are clearly signaling their interests to invest in these opportunities but, to do so, they require reliable, near-term, and concrete policies.

These measures recommended by the PRI would help to establish clear near- to mid-term emissions reduction trajectories and plans for the real economy and contribute to building the foundations of a financial system that supports a rapid and orderly transition to a net-zero carbon economy. Alignment with net-zero and broader sustainability goals should be consistent and coordinated across government financial, economic, and sectoral policies.

[8] See https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/27/executive-order-on-tackling-the-climate-crisis-at-home-and-abroad/

[9] See https://www.carbonbrief.org/analysis-which-countries-are-historically-responsible-for-climate-change