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British Foreign Policy Group

The Geopolitics of the Climate Change Transition:

Security Threats, Power Struggles and
a Test for Multilateralism

Evie Aspinall

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Executive Summary

- While the climate transition is essential to protecting our long-term resilience to the impacts of climate change, China's dominance of both the resources and infrastructure for producing renewable energy poses significant challenges to the UK's national security and the West's broader resilience.
- The global energy crisis highlights the need to diversify our energy supply chains and to invest in the climate transition. However, the immediate challenges posed by the crisis threaten to temporarily set back current progress on climate action.
- Despite rhetorical commitments by both the United States and China to cooperate on climate change, President Xi's absence at COP26 suggests significant limitations to the opportunities for Western cooperation with China on climate change, even as China increasingly looks to assume a climate leadership role.
- It is unlikely that developed nations will meet the US\$100 billion climate finance target ahead of COP26, and securing bold commitments for climate financing in the developing world must be seen as a strategic necessity to the West.
- Despite the UK's best efforts, the prospects of securing seismic commitments to climate action at COP26 are looking increasingly marginal, however, there is still ample scope for the conference to smooth the path for future cooperation.

Introduction

Ownership and access to fossil fuels have played a defining role in determining the geopolitical landscape over the last century.¹ However, with global temperatures rising, and a growing recognition that failure to tackle climate change will cause significant problems to the future of humanity, governments are increasingly looking to transition away from fossil fuel consumption and towards more renewable sources of energy. Given the prominence of fossil fuels in our daily lives, this transition brings with it a deeper transformation of global power dynamics, with significant social, economic and political implications.

The global nature of climate change, which shows no respect for international borders, also necessitates close cooperation across nations. Uniting the West, our strategic rivals, and both developed and developing nations around this agenda will be the defining test for multilateralism. It will require nations to prioritise collective over immediate domestic needs and to put aside broader geopolitical dynamics to generate joint solutions to a shared challenge.

This paper explores both these components of the geopolitics of the climate transition - the renewables race and international cooperation - and proceeds in two parts. The first, 'The Race to Become a Renewable Superpower' focuses on how the climate transition will inevitably generate winners and losers. It finds that while the shift towards renewable energy will democratise energy systems, it will impose undue burdens on poorer developing nations which either rely on traditional exports and/or lack the resources to invest fully in the climate transition. Meanwhile, wealthier oil-exporting nations, and those which possess the capabilities to lead the economic transformation towards green technology, will be much more likely to benefit financially and ride out any social costs.

In particular, China, which controls a large proportion of both the technology and the resources needed for the production of renewable energy, will reap both economic and geopolitical rewards from the shift to renewable energy sources, accelerating its rise as a dominant global superpower. The challenges posed by the asymmetry of energy production have been illustrated in the recent international crisis around gas and coal, and it is therefore essential that the West invests further in its own renewable energy capabilities in order to both protect and enhance its own resilience.

The second half of this paper, 'The Future of International Cooperation and Alliances' focuses on the potential for international cooperation in the climate transition and the likelihood of success. It finds that while China increasingly wishes to be perceived as a climate leader, it remains cautious of proactive engagement with the West on climate change, especially when this could be regarded as a concession to what it perceives to be Western-centric frameworks. This section also argues that while significant attention is often paid to the inaction of our strategic rivals on climate change, encouraging Western allies to lead on the climate transition will be central to its success. This is particularly the case in the context of rising tensions between developed and developing nations over climate finance, which is needed to support more fragile economies to embrace more radical policies.

The stakes of the 26th UN Climate Conference of the Parties (COP26), hosted by the UK in Glasgow in November 2021, could not be higher, but it is clear that significant challenges remain in pursuing a joined-up global approach to tackling this monumental issue. 'Global Britain' has a unique and integral role to play in bringing tangible commitments to the table, and the UK will need to think beyond the Summit itself to bring this agenda forward. Climate change is an issue that will remain at the forefront of the international agenda for the foreseeable future and the UK's leadership in this field will be central both to achieving the ambitions of the Global Britain agenda and to global efforts to successfully address climate change. It is a major undertaking, and one which cannot be borne lightly, but the success of which could not be more significant.

The Race to Become a Renewable Superpower

Given the central role that energy plays in all aspects of our daily lives, control over energy resources and production not only provides domestic economic, social and political benefits but also strengthens national resilience and sovereignty. The shift to renewable energy has therefore led to a global scramble to lead the transition towards more renewable resources and to become a 'renewable superpower'.

There are three ways in which nations can gain influence in the net-zero transition. The first is as an exporter of renewable energy itself, where nations such as Australia, which receives significant amounts of sunlight which can be harnessed for solar power, could be expected to thrive.² However, renewable energy systems are generally more decentralised and privatised than existing energy systems, limiting the levels of direct geopolitical influence possessed by national governments through ownership of renewable energy resources.³

The second is through control of the raw materials used in the production of renewable energy such as nickel, graphite, lithium, cobalt and rare earth elements. There are high concentrations of these resources in South America, Africa and potentially the Arctic.⁴ Control of these resources, and strong relationships with nations that possess an abundance of them, can reduce the economic costs of production and provide control of supply chains. In 2020, Indonesia – one of the world's largest exporters of nickel – banned nickel exports in an attempt to develop an end-to-end domestic nickel supply chain, resulting in a World Trade Organisation dispute and leaving other nations scrambling to shore up their access to raw materials.⁵

The third key way in which nations can gain influence in the net-zero transition is through leading the technological innovation that will drive the shift towards renewable energy, enabling them to benefit from first-mover advantage.⁶ This includes leadership in improving the financial viability of renewable energy production such as hydrogen, as well as standard-setting and designing new forms of production.⁷ Due to the fast-paced nature of technological innovation, it is this area where geopolitical influence is most in flux, especially at the early stages of development.

China's Dominance

Despite a poor domestic record on carbon emissions, China has seized the opportunity to lead the production of renewable energy and already dominates large sectors of the market. In the solar industry, China controls 64% of global polysilicon material, which is required to make the solar ingots and wafers used in solar panels. As a result, China controls nearly 100% of the solar ingot and solar wafer market, and 80% of the solar cell manufacturing market.⁸ Its dominance at every stage of the production process means that China currently produces three-quarters of the world's solar panels, and eight of the top ten solar panel companies in the world are Chinese. None are European and just one is American.⁹

China's dominance continues into a number of other renewable sectors, with China owning 70% of refined cobalt production – a central component for lithium-ion batteries which are used in electric vehicles and for storage of off-grid renewable energy. Furthermore, Chinese firms account for 80% of the world's output of raw materials for advanced batteries, and it also controls much of the lithium-ion battery recycling sector.¹⁰

This dominance by China threatens to create a Western reliance on China for achieving its climate objectives, creating vulnerabilities in national security and resilience. For example, in

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2010, when China banned exports of rare earth elements to Japan for 59 days, prices spiked between 60 and 350 percent, with significant economic repercussions.¹¹ The possibility of the use of such leverages provides China with significant influence over other nations, with the potential to use this for its own geostrategic benefit.

Governments must also grapple with the fact human rights and liberal values are fundamentally intertwined with debates around climate action. It is the case that 40% of the polysilicon used in solar panels is manufactured in Xinjiang, a region in which China is accused of human rights abuses against the Uighur community. UK solar projects have already been found to be using panels from companies linked to forced labour in Xinjiang.¹²

In addition, the relative low cost of Chinese solar panels in part stems from its decision to keep open coal plants that help generate the electricity required to produce solar panels, undermining their contribution to the climate transition. It is also contingent on China's willingness to prop up unprofitable enterprises, a practice that the UK has previously criticised as damaging to the global free trade marketplace.¹³

The Hydrogen Race

In other parts of the renewable energy sector, China's dominance is less absolute and the market is more diverse, presenting opportunities for Western nations to gain a stronger foothold. Thirty nations have already developed hydrogen road maps, with Europe currently leading the sector with more than half of the planned large-scale hydrogen projects located on the continent and the world's largest green-hydrogen production facility based in Linz, Austria.¹⁴ Hydrogen power is also a central part of the European Union's long-term planning, and in 2020 it released a comprehensive hydrogen strategy. Plans include installing at least 6 GW of renewable hydrogen electrolyzers in the EU and producing up to 1 million tonnes of renewable hydrogen by 2024. This would be scaled up to installing 40 GW of renewable hydrogen electrolyzers and producing 10 million tonnes of renewable hydrogen by 2030.¹⁵

Japan is also investing heavily in hydrogen energy, outlining a roadmap for hydrogen and related fuels to supply 10% of the nation's energy by 2050. By investing in hydrogen research and development, and particularly in ammonia, Japan hopes to overcome some of the traditional barriers to hydrogen power, particularly around trade. Ammonia, which is a compound of nitrogen and hydrogen, is easier to transport and store than pure hydrogen, and is already produced in large quantities, making it easier to trade. The UK also hopes to take on a greater leadership role in the hydrogen sector, announcing plans for almost US \$5.5 billion investment in hydrogen by 2030, and ambitions for hydrogen to cover 20-35% of the UK's energy consumption by 2050.¹⁶

The hydrogen energy sector therefore remains both diverse and highly contested. However, hydrogen power remains very expensive to produce, with experts warning that costs of producing hydrogen from renewables would need to fall by half to be financially viable. While economies of scale can be expected to reduce these costs to some degree, significant investment and an increase in demand will be needed to reach this.¹⁷ As a result, some nations are turning to blue hydrogen instead. Blue hydrogen is produced from fossil fuel gas linked to carbon capture storage, and it is a significant component of the UK's hydrogen strategy. However, critics warn that blue hydrogen could be worse for the environment than natural gas and that it is not environmentally friendly enough to achieve global decarbonisation goals.¹⁸ As such, investment in hydrogen remains risky, both as an economic venture and in terms of the likelihood of it successfully enabling nations to achieve their climate objectives.

Furthermore, while China currently only controls a small percentage of the hydrogen energy sector, it has identified hydrogen energy as one of its six industries of the future. In China's 14th Five-Year Plan, it outlines plans to support local governments in researching hydrogen technology and developing an industry chain, the former of which has previously played heed

to China's attempts to enter the hydrogen industry. Given China's rapid success in cornering other parts of the renewable energy sector, including its rapid expansion in the photovoltaic sector in the 2000s at the expense of the European Union, other nations could find themselves losing ground to China in the global hydrogen race and will need to actively prioritise market agility and innovation as a point of strategic resilience.¹⁹

Oil-Exporting Nations and Rentier States

For oil producers and exporters, investment in renewable energy production will be particularly important to securing their political and economic influence. In nations such as Qatar and Azerbaijan for example, fossil fuel rents contribute to over 15% of GDP, playing a defining role in their economic security.²⁰ In oil-rich rentier states, where the political system is reliant on the allocation and distribution of oil wealth, the threat posed by the climate transition is particularly acute. Historically in these nations, the high income derived from oil rents has reduced the need to extract taxation from citizens, creating a limited social contract in which civil and political rights are exchanged for economic prosperity. A move away from fossil fuels will likely unsettle the political functioning of these states, which may no longer be able to make such promises of economic prosperity.

However, the extent to which this transition disturbs the functioning of oil-rich states is strongly contingent on their willingness and ability to invest in the climate transition. While many rentier states in the Gulf have yet to invest significantly in renewable energy production, others are seeking to leverage the significant wealth accrued from fossil fuel production towards renewables as a point of strategic advantage. Some of these nations also possess abundant renewable resources, including sunlight and the space to develop large solar plants, which means the impact of the climate transition on these nations will be less significant than might be expected.²¹

For poorer fossil fuel-producing nations – many of which are in Africa – the future looks less bright. Since the 1970s, fossil fuels have comprised 80% of Nigeria's total exports, and tax revenue from oil and gas comprises a significant proportion of the government's budget. While the Nigerian government is acutely aware of the challenges posed by the transition away from fossil fuels, such that economic diversification is a key government priority, lack of financial investment and overstretched public infrastructure are undermining its capacity to move towards renewable energy production.²² With significant gaps in climate finance expected to remain unfulfilled for the foreseeable, the climate transition is therefore likely to deepen many existing geopolitical inequalities, with nations unable to invest early on in the climate transition likely to be left behind.

The Global Energy Crisis

The race to become a renewable energy superpower has been thrust into the spotlight by the global energy crisis, which emerged in Autumn 2021. In Europe, which has been particularly hard hit by the crisis, wholesale gas prices have increased 600% in 12 months and in the UK spiked 37% in 24 hours in early October 2021.²³ The crisis has been triggered by issues in both the supply and demand pipelines and has highlighted the challenges posed both by the climate transition and by reliance on other nations for energy production.

As nations recover from the pandemic, demand for natural gas, coal and other renewable and non-renewable energy sources has risen exponentially. Challenges in quickly scaling up to meet these demands have been exacerbated by low levels of investment in natural gas capacity during the pandemic, but also due to a number of weather-related factors. Low availability of wind energy, droughts, heatwaves in Asia, and a cold winter in the Northern Hemisphere at the start of 2021, have all impacted both supply and demand.²⁴

Many of these fluctuations in supply and demand for energy are themselves induced by climate change, reinforcing the urgency around the transition. At the same time, the energy crisis also highlights the challenges inherent in a rapid shift away from fossil fuels, without investments in renewable energy.²⁵ The energy shortages currently being experienced have the potential to lead to backlash against climate action, with Hungarian Prime Minister Viktor Orbán quick to blame the crisis on the climate transition, calling for environmental deregulation by the European Commission.²⁶

It is also true that faced with fuel poverty and disruption to their daily lives, public support for the climate transition may wear thin. Rising energy prices will hit consumers hard, and the possibility of government bailouts of energy companies may deepen their frustrations.²⁷ In this sense, it will be important for governments wishing to lead the climate change agenda to control the narrative on the energy crisis, emphasising how it shows the need to accelerate, rather than slow down the climate transition.

The crisis also threatens the progress already made on climate action, even among its most vocal supporters. While President Biden has vocally doubled down on natural gas usage, which while not carbon neutral, emits significantly less carbon dioxide than coal power, he has been forced to consider a temporary return to non-renewable energy sources.²⁸ The United States is rumoured to be in talks with the oil industry to find solutions to address rising gas prices and to have considered an emergency release from the Strategic Petroleum Reserve.²⁹ Similarly in the UK, the National Grid had to ask EDF energy to fire up its coal power plant in Nottinghamshire, to meet demand for energy. Businesses too are turning back to fossil fuels to plug the gaps in energy supply and minimise the short-term costs of the crisis. This immediate role in alleviating the crisis may translate into a longer-term leverage for the fossil fuels industry on a political level.³⁰ The temporary shift to fossil fuels will also pose questions about the strength of the West's commitment to climate action, and its capacity to urge dramatic transformations in developing nations.

On a geopolitical level, Russia – which provides 43% of Europe's gas supply – may seek to use its control over natural gas as a point of strategic advantage over the winter months. Russia has been accused of purposefully limiting gas supply to Europe in order to drive up prices and increase reliance on its gas reserves, and while the European Commission has stated that Gazprom has fulfilled its contractual obligations in its gas provisions to the continent, it has provided "little or no additional supply" to help address the crisis in Europe. Russian President Putin has sought to emphasise that the crisis strengthens the case for the controversial Nord Stream 2 pipeline, which remains contested by a number of European nations and Western allies – including the United Kingdom.³¹

The energy crisis therefore elucidates many of the challenges posed both by the race towards renewable energy and by the failure to diversify supply chains. The problem does not lie inherently with the climate transition, but rather with the uncoordinated and slow manner that nations have gone about the transition, without sufficient investment in renewable energy sources and their long-term resilience. The crisis must be seen as a wake-up call, not a setback, to the longer-term shift towards a more sustainable energy marketplace.

The Future of International Cooperation and Alliances

While nations race to lead the development and production of renewable energy, the success of the climate change transition is also contingent on international cooperation. Climate change does not respect national borders, and no state acting alone can prevent global warming within their borders or beyond. It also therefore presents a clear and distinct collective action problem, with developed and developing nations alike quick to assign responsibility elsewhere for addressing the issue, while themselves continuing to emit large amounts of greenhouse gases.³²

Persuading nations of both their individual and collective responsibility to tackle climate change is therefore a central part of the climate transition. It is inherently imbued with complex geopolitical dynamics, with climate leadership seen to confer soft power benefits and failure to take action threatening to undermine relationships – particularly between the developed and developing world. Further, perceptions of the climate transition as a Western liberal agenda limit the willingness of strategic rivals to take climate action. Ultimately, efforts to facilitate a global climate transition cannot occur in a vacuum and therefore will need to accommodate and supersede other broader geopolitical developments.

The State of Multilateralism

The functioning of the multilateral system has been challenged on several fronts over recent years, including by the ongoing tensions between the United States and China, which have bled into the functioning of several global institutions, and the broader questions about the future of America's global leadership role.³³ It is against a complex and challenging backdrop of an increasingly multipolar world that climate change cooperation is being sought.

China and the West

As the world's largest carbon emitter, with emissions exceeding that of all developed nations combined, climate action from China is pivotal to tackling climate change.³⁴ Nonetheless, China, whose economic performance has risen sharply in last few decades, has consistently maintained that the primary responsibility for climate action lies with developed nations, which have traditionally had the largest carbon emissions. China also staunchly defends its classification as a 'developing' nation, despite its obvious status as a global superpower.³⁵

A growing recognition in China of both the economic and geopolitical benefit of perceived leadership on climate change has led the nation's government to seek to more proactively improve its image on climate change. In April 2021, after a meeting of United States Special Presidential Envoy for Climate John Kerry and China Special Envoy for Climate Change Xie Zhenhua, the United States and China "committed to cooperating with each other and with other countries to tackle the climate crisis" and agreed to "continue to discuss, both on the road to COP26 and beyond, concrete actions in the 2020s."³⁶

To some degree this reflects a genuine shift in Chinese policy, in which green technology is increasingly seen as an economic opportunity rather than a burden. It also reflects a recognition in China that acting as a vocal ally to developing nations in pushing the developed world to take greater action on climate change is an effective way to build relationships and improve its geopolitical position.³⁷ As a result, in 2020, China announced plans for its carbon emissions to peak by 2030 and to achieve carbon neutrality by 2060 – the single most impactful climate announcement ever made by a single state – which, if achieved, would reduce global emissions by 0.3%. Furthermore, at the UN General Assembly in September 2021, China committed to ending

all financing for coal-power projects abroad, following similar commitments made by the G7 and by South Korea earlier in 2021. Collectively, these commitments to end international coal-power project financing will almost entirely end international finance for such projects, a significant step in the climate transition.³⁸

However, while China endeavours to promote an increasingly green international image, domestically it continues to lag behind the West. China's emissions reached a record high of nearly 12bn tonnes in the year ending March 2021, 5% higher than its levels in 2019. Following the Covid-19 pandemic, emissions have risen further, growing at their fastest pace in a decade and increasing 15% year-on-year in the first quarter of 2021. Furthermore, while China has sought to emphasise that it installed 120GW of wind and solar panels in 2020, it also approved more new coal power plants in the first half of 2020 than any year since 2015. As such, important initiatives such as introducing an emissions trading scheme, which covers 13% of global emissions, and ending construction of the world's largest coal chemical project, are offset to some degree by a broader failure to prioritise the climate transition domestically, epitomised by the fact China's 14th Five Year Plan, a 75,000 word document, mentions carbon neutrality just once.³⁹

Furthermore, while China is looking to redefine its public image, amidst tensions over its growing economic and political influence, it also recognises that climate change action is a key point of leverage it holds over the West, which cannot achieve its global climate ambitions without the support of China. The challenge therefore remains that where climate change action is perceived as part of the Western liberal agenda, China remains reluctant to make concessions on climate change, for fear of being seen to curtail to foreign powers or to lose a potential geopolitical bargaining chip.⁴⁰

While John Kerry has said that negotiations with China over climate action operate in isolation to negotiations on other issues, China has disputed this disentanglement, with Foreign Minister Zhao Lijian emphasising that "China-US cooperation in specific areas is closely linked with bilateral relations as a whole."⁴¹ For China then, its increasing concern with its international image on climate change does not necessarily extend to substantive cooperation with the West on the climate transition. It is also keen to demonstrate its own leadership outside of Western-led commitments. This is epitomised by the fact that despite announcing in September 2021 that it will end financing for coal-power projects abroad, and committing \$233 million to protect biodiversity in developing nations at COP15, President Xi is not expected to attend COP26.⁴² China wishes to be a climate leader, and particularly to be seen as an advocate for developing nations, but it wants to do so on its own terms.

Testing the Strength of Alliances

As the West seeks to assert itself as the vanguard of climate action, achieving concrete commitments around climate change will also require difficult conversations among established allies about their respective responsibilities around climate change. Within the Western alliance, nations are pursuing distinct approaches to climate action, with a number of nations lagging behind in accepting the necessity to phase out fossil fuels and clamp down on emissions.⁴³ As with strategic rivals, a significant part of the challenge is to encourage allies to go beyond rhetorical commitments.

For example, Canada's greenhouse emissions increased 3.3% between 2016 and 2019 and its current emission targets remain incompatible with achieving the commitments made at the Paris Climate Agreement.⁴⁴ Australia has similarly resisted calls to accelerate its transition targets, and has been accused of obstructing efforts to embed climate action within other spheres of cooperation.⁴⁵ Australia's regional leadership role in the Pacific may well compel more ambitious commitments, with a number of its closest neighbours vulnerable to rising sea levels urging its leaders to accelerate their transition plans.⁴⁶

The UK's leadership on climate action among its allies will also be contingent on its capacity to keep its own house in order. Ongoing debates around the building of a coal mine in Cumbria

and the decision to restart a coal power plant in Nottinghamshire to help resolve the energy crisis, for example, threaten to undermine the perceived authenticity of the UK's calls to "consign coal to history" at COP26.⁴⁷

Relations between Developed and Developing Nations

In recent decades, the economic impacts of climate change have been disproportionately felt by nations in the Southern Hemisphere, including many developing nations in South America and Africa.⁴⁸ This trend is expected to continue, with extreme heat and changes in precipitation having a disproportionate impact on nations which are economically reliant on agricultural production and those which lack the infrastructure to deal with the health consequences of climate change, such as the increased transmission of diseases such as dengue fever, malaria and yellow fever. As a result, without action to tackle climate change, it is anticipated that GDP in Africa could decline by up to 12.12% by the end of the century.⁴⁹

This would have significant impacts on both the stability and quality of life in these nations, with millions plunged into poverty, reversing decades of progress. It is also the case that these climate pressures are likely to prompt new flows of migration, with an additional 143 million more climate migrants expected by 2050 across Latin America, sub-Saharan Africa and South East Asia.⁵⁰ This threatens to provoke unprecedented disruption to the functioning of both countries of origin and the destinations sought, with over a million climate migrants predicted to travel from Central America and Mexico to the United States alone by 2050.⁵¹

Despite being disproportionately impacted by climate change, many developing nations have significantly lower carbon emissions than their developed counterparts. They are also less able to bear the financial costs of the transition, with developing nations facing a US \$40 trillion infrastructure funding gap and the higher cost of capital in developing nations making credit increasingly inaccessible.⁵² The Covid-19 pandemic has only exacerbated resourcing difficulties, with public debt in emerging markets at its highest level for 50 years. Many developing nations have therefore called for developed nations to provide more financing and resources to support them through the climate transition which, in their view, is necessitated in large part by the historical emissions of developed nations.⁵³

In response, at the G7 Summit in June 2021, the G7 nations reasserted their commitment to provide US \$100 billion in climate finance annually through to 2025. Following the Summit, Canada pledged to double its climate finance commitment over the next five years, while Germany pledged to increase its commitments by an additional US \$2.3 billion a year by 2025.⁵⁴ In September 2021, the United States brought the target closer in sight by doubling its annual commitment to climate finance to US \$11.4 billion.⁵⁵

The commitment by G7 nations to provide US \$100 billion in climate finance annually is a recommitment to a pledge made in 2009, and has been criticised as insufficient by a number of developing nations. Pakistan's Climate Minister, for example, expressed his country's "huge disappointment" over the commitments made by the G7, which he argued were "really peanuts in the face of an existential catastrophe".⁵⁶ The challenge is made more acute by the fact the Debt Service Suspension Initiative, an initiative through which bilateral official creditors have suspended debt service payments from certain low and lower- middle-income nations during the Covid-19 pandemic, is scheduled to finish at the end of December 2021.⁵⁷ The Initiative has provided a temporary financial reprieve to developing nations but the long-term consequences of the pandemic will leave developing nations with larger debt repayments and increased costs of capital.

Ahead of COP26, 100 developing nations have therefore signed a Five Point Plan for the conference, in which they emphasise the responsibilities of "those nations that became prosperous through the untrammelled burning of fossil fuels", criticising what they perceive to be "the serial failure of the richest nations to live up to their pledge of leadership". Finance is one of the five central points of the plan, which calls for fulfilment of the previous target of US

\$100 billion in annual climate finance commitments per year by 2020, commitments to scale up annual financing for 2021-2025 with a minimum of US \$100 billion per year and for a new higher global finance goal for 2025 onwards.⁵⁸

The plan also calls for greater transparency and clearer processing around climate finance to reduce challenges of access, and particularly focuses on the need for grant rather than loan funding. The vast majority of all reported public climate finance is provided as loans rather than grants, and nearly half of those loans are offered on non-concessional terms with higher repayments for lower income nations. As a result, the true value of the loans given to developing nations is half of the amount reported once loan repayments and interest is deducted.⁵⁹

For the UK, mobilising climate finance will be particularly important for its future relationship with the Commonwealth. In 2019, the Commonwealth accounted for 9.1% of the UK's trade and it remains an important institution in maintaining an open and resilient international order.⁶⁰ The continued strength of the Commonwealth is therefore central to the UK's economic and geopolitical security, as well as its values-led international agenda. However, many of the Commonwealth's small island states are highly vulnerable to the effects of climate change and as middle-income nations, can struggle to access concessional finance and ODA spending needed to build their resilience to climate change.⁶¹

There is a danger that failing to provide the levels of climate finance that developing nations need to support their transition and their security will create opportunities for strategic rivals to forge dividing lines between the West and the developing world. Despite Iran being among the top 10 largest oil producers in the world, with a record of cracking down on environmental NGOs, the autocratic state has positioned itself as a leader in calling for higher climate finance commitments from developed nations.⁶² In February 2021, Iran's leaders proposed the creation of an international fund to tax nations based on their pollution output, with proceeds going to fighting climate change in developing nations, as an opportunity to corral support among developing nations, as well as to serve its own economic interests.⁶³

China has also consistently called on developed nations to "pay their debts" on climate change, criticising them for not doing enough to tackle climate change and not providing adequate finance to support poorer nations in the climate transition.⁶⁴ In doing so, China has – with some success – positioned itself as an ally of developing nations, from which it is reaping a degree of geopolitical dividend. For example, perceived Chinese leadership on climate action meant that after Former President Trump left the Paris Climate Agreement, the Solomon Islands opted to downgrade its ties with Taiwan and renormalise relations with China, as China was perceived by the Solomon Islands as a more committed advocate of climate action than the United States.⁶⁵

In July 2021, China released a set of green development guidelines for overseas investment and cooperation, encouraging Chinese businesses to integrate green development in their overseas investment process.⁶⁶ In particular, it encourages businesses to adhere to the 'green development concept' and to support investment in renewable and clean energy. Although the guidelines are only advisory, they provide a clear signal to businesses involved in the Belt and Road Initiative (BRI) of expectations that the BRI will be increasingly green, a shift that has already begun, with China not investing in any coal projects through the BRI in the first half of 2021, for the first time since the plan was launched in 2013.⁶⁷

The Build Back Better World (B3W) initiative, announced at the G7 Summit in June, is designed to counter China's rise as a climate financier by mobilising private sector finance and providing grants and concessional loans from governments to support investment in developing nations. Sustainability is at the heart of the B3W, and investments made via the initiative will be made in line with the commitments made under the Paris Climate Agreement.⁶⁸ President Biden has begun to scour the developing world for opportunities to invest, although the tougher environmental standards and commitments to transparency expected to accompany such investment may limit their attractiveness to some nations, which may favour the speed and efficiency of the Chinese model of investment.⁶⁹

As the West seeks to win the hearts and minds of developing nations to bring them onboard with the climate transition, it will need to find ways to not only mobilise significant financial commitments and resources to meet the economic needs of developing nations, but also carefully balance between supporting values-led investment and avoiding the creation of unnecessary bureaucracy. Without this, the West risks being perceived as failing to show leadership and genuine accountability, creating opportunities for our strategic rivals.

Looking Ahead to COP26

In November 2021, world leaders and civil society actors will convene in Glasgow for COP26, in a bid to accelerate action towards the goals agreed in the Paris Climate Agreement and the UN Framework Convention on Climate Change.⁷⁰ The conference comes at a defining moment, with the deadline for meeting the commitments made under the Paris Climate Agreement having passed in 2020 – when COP26 was initially scheduled to be held – and with experts warning that without a step change in climate action, ambitions to keep the rise in global temperatures below 2°C will fail.⁷¹

Hosted by the UK on behalf of the United Nations, there are four stated ambitions for the summit:

1. **Secure global net zero by mid-century and keep 1.5 degrees within reach** – including through accelerating the phase-out of coal, curtailing deforestation, accelerating the transition to electric vehicles and investing in renewable energy.
2. **Adapt to protect communities and natural habitats** – by protecting and restoring ecosystems and building defences, warning systems and resilient infrastructure.
3. **Mobilise finance** – fulfilling developed nations' commitment to mobilise at least US \$100 billion in climate finance per year by 2020 and encouraging public and private sector investment in climate finance.
4. **Work together to deliver** – by finalising the Paris Rulebook and facilitating collaboration between governments, businesses and civil society.

A number of these objectives look both feasible and promising, particularly 'work(ing) together to deliver', with hundreds of events expected to take place in Glasgow to facilitate cooperation and discussion between governments, businesses, civil society and the public.⁷² However, while public discourse and private investment are important, it is the tangible financial commitments that will determine the success of the Summit, with the US \$100 billion climate finance target seen as a particularly essential milestone.

Ahead of the Summit, Prime Minister Johnson has sought to temper expectations of this being achieved, warning that there is a "six out of ten chance" of its realisation. This comment was made before President Biden pledged to double the United States' commitment to climate finance, a move that not only brings the world closer to the target in and of itself, but which also will have symbolic ramifications on the willingness of other nations to increase their climate finance commitments. As a result, climate economist Lord Stern predicts the target will now be met in 2022, with the United States' commitment acting as a catalyst for commitments from other nations.⁷³

A second significant indicator of success will be the levels of commitment made to phasing out coal, given COP26 President Alok Sharma's persistent pursuit of "consigning coal to history" at the Summit. While G7 nations committed to accelerating the phase out of coal power domestically and to ending the funding of coal power projects abroad in June 2021, they failed to agree on a timeline for the phase out of coal power.⁷⁴ Consensus has been even less forthcoming among G20 nations, with climate and environment ministers so far unable to agree on commitments towards the phase out of unabated coal power and ending fossil-fuel subsidies. Furthermore, across both the West and China, the energy crisis has also meant that coal usage has risen over recent months ahead of the Summit, undermining the ability of the West to speak with legitimacy about its commitment to consigning coal to history.⁷⁵

It is also not just the direct impact of the commitments made at COP26 that will matter. COP26 will also hold significant symbolic value as a signal of both the ability of nations to cooperate over climate action and of the willingness of developed nations to take responsibility for climate action. Building consensus across a diverse range of nations will be one of the biggest challenges at COP26, but also one of the most central indicators of its success. In a significant blow for the perceived legitimacy of the Summit, it is expected that neither President Xi of China nor President Putin will attend the summit in person, which may preclude both Russia and China from making any new national commitments and limit the chances of securing international agreements to climate action.⁷⁶

However, there is relief that Indian Prime Minister Modi has now confirmed his attendance at the Summit. Coal remains a significant part of India's economy, employing four million people directly and indirectly, including some of its poorest citizens. It is also an essential resource for many of India's poor who do not have access to electricity, making a move away from fossil fuels very difficult for India.⁷⁷ Securing commitments from such high-emitting but relatively poor nations will have a large direct impact on global emissions and are therefore key to achieving the objectives for COP26.

The ability of the UK to corral a diversity of nations into setting ambitious targets for climate action is a fundamental test for the Global Britain project, as the UK seeks to assert itself as both a convenor and a leader on climate change and beyond. Going into the Summit, the UK can expect to achieve the second and fourth objectives for COP26 – adapting to protect communities and habitats and working together to deliver – yet it appears unlikely that the US \$100 billion target for climate finance will be met ahead of COP26 itself and commitments, particularly around the phase out of coal, are likely to be vague at best. The concern is that COP26 may succeed in sparking global conversation around climate action, but could be unlikely to secure the concrete commitments required to turn the shared vision for change into a reality.

Where to Next?

With COP26 highlighting the challenges of building global consensus and international cooperation around climate change, it is clear that the climate change transition will pose a major challenge for the world, and particularly for the West. For Western nations, the key will be to lead from the front with authenticity and legitimacy, setting high levels of ambition in their climate commitments and leading the renewable energy production race. Doing so will be central to maintaining the support of developing nations and faith in the multilateral system, and for maintaining the West's strategic independence and limiting reliance on China.

It will fall to nations such as the UK, as COP26 President, to lead the way – not only setting the bar high in its individual level of climate ambition but also illustrating the economic and geopolitical benefits of the transition, as well as the feasibility of climate leadership. In drawing attention to the domestic benefits of climate leadership, as both President Biden and Prime Minister Johnson have sought to do, climate action becomes a more convincing argument to the global community. Not only will early leadership in climate action generate green jobs and secure national prosperity in the longer term, it will also improve national resilience and national security.⁷⁸ Similarly, supporting developing nations in the climate transition is both an important values-based mission for the West, but also essential to maintaining and building international alliances and projecting our global influence.

So far, the West has struggled to live up to the collective leadership challenge. Failure to invest sufficiently in scaling up renewable energy while moving away from fossil fuels has led to an energy crisis, which other nations will watch with concern. They will also watch as the West turns back towards fossil fuels, even if only temporarily, as nations seek to deal with their domestic crises. The COP26 Summit will require a fundamental reset, with ambitious national commitments in Western nations, and equally ambitious international commitments towards climate financing, providing the foundations on which to build a wider degree of consensus within the global community.

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