JOINT LEGISLATIVE COMMITTEE ON

CLIMATE CHANGE POLICIES

California Climate Leadership After COP31

Financial Risk, Energy Security, and International Implementation

Prepared by the Office of Senator Henry Stern, Chair
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Executive Summary

COP31 in Antalya closed on November 22 without an overarching political agreement. The European Union and others rejected a final text that omitted the transition away from fossil fuels. Amid global fuel supply disruptions, the impasse underscores the urgency of practical action to reduce dependence on volatile oil and gas markets, rather than waiting for international consensus.

California's next phase of climate leadership must connect financial risk, household energy security and practical international implementation.

At COP31, Senators Stern, Allen, Becker, and Hurtado and Assemblymember Petrie-Norris engaged with domestic and international counterparts on energy affordability, insurance stability, and subnational cooperation. Discussions with European and African delegations, U.S. congressional delegates, the World Climate Summit, C2ES, and the Climate Registry reinforced the role of clean energy in economic resilience and security.

Three overarching themes emerged to guide upcoming dialogue among lawmakers, agencies, researchers, and market participants:

- **Protecting Californians Investments from Climate Disruption:** Despite recent federal court rulings limiting the carbon accounting and risk disclosure laws[1] (SB 253 and SB 261, 2023), investors making decisions about California pensions, as well as the state's housing, energy, resources, and insurance markets are hungry for transparency. There are existing opportunities to defend and align existing corporate emissions reporting while exploring targeted, proportionate ways to improve visibility into physical and transition risks across lending, insurance, and investment portfolios in coordination with other regulatory frameworks (i.e. European Union[2] and United Kingdom[3]).

- **Energy Security & Household Affordability:** In addition to geopolitical disruption increasing the price of fossil fuels, supplies are at critically low levels. Thanks to the work of the legislature to develop Transportation Fuel Transition Plan frameworks, California is better positioned to address the ongoing disruption impacting the cost of living globally. In 2027, the legislature may look at treating reduced dependence on volatile fossil fuel markets as a core affordability metric by pairing accessible zero-

[1] Chamber of Commerce v. Sanchez, November 9, 2026.
[2] Council of the EU, sustainability-reporting and due-diligence simplification, February 24, 2026
[3] PRA, SS5/25: banks' and insurers' management of climate-related risks; FCA, sustainability reporting requirements. September 2026 update; EBA, final guidelines on management of ESG risks.

emission transportation and resilient distributed energy with cleaner supply-chain standards for remaining fuel use.

- **Sustained Regional, National, and International Collaboration and Implementation:** California continues to play an outsized role on climate internationally because of policies advanced by the Legislature to decarbonize the economy and hold polluters accountable (SB 840 and AB 1207 in 2025), make the most of the millions of electric cars being adopted by Californians (SB 59 in 2024), invest billions in water, wildfire resilience, and nature-based solutions (Prop 4 in 2024). These efforts attract international governments from all continents. During COP31, the legislators continued to see a tangible value for the recently created University of California Climate Research & Policy Institute to support legislators and state agencies to make the most of informational exchanges with legislators and delegates from other states and countries. Ahead of COP32 in Addis Ababa, Ethiopia, there remains opportunities to do continued exchanges on carbon-market interoperability, low-carbon trade readiness, and resilience strategies to help Californians adapt to climate change impacts.

Financial Risk and Disclosure Alignment

Recent legal developments regarding corporate climate disclosures—specifically the Ninth Circuit's November 9, 2026 preliminary-injunction opinion distinguishing operational Scope 1 and 2 emissions reporting from broader narrative and value-chain mandates under SB 253 and SB 261—clarify the immediate landscape for California. While defending the state's core emissions reporting infrastructure, policymakers have an opportunity to examine how physical hazards and fuel-price shocks transmit through banks, lenders, insurers, and investment managers. Wildfires, extreme weather, and energy disruptions simultaneously affect collateral values, insurance availability, borrower operating costs, and local tax bases—systemic concentrations that general corporate sustainability narratives may not capture.

Avenues for Dialogue:

- **Targeted, Factual Risk Assessment:** Drawing on lessons from earlier financial-institution concepts, the legislature could convene agencies and stakeholders to explore narrower, data-grounded approaches focused on material sector and geographic concentrations, historical catastrophe losses, and insurance gaps, scaled appropriately for smaller institutions.

- **Analytical Separation and Flexibility:** Future discussions can examine pairing standardized, aggregated exposure data with transparent state-level modeling or equivalent institution-prepared analysis, all while respecting constitutional boundaries and protecting sensitive borrower information.

- **International Interoperability:** Rather than assuming automatic mutual recognition across jurisdictions, California can map reusable factual fields alongside UK and European financial supervisors—including the UK Prudential Regulation Authority (PRA)[4], Financial Conduct Authority (FCA)[5], European Banking Authority (EBA)[6], and European Commission—to minimize duplicative reporting.

Energy Security and Affordability

California's reliance on external crude oil supplies leaves households and businesses exposed to global price volatility and geopolitical disruptions beyond the state's control. According to 2025 California Energy Commission data, roughly 77.1% of crude supplied to California refineries originated outside the state (16.0% from Alaska and 61.1% from foreign sources, including Iraq and Ecuador).[7] Merely shifting between crude suppliers does not insulate consumers from global market shocks.

[4] PRA, SS5/25: banks' and insurers' management of climate-related risks;
[5] FCA, sustainability reporting requirements. September 2026 update;
[6] EBA, final guidelines on management of ESG risks.
[7] CEC, annual oil supply sources to California refineries. 2025 series; CEC, foreign sources of crude oil imports. 2025 country-of-origin series.

Avenues for Dialogue:

- **Affordable, Resilient Electrification:** Insights from international energy-security discussions, including Ukraine's experience maintaining critical services under grid stress highlight the value of distributed generation, storage, and microgrid capabilities at charging hubs, hospitals, and community facilities. Equally important is ensuring lower-income and multifamily households benefit through accessible used ZEVs, reliable public charging, and manageable electricity rates.

- **Evaluating Household Fuel-Shock Exposure:** Energy agencies could track how vehicle and building electrification, charging deployment, and electricity pricing reduce household exposure to price spikes. Measuring oil and gas displaced, alongside emissions and household energy costs, could help guide investment and assess progress.
- **Near-Zero Methane Supply Standards & Interstate Dialogue:** Building on past legislative conversations (SB 781 and SB 613[8] by Sen. Stern) and international benchmarks such as OGMP 2.0 and the International Energy Agency's upstream guidance, California can continue exploring verifiable, low-methane fuel procurement standards during the transition. The Newsom administration, through the Subnational Methane Action Coalition[9] and with partners like RMI, have begun to do regional meetings with western states New Mexico and Colorado that send fossil gas to California. New Mexico, which has adopted a 98% gas-capture rule[10], alongside willing industry and local partners in Texas offer a practical way to test measurement and supply-chain verification, which can ultimately build stronger American supply chains.

<u>International Implementation and Research Partnerships</u>

COP31's impasse makes cooperation among willing jurisdictions more important, not less. Subnational governments can sustain technical work between conferences. State agencies remain responsible for formal policy and regulatory negotiations, while the University of California Climate Research & Policy Institute can serve as an analytical partner to evaluate options and track progress.

Avenues for Dialogue:

- **Science Communications and Supporting Rapid Response Research**: Translate findings from California's Fifth Climate Change Assessment and academic modeling into accessible decision tools for state agencies, insurers, and communities facing acute climate risks.

- **Existing Bilateral MOUs**: Conduct a cross-agency inventory of California's existing international agreements to clarify agency ownership, evaluate ongoing progress, and ensure future partnerships establish clear implementation leads from the outset.

- **European Union Trade Readiness (CBAM)**: Assess sector-level exposure for California exporters under the EU's Carbon Border Adjustment Mechanism—following the European Commission's November 2026 rules on recognizing non-EU carbon prices—and explore practical documentation pathways so businesses can substantiate carbon costs effectively paid under California's program.

- **California-Africa Partnership**: Work with African counterparts, CalSTA, UC researchers, and private conveners to translate existing MOUs with Kenya and Nigeria (alongside the California-Africa Climate and Economic Forum) into a small, locally driven portfolio of clean mobility, methane abatement, and water-energy resilience initiatives ahead of COP32 in Addis Ababa (November 2027)..

COP31 outcome: UN (Nov. 23); European Commission (Nov. 23); Energy-security commentary: Jigar Shah (Nov. 22)

[8] Governor's legislative update, October 2025. SB 613 veto, https://share.google/T80zoIa8ox5bqrbP4
[9] Subnational Methane Action Coalition, https://www.smacmethane.org/
[10] New Mexico, methane waste rule, https://www.climateaction.nm.gov/emnrd/methane-waste-rule/