JK Capital Management Ltd.

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What's on our mind this week?

Our takeaways of COP26

After 14 days of heated negotiations and horse-trading, COP26 eventually delivered some promising breakthrough pledges along with some other less-desirable compromises, marking another milestone in the fight against climate change. Here are some key takeaways from the summit.

- Biggest win: After six years of strenuous negotiations on Article 6 of the Paris Agreement, over 200 countries have eventually agreed to implement international carbon trading and finalised rules on contentious topics such as vintage and carbon accounting. The new deal comprises of two parts: a centralised system for the voluntary market, and a separate bilateral system that will allow countries to trade carbon credits that they can use to help meet their decarbonisation targets. While paving the way for a robust and accountable global carbon market, this deal is also expected to channel a surge of funds into renewable energy, energy efficiency, and global afforestation projects. Developing countries like Brazil should benefit the most as they will become exporters of carbon credits while the proceeds could be used for climate adaptation and mitigation. However, even as the biggest hurdles resolved at the summit, one should not expect a global carbon market to be fully functional anytime soon.

- Biggest disappointment: For many developing countries, "loss and damage" is the issue they care the most about. The concept is that developed countries that have been heavily polluting in the past should now pay for damages and losses induced by climate events in developing countries. Unfortunately, as the EU and the US strongly opposed the idea at the summit, developing countries had no choice but to go home empty-handed. This outcome is disappointing but not so surprising as financial commitments by developed countries at previous COP meetings were rarely fulfilled.

- Biggest surprise: The announcement of a climate agreement between the US and China is arguably the biggest surprise of COP26. It is a symbolic move towards climate collaboration. The world's two largest emitters have inked strong language on the document despite very limited substantial commitments being made jointly, if any. The announcement also coincides with the US termination of the anti-dumping investigation on Asian solar products, which has been read by many as an encouraging sign for future collaborations on climate issues.

- Expected pushback: India's last-minute pushback on the initial "phase out coal" text has forced the final draft to have its language softened to "phase down". It was not a surprise to see India's move being backed by the US, China and Australia. The pushback was indeed expected and understandable. Aside from energy security and economic interest concerns, admittedly no major economies have yet entirely figured out a clear technical path towards carbon neutrality. It is understandable that the biggest emitters are reluctant to ink ambitious commitments that they would not be able to fulfil. As JK Capital previously expected, coal will still play a role (though a declining one) in developing countries' energy mix in the foreseeable future, especially for China and India where a combined 14 million tons of coal are being consumed on a daily basis. The fact that a consensus was reached to phase-down coal and end fossil fuel subsidies for the first time in COP history is an encouraging sign that the planet is one small step closer to being fossil fuel-free.

- Methane pledge: 105 countries have pledged to reduce methane emissions by 30% in 2030. It was a major accomplishment for the summit. Methane is 25x more powerful in causing global warming than carbon dioxide, and over half of global methane emissions come from livestock (31%) and oil& gas (26%). Half of the world's top 30 methane emitters, including the US (9%), the EU, Indonesia, Pakistan, Argentina, Mexico, Nigeria, Iraq, Vietnam and Canada have joined the pledge, while China (23%), Russia (21%) and India (3%) have decided to pull out. As the reduction of methane emissions usually starts with the oil and gas industry where 85% of the emissions could be reduced with existing technologies, this particular issue is relatively more workable for China than it is for India where the agricultural sector emits 5x more methane than its energy sector. Chinese officials quoted "inadequate monitoring infrastructures and lack of effective reduction measures" as the reasons for not pledging, stating instead that the country was planning to work on its own version of methane reduction plan over the next 12 months. This could become the next big theme in China's green push.

With such breakthroughs in Glasgow, the fight against climate change still largely hinges on whether the biggest emitters, namely China, the US and India, will live up to their promises to achieve net-zero over the next few decades. To win the fight, it is critical for developed countries to take a more responsible stance by providing financial and technical support to developing countries that are badly in need of it.

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