

## COP26 Preview

28 October 2021

### COP26 Preview: What to look out for

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*This COP26 preview will be the first of three coverage as the summit progresses. Look out for our COP26 half-time report after the first week and the COP26 roundup when the summit concludes in two weeks.*

#### Introduction: What is COP26 and why is it important?

##### What is COP26?

The ‘Conference of Parties’ – COP, for short – is the main decision-making body for the UN Framework Convention on Climate Change (UNFCCC). Top leaders from all countries that are Parties to the UNFCCC are represented at the COP annually to assess progress in tackling climate change. This will be the 26th COP since its inception in 1995, hence “COP26”.

Notably, the Paris Agreement was reached in COP21 (2015).

##### Where and when is COP26 held?

COP26 will be held at Glasgow, Scotland, from 31 October to 12 November. The UK will play host to about 30,000 people for this year’s summit.



Picture source: UNFCCC

##### What is so important about COP26 compared to other COP iterations?

- a) **COP26 is the fifth COP since the Paris Agreement in 2015**, which saw a major breakthrough in climate talks when members agreed to strive towards the 1.5degC climate goal. As COP26 is the fifth year anniversary of the Paris Agreement, members are to revisit their plans, assess current progress made and, if needed, increase climate ambitions.

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- b) **COP26 is the first COP since the US rejoined the Paris Agreement.** When the Paris Agreement was signed in 2015, the US under Barack Obama played an active role in brokering climate agreements among other member nations. A power vacuum ensued when Donald Trump took the US out of the Paris Agreement in 2017, with ensuing climate talks in later years mostly ending in disappointments. With President Biden – a key advocate of climate sustainability – now at the helm, the US has rejoined the Paris Agreement and there is hope he can pick up where Obama left off.

*Global ratification on climate change reached in Paris, 2015.*



*Picture source: United Nations*

### Key agendas for COP26.

The UNFCCC has outlined four key agendas to be discussed at COP26:

- a) **Review of climate goals set in the Paris Agreement.** Countries will be asked to put forth more ambitious 2030 emissions targets even as they strive to hit net zero emissions by mid-century.
- b) **Financing developing countries on climate change policies.** Developed nations have pledged \$100bn a year by 2020 to assist developing economies affected by climate change; the highest flows to-date, however, is only \$79.6bn in 2019. Developing nations will want wealthier countries to make good on that pledge in COP26.
- c) **Protection of communities and natural habitats.** Countries will discuss how to continue protecting and restoring ecosystems, while building defences and infrastructure against climate change.
- d) **Finalising the Paris Agreement Rulebook.** Many issues remain unresolved and poorly defined since the Paris Agreement in 2015. Key among this issue is how international carbon markets should work, as briefly outlined in Article 6 of the Paris Agreement. More on this in the section on carbon markets.

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**Daily timeline of COP26 and what to look out for:**

<b>Date</b>	<b>Key Event</b>	<b>Description</b>	<b>Look out for</b>
31 Oct	Gathering of leaders	Procedural opening of negotiations.	Pre-event climate pledges towards the 1.5degC goal.
1-2 Nov	World Leaders Summit	Call for more climate action.	A shock appearance from President Xi Jinping will go a long way in making this summit a success.
3 Nov	Financing climate goals	Mobilising capital flows from developed nations and private enterprises for climate mitigation.	A renewed pledge by developed economies in its \$100bn/year funding to developing nations.
4 Nov	Energy Day	Accelerating transition from fossil fuels to clean energy.	New signatories to the No New Coal pact.
5 Nov	Youth and Public Empowerment	Elevating the voice of the younger generation towards climate education.	Greta Thunberg likely to lead protests.
6 Nov	Nature	Ensuring nature and land sustainability are part of climate action.	Greater clarity on nature-based carbon credits towards nature preservation.
8 Nov	Adaptation, loss and damage	Finding solutions and adaption towards climate change impacts.	-
9 Nov	Gender; Science and Innovation	Progressing gender equality; usage of science to deliver climate solutions.	-
10 Nov	Transport	Path to zero emissions among transportation sector.	Role of electric cars; increased tariffs on gasoline and diesel- car sales.
11 Nov	Cities, regions & built environment	Advancing action in cities	-
12 Nov	Closure	End of negotiations	Expect last-minute deals on climate policies. No new climate target but reaffirmed support for 1.5degC goal. More ambitious and clarity on 2030 emission targets.

**Who is attending COP 26?**

Country	Notable attendees	Share of global CO2 emissions (2019)
UK (host)	PM Boris Johnson First Minister of Scotland Nicola Sturgeon Prince Charles and the Duchess of Cornwall	1.0%
US	President Joe Biden Climate Envoy John Kerry	14.5%
Argentina	President Alberto Fernandez	0.5%
Australia	PM Scott Morrison	1.1%
Canada	PM Justin Trudeau	1.6%
China	Vice-Environment Minister Zhao Yingmin Climate Envoy Xie Zhenhua	27.9%
Colombia	President Ivan Duque	0.3%
Dem. Rep. of Congo	President Felix Tshisekedi ( chair of African Union)	0.0%
France	President Emmanuel Macron	0.8%
Ghana	President Nan Akufo-Addo	0.0%
Israel	PM Naftali Bennett	0.2%
India	PM Narendra Modi	7.2%
Italy	PM Mario Draghi	0.9%
Nigeria	President Muhammadu Buhari	0.4%
South Korea	President Moon Jae-in*	1.7%
Sweden	Prime Minister Stefan Lofven	0.1%
Switzerland	President Guy Parmelin	0.1%
Turkey	President Tayyip Erdogan	1.1%
UN	Secretary-General António Guterres	-
Other	Sir David Attenborough (COP26 People's Advocate)	-
Other	Greta Thunberg (climate activist)	-

Country	Notable absentees	Reason for absence	Share of global CO2 emissions (2019)
Brazil	President Jair Bolsonaro	None	1.3%
China	President Xi Jinping*	None	27.9%
Japan	PM Fumio Kishida	None	3.0%
Mexico	President Andres Manual Lopez Obrador	Pandemic costs	1.2%
Russia	President Vladimir Putin	Covid-19 concerns	4.6%
South Africa	President Cyril Ramaphosa	Local elections	1.3%
UK	Queen Elizabeth II	Health reasons	1.0%
Vatican City	Pope Francis	None	0.0%

*\*to be confirmed*

**Discussion #1: Carbon offset market clarity needed**

Article 6 of the Paris Agreement broadly laid out the mechanisms of the offset market, but its ambiguity is still a persistent source of disagreement on how the international offset market should function. Indeed, Article 6 of the Paris Agreement has to-date proven to be the hardest part of the rulebook for global ratification.

Roundup of carbon offset market issues requiring resolution:

Topic	Issue at hand	Ideal Outcome	Likely outcome, in our opinion
Carry over of credits from Kyoto Protocol era	Allowing the carry-over of carbon offset credits from the Central Development Mechanism (CDM) during the Kyoto era would result in a deluge of carbon credit supply, effectively depressing the prices of the credits and diminishing the effectiveness of carbon abatement.	Limit the use of offset vintages beginning 2016.	Vintages beginning 2012 would continue to be accepted, with a plan to phase out all CDM offset credits by 2030.
Double-counting of offset credits.	With the advent of blockchain technology and rise of certification standards like Gold Standard and Verra, the risk of double-counting fraud has significantly reduced. The double-counting we refer to here refers to offset credits being counted in a country's carbon target by both the host country and the purchasing country.	Seller countries are not allowed to count offset credits towards their NDCs.	A time-bound opt-out period to be introduced to allow double counting emissions for a limited time.
Finalizing Article 6 rules of the Paris Accord	Finalizing detailed rules for Article 6 for a market framework would lay a strong foundation for a truly international system of carbon offset trading. The growth in voluntary offset markets has grown considerably since the Paris Agreement, but remains heavily fragments with different offset "standards" (like Gold Standard and Verra) posing varying degrees of credit recognition.	A well detailed framework allowing easy facilitation of cross-border offset credit flows with a common set of definitions across all countries.	Allowing independent standards to continue driving the market, allow market forces to shape the initial form of the global offset market.

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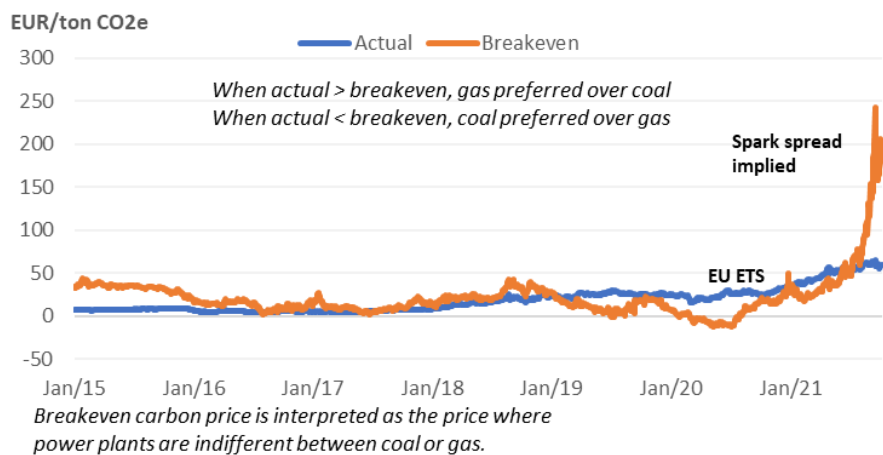
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**Bonus:** Setting a global minimum price for carbon emissions in both the emissions trading scheme (ETS) and offset credit markets. It would also serve as the benchmark for implementing carbon taxes across countries.

**Our carbon pricing model.**

Using the EU marketplace as a proxy, since Jan'19 carbon prices have been priced high enough for EU powerplants to prefer firing generators with gas over coal. However, the gas supply crunch since Q3 has thrown this equilibrium into disarray. We calculate that carbon prices need to be trading at EUR150-200/ton now to ensure power plants do not revert back to coal – EU ETS prices, however, are only trading at around EUR60/ton. The gas crunch, while a black swan event, has shown that a carbon floor price is needed to continue keeping coal on the sidelines.

EU carbon price: actual vs breakeven



Source: Bloomberg, S&P Global Platts, OCBC

Article 6 of the Paris Agreement.

**Article 6**

2. Parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred mitigation outcomes towards nationally determined contributions, promote sustainable development and ensure environmental integrity and transparency, including in governance, and shall apply robust accounting to ensure, inter alia, the avoidance of double counting, consistent with guidance adopted by the Conference of the Parties serving as the meeting of the Parties to this Agreement.

4. A mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development is hereby established under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to this Agreement for use by Parties on a voluntary basis. It shall be supervised by a body designated by the Conference of the Parties serving as the meeting of the Parties to this Agreement, and shall aim:

Source: UNFCCC

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**Discussion #2: China the wildcard**

Success at COP26 will largely hinge on how much China reaches out on global climate cooperation, but how much more gas does China have left in the tank?

**Little left in the tank after three major climate pledges.**

China is the world’s largest CO2 emitter and a global economic superpower. President Xi Jinping’s expected absence from COP26 suggests China has little more to offer after three major climate pledges since 2020 (peak emissions by 2030; carbon neutrality by 2060; cease building coal-fired power plants overseas effective Apr’21).

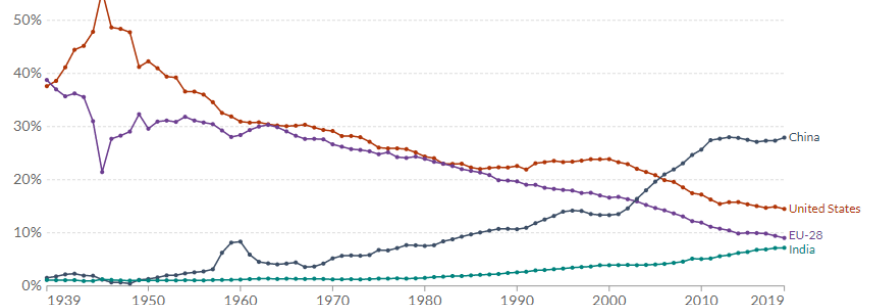
President Xi has not travelled outside China since before the pandemic and has missed this year’s Global Biodiversity Conference in Kunming this year. A physical presence at COP26 is unlikely, although a virtual appearance remains a possibility.

Annual share of global CO<sub>2</sub> emissions

Each country’s share of global carbon dioxide (CO<sub>2</sub>) emissions. This is measured as each country’s emissions divided by the sum of all countries’ emissions in a given year plus international aviation and shipping (known as ‘bunkers’) and ‘statistical differences’ in carbon accounts.



+ Add country



Source: Our World in Data based on the Global Carbon Project

**Energy crunch back home presents a fine line for authorities to toe.**

China continues to struggle with its domestic power crunch back home and has resorted to temporarily increasing domestic coal production to meet energy needs, despite its pledge to peak carbon consumption by 2025. Unusually high electricity demand in China has laid bare the challenges China face in its transition away from coal-fired power.

In a time where the country is trying to ensure adequate power domestically, presenting another set of ambitious climate plans to the international audience will be a tight rope to walk. Spelling out a nuanced decarbonisation roadmap is probably the strategy China will go for in COP26, which in that case is probably best left for other officials to announce other than President Xi.

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**China's continued tussle with the US raises the stakes further**

The US has attempted to convince China that climate issues should be compartmentalised and separate from existing disputes between the two countries. China has largely brushed off that notion. The Paris Agreement was signed in an era where US-China relations were a linchpin of climate cooperation – that has largely been eroded since Donald Trump took office in 2016.

Barack Obama's greatest climate legacy was his convincing of China and other emerging nations (notably, in the infamous 2009 Copenhagen side meeting) that their economic interests will not be undermined by any climate agreement, paving the way for global ratification of the Paris Agreement half a decade later. Given current tensions, that level of US-China political diplomacy will unlikely present itself in COP26, raising the bar for climate cooperation between the world's top two carbon emitters.

*Former US President Barack Obama in the infamous Copenhagen side meeting.*



*Picture source: Climate Home News*

**Possible outcomes from China.**

**Best case scenario:** a physical presence by President Xi Jinping and a return to climate cooperation between the US and China. Both parties set more aggressive 2030 climate targets.

**Likely scenario:** China to be physically represented by Vice-Environment Minister Zhao Yingmin and Climate Envoy Xie Zhenhua, while President Xi will make a virtual appearance. A recommitment to existing climate goals is highly likely, but China may stop short of announcing more aggressive climate measures.



### **Discussion #3: how will we know if COP26 is a success?**

In our opinion, reaching the below landmarks would make COP26 a success.

#### **1) Announcement of stronger 2030 goals and firm plans on how to reach carbon neutrality by 2050.**

The past 12 months has seen an increase in climate ambitions from many countries, notably China (carbon neutral by 2060) and Australia (carbon neutral by 2050). The former, however, has yet to present a roadmap for that plan while Australia has refused to legislate that goal. Mid-term 2030 goals are also not ambitious enough – as a rule of thumb, global carbon emissions need to halve every decade from now till 2050, but the world is still currently on a path to increase emissions by 16% from 2010 levels by 2030. More ambition on the mid term and increased specifics on the long term will be crucial if the world is to keep to its 1.5degC goal.

#### **2) Specific pledges on ending coal consumption.**

COP26 President Alok Sharma will attempt to “make coal history” on day 4 of COP talks. New signatories to the UN’s No New Coal pact and a specific timeline in the phasing out of coal in power generators will be a win on this front.

#### **3) Increased climate funding for developing countries from developed nations.**

The funding commitment of \$100bn/year from developed nations to developing countries have not been met and even if met, will still unlikely be enough of the assistance that will be needed. A more stretching goal from wealthy nations to developing economies will be needed for lower-income countries to establish their decarbonisation pathways.

#### **4) More defined carbon market framework.**

As outlined in discussion #1,

- A more defined carbon offset credit framework with minimised double-counting and only accepting of offset vintages beginning 2016.
- A carbon price floor or price corridor to guide global carbon markets and tax rates.
- A carbon tariff on imports that fall short of carbon pricing standards in the host country.

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### **Conclusion: COP26 is about *implementation***

COP26 will not feature any new landmark agreements comparable to the Paris Agreement in 2015. Rather, implementation is the key theme for COP26. A successful summit should see more defined and ambitious outlines from members in their pursuit of 2050 carbon-neutral goals.

2021 will be remembered as a critical turning point for the climate. Extreme weather events have become more frequent and have been laid bare to see this year. A Texas freeze in February; flooding in China and Europe in July; unusually warm winters and cold winters in the Northern Hemisphere; the battering from Hurricane Ida in August; record-breaking temperatures in Australia through the year – these are all evidence of climate change in play. The time to act is now, and COP26 presents the best platform for global cooperation to preserve our planet for future generations.

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