COP26 half-time report

Howie Lee
Economist
+65 6530 1778
howielee@ocbc.com

This COP26 half-time report is the second of three coverage as the summit progresses. We will do a final COP26 roundup when the summit concludes next Friday, 12 Nov 2021.

Recap: COP26 and its key goals

COP26 is the fifth COP since the Paris Agreement in 2015. Being the fifth anniversary since the Paris Agreement, leaders are supposed to revisit their plans, assess current progress made and, if needed, increase climate ambitions.

A week has past since the climate summit began, of which a few key discussions have past: the World Leaders' summit (1-2 Nov), Climate Financing (3 Nov) and Energy Day (4 Nov).

Key milestones reached so far in COP26

1. India announces net-zero emission target by 2070

The only BRICS nation to have its top leader physically present at COP26, India PM Narendra Modi announced India's 2070 net-zero target at the summit. Medium-term, India is also aiming to have half of its energy supply from renewable sources by the end of this decade – resulting in a 45% reduction in carbon intensity by 2030.

Granted, 2070 is twenty years later than most countries' climate ambitions and ten years behind China's 2060 net-zero plans. But we think a growing generation of climate activist may force into bring forward its timeline in the future. For now, having announced its net-zero goals is a step in the right direction.

2. Declaration of the Glasgow Breakthrough Agenda

The Glasgow Breakthrough Agenda aims to reduce the cost of clean technologies for the top five most pollutive sectors. This has been signed by more than 40 world leaders, including the US, China, India and the EU.

Expected to halve emissions by 2030, the Breakthrough Agenda targets the following five industries:

- Power: Clean power to be the most affordable option globally
- Road transport: Zero-emission vehicles to be the new normal

- Steel: Near-zero emission steel production established globally
- Hydrogen: Affordable green/blue hydrogen available globally
- Agriculture: Boost climate-resilient and sustainable agriculture.

3. Ending global deforestation by 2030

More than 100 nations have committed to halt deforestation and land degradation by the end of this decade.

This commitment is one of the biggest success of COP26 so far.

4. Methane emission to be cut 30% by 2030

The Global Methane Pledge garnered more than 100 signatories in COP26. This commitment is also regarded as a COP26 success story, given how world leaders in the earlier G20 summit failed to set firm targets for methane emission reduction.

5. WBCSD calls for Corporate Determined Contributions

The World Business Council for Sustainable Development (WBCSD) is calling for the development of Corporate Determined Contributions (CDCs) to capture private sectors' decarbonisation progress.

If passed into law, this will have profound impact on the way businesses will run and will most likely increase demand for carbon offset credits.

Thoughts on current COP26 progress

- **Generally speaking, we think good progress has been made** in terms of the quantity of commitments that have been rolling out of COP26. Granted, the ambition of these commitments fall short of what is needed for the 1.5degC goal, but we believe as long as these pledges are in place, sufficient momentum in future could be made to raise climate goals on them.

- **No increase in the $100bn/year funding to lower-income countries has been a disappointment.** We are still holding out hope that funding from the private sector – an initiative led by former BoE governor Mark Carney – might be able to patch this shortfall by the end of this summit.

- **By the time of this report's publication, we expect leaders to have committed to end coal consumption** by 2030 (richer countries) or 2040 (less wealthy nations). Although this commitment is welcomed, the coal industry is already in terminal decline. Ending subsidies towards other fossil fuels – especially oil – would be *the* major breakthrough.

- **Ending deforestation and reducing methane emissions in clear and quantifiable manners by 2030 have been the major success stories of COP26 so far.**

- **What flew under the radar: South Africa had a watershed moment** after it reached a deal with wealthier nations to reduce its coal reliance. Calling it a "just energy transition", South Africa will get $8.5bn from the US and the EU. This could set a new paradigm for aiding other nations in their decarbonisation ambitions.

Singapore's carbon market co-facilitator role in COP26

Singapore has been largely in compliance with Paris Agreement pledges.

Singapore only contributes about 0.1% of global carbon emissions. Since the Paris Agreement, it has contributed its fair share towards global climate ambitions, including the provision of its NDC to the UNFCCC; establishing a Climate Action Package; and more recently, developing the Singapore Green Plan 2030. It is also the only ASEAN country to-date that has a carbon tax. MAS is also the only central bank, other than the Bank of England, to publish a separate sustainability report beginning 2021.

Given the current pace of commitments at COP26 relative to our own domestical climate goals, there appears to be little more that Singapore would have to do to comply with global climate ratifications. For example, Singapore has joined the Powering Past Coal Alliance to phase out unabated coal (non-carbon captured emission coal usage) in its electricity mix by 2050 during COP26. However, at present, about 95% of the country's power generation is already fuelled by natural gas.

Land space – not political will – is our biggest challenge.

More so than political will or funding issues, the biggest constraint to Singapore's climate ambitions have to do with its limited land space. The country's carbon emissions can be almost nailed down to two main sources: industrial activity (46%), and power generation (39%). Both of these sectors would require carbon capture and storage (CCS)) technology for carbon sequestration – these facilities, however, take up valuable land space. The construction of renewable energy complexes, such as solar farms, would also prove challenging in land-scarce Singapore.

Beyond the planting of more trees and the push for wider electrification take-up, Singapore has to get creative in its decarbonisation pathways. For example, the idea of deploying solar panels on floating platforms has been mooted. Another suggestion would be the construction of hydrogen fuel plants in neighbouring countries for the importing of low-carbon energy sources – this, however, would be limited by current technology. What is clear, however, is that Singapore will continue to explore ways to decarbonise – not solely because of its involvement within the UNFCCC, but because it has highlighted climate change as a key risk to the country's national security.

Dissecting Singapore's role in international carbon markets.

Of interest is Singapore's active role as co-facilitator on Article 6 of the Paris Agreement in COP26, led by the Ministry of Sustainability and Environment. As co-facilitator, Singapore's role is to listen and bring forward solutions from multiple countries on the use of international carbon markets to reduce emissions. Singapore has been chosen as co-facilitator because of its reputation as an honest and fair broker on international arenas and this is a role that Singapore has never taken for granted. For example, Singapore launched the LowCarbonSG initiative a week before COP26 to enable the private sector to track their emissions. For this to have been done prior to the WBCSD's call for Corporate Determined Contributions shows much foresight.

In our opinion, international carbon markets have shown much progress since the Article 6 was laid out in the Paris Agreement. The emergence of carbon standards like Gold Standard, Verra and Climate Action Reserve, coupled with the growth in the voluntary carbon market, shows that there is already an implicit drive in the market to incorporate climate responsibility. The barriers to international transfer of carbon credits have continued to be eroded even when Article 6 rules have been loosely defined since the Paris Agreement.

What is needed for a stronger integrity of the international carbon market is a clearer set of rules. Different carbon standards still adopt varying levels of carbon credit recognition – together with the unique rules in each country's carbon compliance markets (cap-and-trade markets), it makes for a large melting pot of market interpretations. An integrated global carbon market would need coherence, and coherence comes from a defined framework. Singapore will have to build consensus among multiple nations on how best to serve this purpose. The financial market is leveraging on Singapore's unbiased reputation and market infrastructure to achieve agreements among member states on carbon credit double-counting and additionality recognition by the end of COP26.

Conclusion

What has been discussed at COP26 appears promising so far. At its current pace, these new commitments would still fall short of the Paris Agreement goals of 1.5degC, but we hold out hope that as long as pledges are in place, evolving environmental pressure and interest in future could accelerate these goals. The commitment to end deforestation and reduce methane emission by 30% before the end of this decade have been the biggest success stories of COP26 so far.

Singapore has largely kept to Paris Agreement commitments. At the current pace of COP26 negotiations, there is little more that Singapore would have to do to be compliant with international climate goals. More so than political will or funding, its biggest challenge remains that of land space limitations. It will have to get creative in its decarbonisation pathway once it reaches the point of diminishing marginal returns.

A key role that Singapore is playing in COP26 would be its role as co-facilitator in international carbon market talks. The main task will be to build consensus among different member states on how best to build a framework for a coherent international carbon market, which at present is heavily fragmented despite its growth.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Commodities
HowieLee@ocbc.com

Herbert Wong
Hong Kong & Macau
herberthywtong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Co.Reg.no.:193200032W