JADE ROAD

ESG Insights

December Focus: Attaining Net Zero Targets
This Week: COP26

- *The 26th Annual UN Climate Summit, COP26, recently concluded, with a litany of new pledges and agreements aimed at combating climate change.*
- *While there are valid concerns regarding the efficacy of such pledges, the momentum they will provide towards the clean energy should provide opportunities for investors in Asia.*

OVERVIEW

On Friday 12th November, the 26th annual UN climate summit COP26 ended, marking the conclusion of 2 weeks of meetings and events in Glasgow, Scotland. Diplomats from nearly 200 countries were joined by international businesses, NGOs and members of civil society, aiming to strike an agreement to intensify the fight against climate change.

OUTLOOK

The “Glasgow Climate Pact” was the primary result of these discussions, including multilateral pledges to reduce coal reliance, cut emissions, reduce deforestation, and provide additional funding to developing countries to aid them in meeting their climate goals. There were also several important ancillary agreements at COP26, he foremost being the surprise joint declaration between the US and China to boost climate cooperation over the next 10 years.

From an Asian perspective, other agreements included Indonesia committing to ‘halt and reverse’ deforestation by 2030, Japan pledging USD10 BN towards overseas sustainable climate financing over the next five years, and South Korea joining a coalition planning to transition away from ‘unabated coal power generation’ in the 2030s. Whilst Australia has been criticised by the international community for not formally pledging to shut down coal and gas production, it has pledged USD 1.5 billion towards climate funding specifically in the SEA region. Ostensibly, these are all commendable pledges that could play a pivotal role in mitigating the impacts of climate change on society – especially in Asia, which has been disproportionally affected by climate disasters. However, it is important to consider the success of previous agreements when assessing these new pledges.

At COP21 in 2015, the Paris Agreement was born, in which every member country agreed to work together to limit global warming to 1.5 degrees Celsius, to adapt to the impacts of a changing climate, and to provide funding to deliver on these aims. However, those targets have been comprehensively missed, partly since the goals set out are self-policed, with very few countries making legally-binding pledges. In addition, achieving any consensus from the multitude of attending countries with conflicting interests is an almost impossible task; instead, the COP26 pledges are more focused on sustaining a global discourse surrounding climate change and fostering international discussion and collaboration towards the goal of achieving net-zero emissions.

Engagement at COP26 amongst Asian countries was mixed – for example, the pledge to ‘phase out’ coal production was diluted to ‘phase down’ instead, reportedly due to an intervention from India, who relies on 135 coal-fuelled powerplants for 70% of its energy. Japan also failed to join a pact on transitioning to zero-emission vehicles. Conversely, some countries displayed serious commitment at the conference - Pakistan and Bangladesh have both cancelled all planned coal power plants not currently under construction, and Pakistan has further banned the use of imported coal for energy generation. South Korea also signed many of the headline pledges, such as those against deforestation, unabated coal power generation, and the reduction of methane emissions.

OPPORTUNITY

For investment managers, the COP26 accords are set to have an impact on the landscape of the financial industry. One of the major agreements saw 450 financial organisations, that between them control USD 130TN, pledge to direct finance away from fossil fuel-burning industries towards cleaner, more sustainable sectors. This is another marker highlighting broader structural changes in the industry, which is moving towards increasing ESG integration and a much greater focus on sustainability and responsible investing.

As part of COP26, developed countries have pledged to mobilise USD100BN every year, to be invested in developing greener infrastructure and stimulating the development of novel technologies to transition to a more “climate-resilient” economy. If concrete action does materialise from this pledge, investors will have significant investment opportunities in this space, as new renewable energy projects and technologies are developed to meet ambitious climate goals. Conversely, investors must also be mindful of their investments in polluting or non-renewable energy-based assets; as public opinion and the investing community moves away from such projects, the availability of financing and growth opportunities will decrease.

In Asia, the measures agreed upon at COP26 are crucial, as the region is especially susceptible to climate change. In South Asia, for example, almost 700 million people have been affected by at least one climate disaster in the last decade, and between USD 2.8TN and USD 4.7TN of annual GDP in Asia is at risk due to climate impacts[1]. This is two thirds of global GDP at risk, highlighting the disproportionate effects of climate change in the region. Structurally, there are numerous challenges that hinder emissions reductions schemes – local geopolitical tensions, weak corporate governance, enforcement, and insufficient funding to name a few. However, following the multilateral collaboration and communication at COP26, as well as the influx of overseas climate financing pledged towards the region, Asia is in a better position to increase the pace of its clean energy transition.

[1] McKinsey – *Climate Change and Response in Asia*, 2020