Overview on the COP26

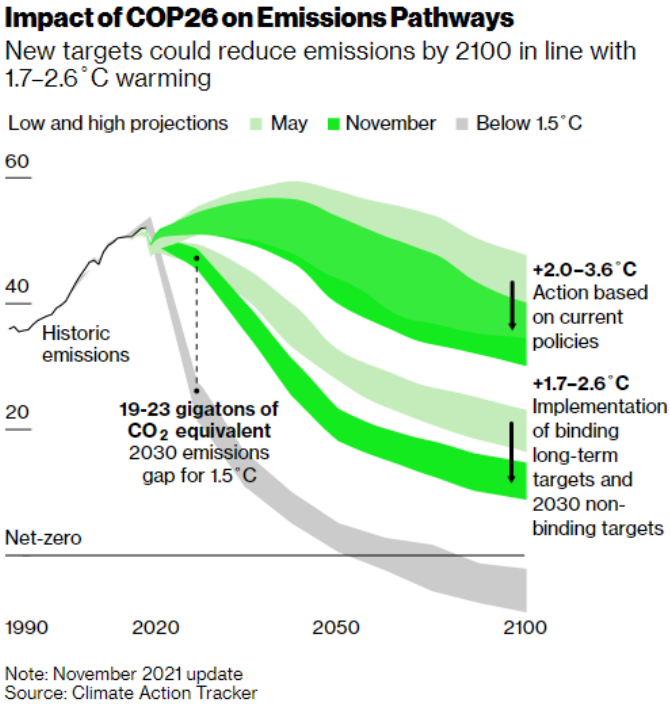
COP26 was always going to struggle to meet NGO's and activist's expectations. **The conference has not, in the end, shifted the world decisively onto a path to keep temperature rise below 1.5°C** as a safer limit from the 2°C goal committed in the Paris Agreement.

The conference was marked in the media by a last-minute change in wording on the future of coal. To the fury of many countries, **India and China successfully pushed for the final text to commit governments to phasing "down" unabated coal power, rather than phasing it out** as an earlier version had proposed. Yet the fact that the final agreement even mentioned coal by name was a breakthrough for a UN climate conference.

Rich countries **failed to meet climate financing pledges made to poorer countries more than a decade ago**. The commitment to mobilize 100bn us$ by 2020 was not reached and now parties are urged to comply it through 2025.

New pledges announced during the summit mean commitments to reach net-zero now represent 90% of global emissions (from ~80% in October 2021 and om 30% in 2019). **But all the climate plans and pledges for this decade do not yet add up to meet the goals of the 2015 Paris agreement, which aims to keep global warming "well below" 2°C** from what it was in pre-industrial times, and preferably the safer limit of 1.5°C. Instead, **climate analysts estimate the world is on track for about 2.4°C of warming**. This outcome does not mean, however, that COP26 didn't bring some good news. The meeting has bolstered the Paris agreement in several important ways. It has recognized the primacy of its 1.5°C goal, and the scientific consensus that reaching it will require global emissions almost to halve by 2030 and reach net zero by around 2050. **The final text requested countries to "revisit and strengthen" their 2030 targets as necessary to be in line with the Paris goal, by the end of next year**. They also finally approved rules on making the Paris agreement operate more transparently and effectively, in a sign of the extent to which the global shift in sentiment about the need to tackle climate change continues to gather pace. Other gains include **the unexpected agreement between the US and China to boost climate cooperation**. Now they must put their words into deeds by coming up with dates and plans to accelerate climate action. **If emissions in China, which account for around 27% of global greenhouse gas pollution, do not peak before 2030, that raises questions about whether the 1.5°C goal can be reached.**

Other deals to cut methane, halt deforestation and phase out sales of new petrol and diesel cars have laid the groundwork for future COPs to spur more direct action. This time next year, Egypt is due to host COP27[1].



[1] Some phrases are extracted from Financial Times and Bloomberg NEF.

Potential Impacts on the Techint Group:

- The United States and the E.U. plan to replace tariffs on each other's steel exports with "the world's first carbon-based sectoral arrangement". Although the details are going to be worked out in the next 2 years, this deal will put pressure on steel mills mainly in China which today produces roughly half the world's steel.
- The agreement to phase-down coal power generation will require a less carbon-intensive alternative which can give Argentina the opportunity to increase its natural gas market either displacing other dirtier fuels in the region via pipeline or more globally as an LNG exporter.
- A global deal signed by 11 OEMs[2] and ~30 governments to eliminate emissions from new car sales, can accelerate shift to EVs by phasing-out new petrol and diesel cars in leading markets by 2035, and globally by 2040. Analysts estimated that phase-out commitments prior to COP26 represented 27% of market supply[3] and 20% of the passenger vehicle demand. Ultimately this will put pressure in the value chain of the battery industry. Therefore, the Lithium Triangle (Argentina, Bolivia, Chile) where most part of the global lithium reserves are located, could see a great opportunity in developing its resources to support this trend.

Key Topics

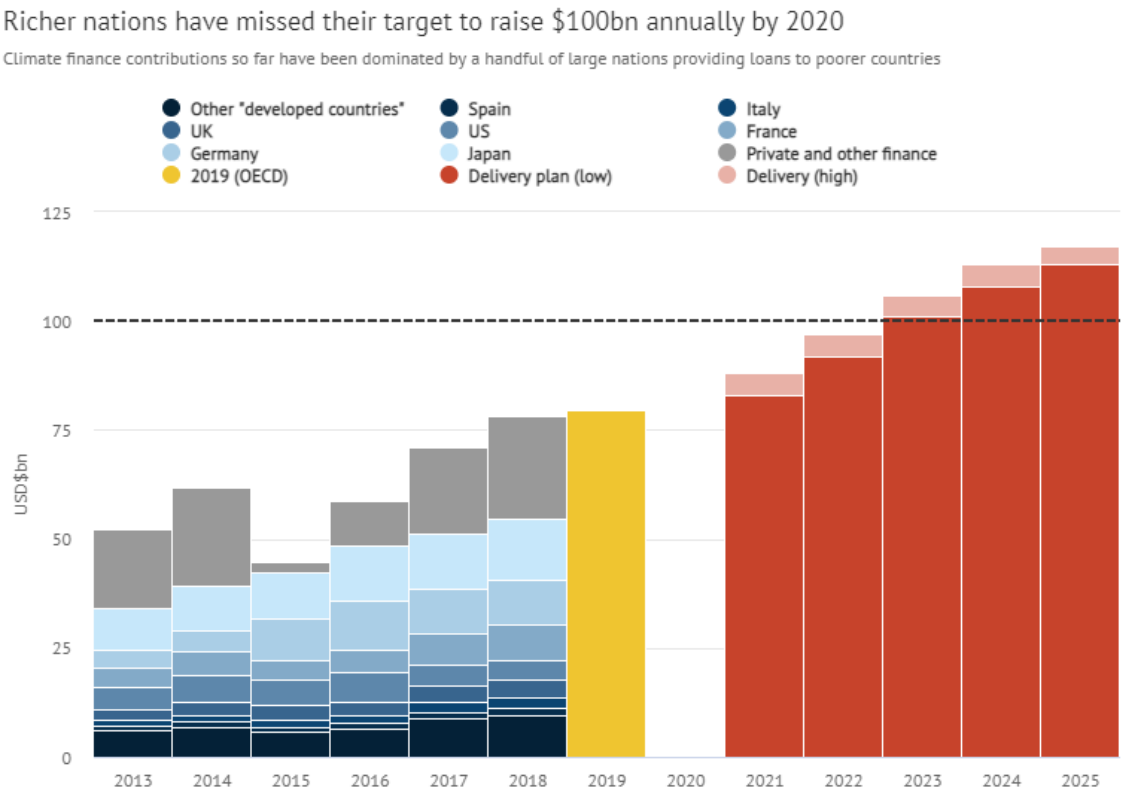
Financing for developing economies

At COP15 in Copenhagen in 2009, developed countries committed to mobilizing $100bn per year by 2020 "to address the needs of developing countries", a pledge that was officially agreed a year later as part of the Cancun Agreements. In 2019, the OECD reported that climate finance had reached $79.6bn and Bloomberg estimates that number increased to $88-90bn as of October 2021. According to a "delivery plan" released ahead of the COP26 climate summit the target will not be met until 2023. **The "Glasgow Climate Pact"[4] "*notes with deep regret that the goal of developed country Parties to mobilize jointly* $100Bn per year by 2020 in the context of meaningful mitigation actions and transparency on implementation has not yet been met"** and urges developed Parties to meet the target through 2025. Also, developed countries agreed to double collective adaptation finance from 2019 levels to 2025 targets. However, formulating effective adaptation and 'loss and damage' funding plans are expected to be part of the COP 27 agenda.

[2] OEMs that signed the pledge are Avera Electric Vehicles, BYD Auto, Etrio Automobiles Private Limited, Ford Motor Company, Gayam Motor Works, General Motors, Jaguar, Land Rover, Mercedes-Benz, MOBI, Quantum Motors and Volvo.

[3] OEMs with ICE phase-out commitments (which not necessarily signed the pledge) are Audi, Fiat, Volvo by 2030, GM by 2035, Mercedes-Benz, Honda by 2040. Others announced regional ICE phase-outs for Europe specifically like Ford, Hyundai and Volkswagen. Inside COP26: Kickstarting a decade of delivery (BCG, 2021).

[4] Agreement reached in COP26.



Global emissions trading mechanisms

The final deal adopted by nearly 200 countries will implement Article 6 of the 2015 Paris Agreement, allowing countries to partially meet their climate targets by buying offset credits representing emission cuts by others.

The new framework will be comprised of two parts: a centralized system open to the public and private sectors, and a separate bilateral system that will allow countries to trade credits that they can use to help meet their decarbonization targets.

In a centralized system for issuing offsets, 5% of proceeds from offsets will be collected to go towards an adaptation fund for developing countries. Also in that system, 2% of the offset credits will be cancelled. That aims to increase overall emissions cuts by stopping other countries using those credits as offsets to reach their climate targets.

In the bilateral system of trades between countries neither this mandatory cancellation, nor the mandatory 5%, will apply to credits (developing countries did not succeed in including a tax on all carbon trades to fund climate adaptation in poorer nations).

Disputes remain over the counting system, as well as over **the use of legacy credits issued to countries under an old system[5] set up under the Kyoto protocol**.

One of the most contentious points had been on the question of whether credits could be claimed by both the country selling them and the country buying. A proposal by Japan resolved the issue and gained backing from both Brazil and the United States: under the deal, the country that generates a

[5] Estimated at around 300 million, according to non-profit Carbon Market Watch.

credit will decide whether to authorize it for sale to other nations or to count towards their climate targets.

As for the definition of a global carbon pricing, some world leaders like Ursula Von Der Leyen, Angela Merkel and Justin Trudeau called for its adoption but the policy did not seem to have been part of the main topics under discussion.

Coal power

For the first time, a COP text takes on coal, the most polluting fossil fuel, and goes further than the G-20 had done before. The agreement asks countries to "accelerate efforts towards the phase-down of unabated coal power". **It was watered down at the last-minute to a pledge to "phase down" rather than "phase out" unabated coal power**[6] (power plants that do not use technology to capture their CO_2 emissions), but the inclusion is still a significant signal. **India and China's resistance is a reminder it will take a long time to prevent the world from using coal**.

The bottom line is that the coal phase-out initiative is part of a larger discussion between developed and developing countries on how the energy transition costs are allocated between economies. This can be clearly seen in India's NDCs pledges, which they define not as a reduction of absolute emissions versus historical levels but rather a reduction of emission intensity relative to its GDP.

Although not stated in the COP final accord, the US, UK, Canada and other 30 countries and five development institutions committed at the COP26 climate summit to stop public financing for fossil fuel projects abroad by the end of 2022, and steer their spending into clean energy instead. This commitment did not include major Asian countries responsible for the bulk of such financing abroad[7]. The 34 countries that signed the pledge include Germany, France, Denmark, Italy, Finland, Costa Rica, Ethiopia, Gambia, New Zealand, the Marshall Islands, Belgium, El Salvador, Fiji, Portugal, Slovenia, Spain, Zambia, among others, plus five development institutions including the European Investment Bank and the East African Development Bank.[8] These countries that signed the pledge together invested nearly $24 billion on average each year in international fossil fuel projects from 2016-2020, according to analysis by non-profit Oil Change International.

Inefficient fossil-fuel subsidies

In line with phasing down coal power, the COP also called upon parties to accelerate efforts towards the phase out of inefficient fossil fuels subsidies, though without specifying a timeline for when this will happen.

What are inefficient fossil fuels subsidies? No definition is made explicit in the agreement but the IEA defines it as something that encourages wasteful consumption. According to a research from the UN Development Programme (UNDP), **the world spends US$423 billion annually to subsidize fossil fuels for consumers – oil, electricity that is generated by the burning of other fossil fuels, gas, and coal[9].** This is four times the amount being called for to help poor countries tackle the climate crisis.[10]

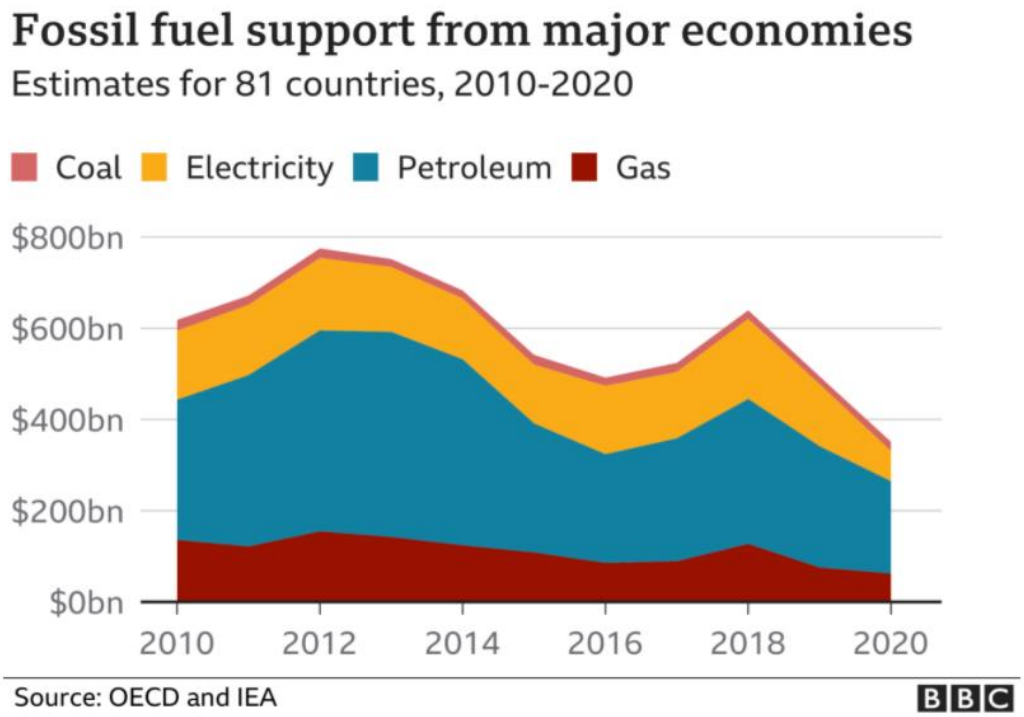
[6] During 2020, unabated coal power represented 35% of total electricity generation.

[7] https://www.reuters.com/business/cop/19-countries-plan-cop26-deal-end-financing-fossil-fuels-abroad-sources-2021-11-03/

[8] https://ukcop26.org/statement-on-international-public-support-for-the-clean-energy-transition/

[9] This would be equivalent to a carbon tax close to 10 usd/ton CO_2

[10] https://www.undp.org/press-releases/every-dollar-pledged-tackle-climate-crisis-worlds-poor-four-dollars-are-spent-fossil



Financing

Former Bank of England Governor, Mark Carney Unveiled $130 Trillion in Climate Finance Commitments. **Banks and asset managers representing 40% of the world's financial assets have now pledged to meet the goals set out in the Paris climate agreement. More than 450 firms representing $130 trillion of assets now belong to the Glasgow Financial Alliance for Net Zero, almost double the roughly $70 trillion when GFANZ was launched in April**, according to a progress report published by the coalition.

Skeptics question the underlying terms of the commitments. **According to French Non-profit Reclaim Finance, none of the sub-alliances that make up GFANZ require signatories to stop financing fossil-fuel expansion**. And since the 2015 Paris accord was struck, global banks have funneled $4 trillion into oil, gas and coal, with almost half a trillion of that allocated this year alone, according to Bloomberg data.

The body responsible for international accounting standards has announced it will create a new board to develop minimum sustainability disclosure requirements for companies around the world. The IFRS Foundation said on Wednesday that it would form the International Sustainability Standards Board (ISSB), tasked with creating a single set of standards "to meet investors' information needs".

Alliances

China – US deal

The biggest surprise in Glasgow was an agreement by the two biggest emitters to work together on climate. No big concrete action, but good news the pair are at least talking on climate amid the broader diplomatic standoff. China had been all but absent from the talks until then. President Joe Biden met Chinese President Xi Jinping virtually, but talks so far mainly focused on nuclear.

EU – US steel deal

Under the plan, the E.U. and the United States will stop applying punitive tariffs on each other's steel and aluminum exports, at least so long as those goods flows are kept within historical levels. President Biden inherited a steel and aluminum trade dispute from former president Donald Trump, who took unilateral measures to win Midwestern voters by raising the depressed global prices brought about by high Chinese subsidization of its industrial sector[11]. **The United States and the E.U. plan to replace these tariffs with "the world's first carbon-based sectoral arrangement," which they say they'll come up with over the next two years**. The details are yet to be worked out, but the idea is that both jurisdictions will align on **ways to measure the life-cycle emissions in the steel and aluminum sector, and ultimately will place restrictions on imports into their markets that do not use environmentally safe methods**. In the meantime, **they will keep tariffs on Chinese and other third-country production**. Because U.S. and E.U. producers tend to be more environmentally friendly than China already, this will effectively be a common external green tariff. The WTO cases between the two will be dropped.

Deal to end car emissions by 2040 idles as motor giants refuse to sign.

A global deal to eliminate new car emissions by 2040 struggled to attract support from the world's largest carmakers and governments including the US and China.

The declaration, which was made at the COP 26 climate summit in Glasgow, called on signatories to speed up the global transition from cars that burn fossil fuels to zero emissions vehicles, which include electric cars and hydrogen fuel cell vehicles. The agreement signed by automotive companies, governments and city authorities across the world commits signatories to ending the sale of new cars that produce emissions in "leading markets" by 2035, and globally by 2040.

Car makers that signed the deal include: Ford, General Motors, Jaguar Land Rover, Mercedes-Benz and Volvo. Volkswagen, Toyota, Renault-Nissan, Hyundai-Kia did not sign.

Volkswagen, which recently unveiled its ID.5 electric SUV, said that while it was creating electrified products, the environmental benefits of signing up to the pledge were not clear-cut when electricity production in the US and China is still heavily reliant on burning fossil fuels.

Thirty countries signed the deal as well. These include: Canada, Denmark, India, Ireland, Mexico, the Netherlands, New Zealand, Sweden, and the UK. Some parts of the US also signed (Dallas, Los Angeles, New York City), but the US itself did not. China, which is the second-largest car market, was also absent. Germany, the largest car market in the EU, did not sign up.

Reversing deforestation

Over one hundred and forty countries backed a UK-led declaration[12] **to halt and reverse deforestation[13] by 2030**, **covering more than 90% of the forests around the world** (Brazil, Russia, US, UK, China and Argentina among them). It came with a $19bn commitment from both government and companies, but there was no agreement on gross vs net deforestation, among other details.

[11] https://www.washingtonpost.com/politics/2021/10/31/eu-us-steel-deal-could-transform-fight-against-climate-change/

[12] https://ukcop26.org/glasgow-leaders-declaration-on-forests-and-land-use/

[13] Which represented 6% of global emissions in 2019 due to the loss of a natural sink. About 75% of deforestation is due to agriculture.

Global shipping industry agrees to clean fuel targets

Multiple firms involved in the shipping industry have agreed to a minimum usage of zero-emission fuels by the end of the decade, according to a statement from the Global Maritime Forum.

Under the deal, carriers have pledged that **at least 5% of deep-sea shipping will be powered by zero-emission fuels by 2030. For cargo owners, at least 10% of the volume of goods shipped internationall**y will be on vessels using such fuels by the same deadline - **with a goal of 100% by 2040**. The commitments are part of the start of the First Movers Coalition, a partnership between the World Economic Forum and the office of U.S. climate envoy John Kerry. Companies involved include Trafigura Group and A.P. Moller-Maersk.

Global methane pledge

A commitment to cut emissions of one of the most potent greenhouse gases by 30% by the end of the decade. More than 100 countries[14] had committed to slashing emissions of the greenhouse gas (China, Russia and India held out[15]). Under the pledge, countries agree to reduce methane pollution by 30% by the end of the decade from 2020 levels. **President Joe Biden announced the US would tighten and expand rules forcing oil and gas companies to monitor and fix leaks of the gas** (US launched a methane emissions reduction action plan[16]). The **European Commission said it would put forward regulations next month to limit venting and flaring and improve leak detection**. Canada pledged a 75% reduction by 2030.

Nationally Determined Contributions

The Paris Agreement requires each Party to prepare, communicate and maintain successive nationally determined contributions (NDCs) that it intends to achieve. Parties shall pursue domestic mitigation measures, with the aim of achieving the objectives of such contributions.[17]

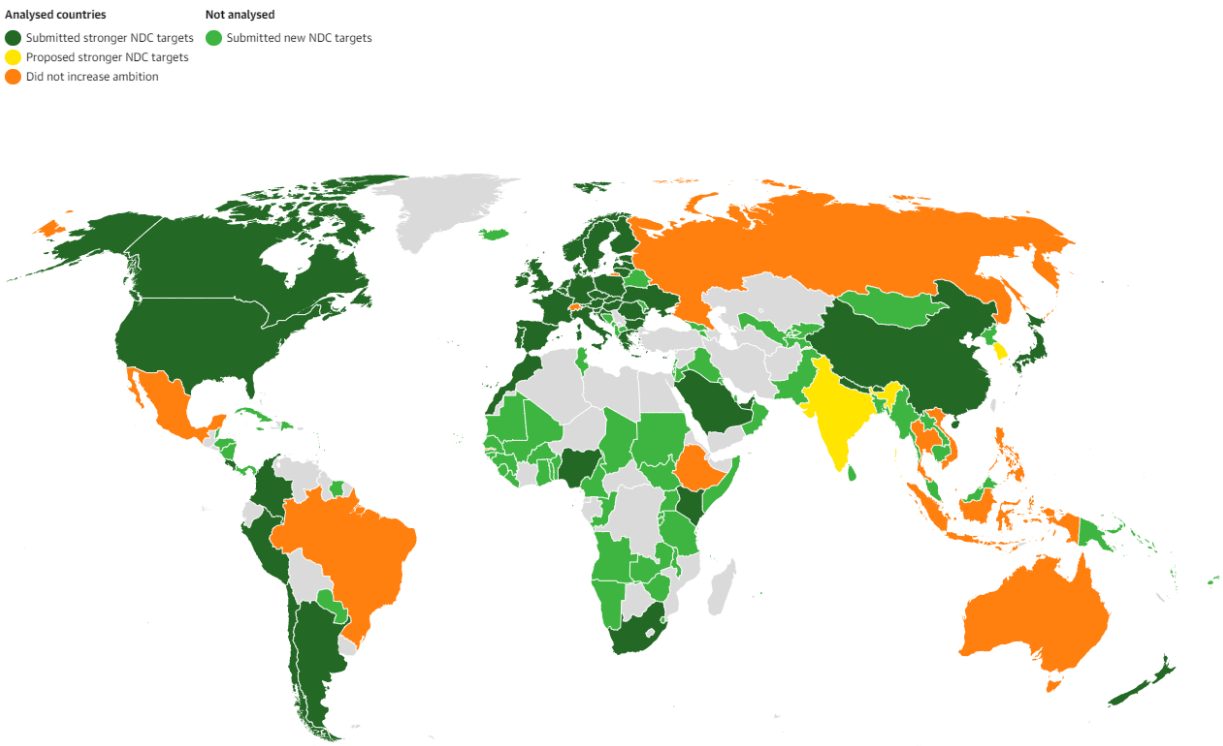
Parties are requested to submit the next round of NDCs (new NDCs or updated NDCs) **by 2020 and every five years thereafter** (e.g. by 2020, 2025, 2030), regardless of their respective implementation time frames. The thing to watch now is whether countries actually get cracking on new plans.

[14] Representing 50%+ of methane emissions.

[15] Together they represent roughly 33% of global methane emissions (China 15%, Russia 10% and India 8%).

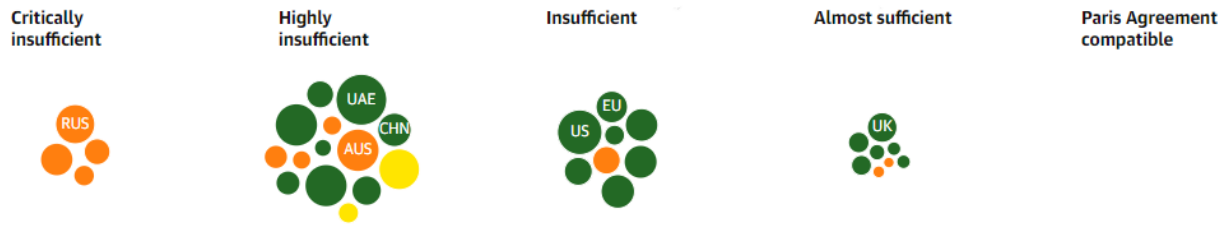
[16] https://www.whitehouse.gov/wp-content/uploads/2021/11/US-Methane-Emissions-Reduction-Action-Plan-1.pdf

[17] Parties do not have binding obligations of result in relation to their NDCs.

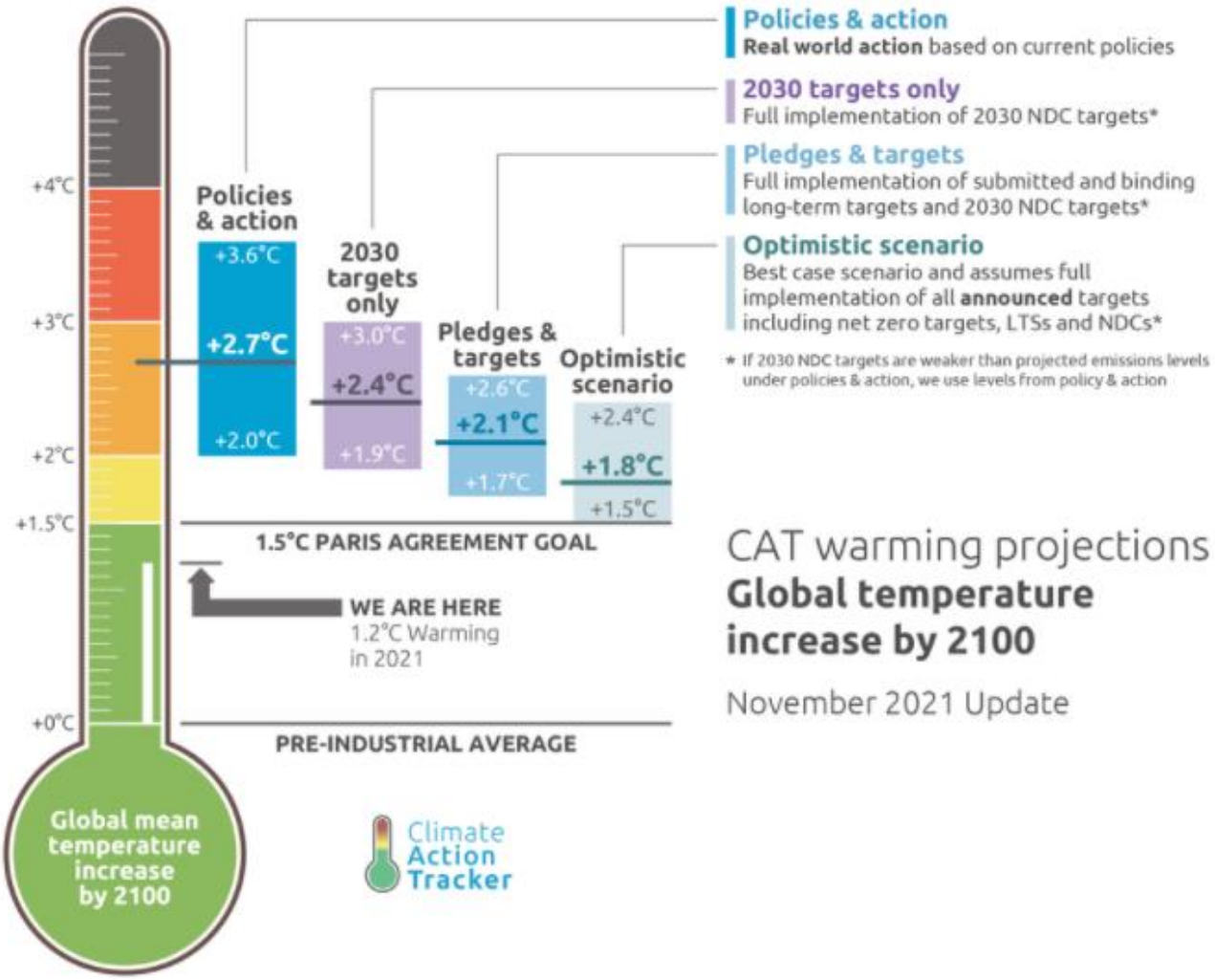


According to the Climate Action Tracker[18], **22 countries out of 34 under analysis submitted stronger NDC targets**:

- **US**, a significant step forward. The latest US plan would result in an annual CO_2 emissions reduction of 1.5-2.5 gigatonnes. But this is still about 5% to 10% short of a 1.5°C compatible 2030 target.
- **China**, moving to Net-Zero before 2060. China improved its pledge. It said it plans to peak emissions before 2030 and reach net-zero by 2060. It's insufficient to reach the 1.5°C goal.
- **EU** plans to cut emissions by 55% by 2030. This is deemed almost sufficient to hold warming below 2°C. It falls short on the area of climate finance.
- **India** set a 2070 net-zero target at Glasgow and promised to generate half of its electricity from renewable by 2030. It's still considered highly insufficient.
- **Brazil**. It's in the most irresponsible category. Bolsonaro said only that he had authorized his minister to announce the new target (reaching net-zero by 2050 instead of 2060), but did not submit a formal NDC reduction.
- **Australia** came to Glasgow with a new net-zero 2050 target, but almost no detail on how it will be achieved.



[18] https://climateactiontracker.org/climate-target-update-tracker/



The aggregate impact of all new or updated unconditional NDCs is estimated to lead to a total reduction in 2030 global GHG emissions of about 4.8 GtCO2e versus prior pledges. Projected emissions in 2030 under the unconditional NDC and pledge scenario are 51.5 GtCO2e, which drops to 48 GtCO2e if conditional NDCs are considered.

Preliminary update of the impact of unconditional 2030 pledges (NDCs and other pledges) on 2030 global emissions compared with the first round of nationally determined contributions.