CarbonFund

Carbon Comment

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So much anticipation, so much chat but what was achieved?

The highly anticipated Conference of Parties (COP26) ran from 31 October to 12 November in Glasgow. There was a lot of pressure leading into this conference to resolve some long-standing issues within the Paris Agreement, including Article 6 to enable trading between countries without double counting.

It was easy to wallow in disappointment from unfortunate but expected compromise in the days following COP26; however, worthwhile progress was made, and it cannot be overlooked.

Keeping 1.5°C alive

1. Increased ambition

- Including New Zealand, 151 counties (representing 81.2% of global emissions) have submitted a new or updated Nationally Determined Contribution (NDC). New Zealand increased its 2030 ambition to a 50% reduction in net greenhouse emissions by 2030.
- During the conference, India surprised everyone when Prime Minister Narendra Modi pledged to reach net-zero emissions by 2070, reduce carbon emissions by one billion tonnes by 2030, and raise the share of renewables in the energy mix to 50%. This was the first time the country had put an end date on its contribution to climate change, and as the planet's third-largest emitter of carbon dioxide, it was something to celebrate.
- According to Global Action Tracker, if all pledges are met, global temperatures will likely rise by 2.1°C by the end of this century. So much is riding on the current 'best case' of delivering on these promises, so more frequent reporting against country targets will be critical in the realistic assessment of global warming mitigation before 2030.

2. Article 6 Resolution

- The resolution of Article 6 enables countries to trade carbon without double counting carbon credits. While not perfect, it creates a more reliable framework as a pathway for a country that needs offshore credits to meet its NDC commitment. The way it works is if the unit is authorised and sold, the seller country will add an emission unit to its national tally and the buyer country will deduct one to ensure the emissions cut is counted only once between countries.
- As part of the expected compromise that comes with annual COP meetings, it was agreed some old Kyoto credits could be used for the first NDC period. This is disappointing at face value, but in the grand scheme of things, they represent

a very small percentage of annual global CO2 emissions and are limited to use within the first NDC period. These units are widely frowned upon, so many buying countries will stand against them and commit to not using them as a way to meet their commitments.

- Resolution of Article 6 enables carbon-offset markets, which is probably an unfortunate necessity as countries like NZ increase their NDC ambition without a pathway to achieving it domestically and therefore reliant on offshore offsets. The cost of carbon in NZ has increased significantly after removing the Fixed Price Offer and introducing a proper Cap and Trade system. However, the average global carbon price is still low. Therefore, we will likely see wealthier countries continuing to pollute as long as they can find a developing country they can offset emissions with. The flow-on consequence is the developing countries end up with land being locked up for generations from wealthier countries planting trees.

3. Sectoral Cooperation

During the two-week meeting, there were some expected and unexpected declarations.

Global Methane Pledge – Over 100 countries pledged to reduce methane emissions by at least 30% from 2020 levels by 2030, which New Zealand signed and Australia did not.

Glasgow Leaders Declaration on forests and land use – over 140 countries committed to halting deforestation by 2030, including New Zealand and Australia.

US-China Joint Glasgow Declaration on Enhancing Climate Action in the 2020s – pledging the two countries would work together to slow global warming during this decade and ensure that the Glasgow talks result in meaningful progress. The agreement looks to reduce methane emissions, tackle deforestation, and regulate decarbonisation.

First Movers Coalition – a partnership between the World Economic Forum and the US Office of the Special Presidential Envoy for Climate. It initially targets four sectors — shipping, aviation, steel, and trucking — and asks participating companies to commit to buying low-carbon products by 2030 to help develop green supply chains and meet the world's climate goals.

Glasgow Financial Alliance for Net Zero – a commitment of over $130 trillion of private capital, is committed to transforming the economy for net-zero from over 450 firms across 45 countries. Signatories must commit to using science-based guidelines to reach net-zero carbon emissions by mid-century with 2030 interim goals.

Phasing Down of Coal – More than 40 countries agreed to phase out their use of coal power while 23 countries signed the COP26 Coal to Clean Power Transition Agreement, committing for the first time to stop constructing and issuing permits for new coal plants. Major international banks also committed to ending international public financing of new coal by the end of 2021. New Zealand pledged to shift away from coal, Australia did not, along with other large coal consumers (India, China and US).

What does it mean for the NZ Carbon Market?

Up until 2035, New Zealand must meet emission budgets with domestic units; therefore, there is no change to the NZ ETS or carbon market.

NZU's continued to trade around $64-65 during and after COP26, the last close at $65.10 . It will be interesting to see what happens in the lead-up to the last NZ ETS auction of the year on 1 December, particularly after the last auction when the total CCR was sold.

As mentioned earlier, New Zealand increased its

2030 NDC, increasing the gap between emission budgets and those commitments. As a result, the NZ Government will be a net buyer of offsets to meet the 2030 pledge.

How did global carbon markets react to COP26?

Global carbon markets continued to increase with the global focus on decarbonisation. The Australian credits (ACCUs) are currently A$37.00 ($NZ38.65), up 39.6% from A$26.50 (NZ$27.83) at the end of September. The European carbon credits (EUAs) are €67.55 ($NZ109.35), up 9.4% from €61.74 ($NZ101.25) at the end of September.

Silver lining

While there was great anticipation leading into COP26 after postponement last year when there was an eagerness to resolve Article 6, the silver lining is the Conference of Parties comes around annually. COP27 will be about delivering what has been promised and how it will be funded. Now is the time for implementation and output, after decades of talking about it.

There is a new requirement for all countries to report detailed data on emissions in their baselines from which their future reductions can be assessed. This will set the foundation for subsequent bi-annual progress reporting towards achieving their NDC, supporting the well-used premise "what gets measured gets managed."

In addition, countries that didn't increase their ambition at COP26 are expected to increase their commitment in 2022. There will be a focus on shorter-term commitments by the end of this century.

Pricing carbon continues to be a major tool in influencing the change needed to limit global warming. For many countries, offsetting will be a critical tool to meet their NDC's until decarbonisation initiatives have the intended outcome of reducing gross emissions.

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