Investment Institute Sustainability

COP29 and the US election: Where does the battle against climate change go now?

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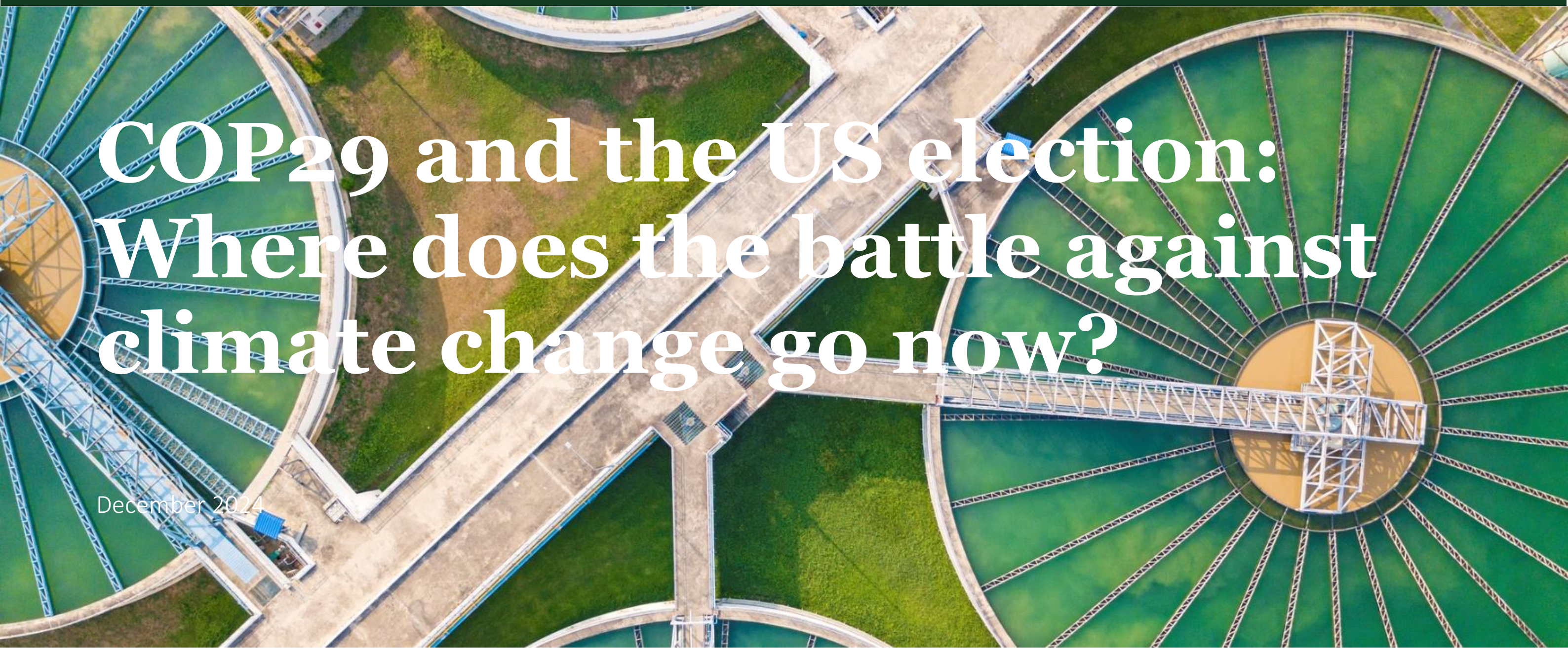

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Key points

- The progress made on climate finance at COP29 was limited, with a commitment of just US$300bn per year by 2035 to support developing countries
- As expected, there has been no follow up on how the world will transition away from fossil fuels - which was not even mentioned in the final draft
- While this does not bode well for a reduction in oil and gas production before 2030, we believe China's domination in green technology could be a key driver in terms of the US maintaining its efforts in that field with Europe accelerating further
- Donald Trump's re-election has raised much uncertainty over the battle against climate change but we believe that various safeguards should limit his impact at a global level
- Economic and financial realities are what businesses focus on and this will take the lead over politics

A meagre COP29 outcome

COP29's progress on climate mitigation, as expected, was quite limited as it failed to move forward on the vital task of transitioning away from fossil fuels. In fact, this was not even mentioned in the final text of the agreement made at the United Nations climate change conference in Baku, Azerbaijan.[1]

From now on, all eyes should thus turn to COP30 - set to take place in Belém, Brazil - to see what comes out of updated National Determined Contributions (NDCs).

The UK and the United Arab Emirates (UAE) were among those announcing new NDCs during this Conference of the Parties (COP). The UK has committed to reducing its emissions by at least 81% by 2035, compared to 1990 levels, a clear progression on its previous NDC pledge to cut emissions by at least 68% by 2030.[2]

It is yet to be seen whether other developed countries will follow suit. For its part the UAE set a reduction target of 47% by 2035 compared to the 2019 baseline, up from a target of 19% by 2030 relative to 2019, which is not viewed as credible by Climate Action Tracker[3] and does not reference any reduction in oil and gas production. This is not insignificant.

Climate finance

Climate finance was another cause for disappointment, alongside the New Collective Quantified Goals on Climate Finance (NCGG).

The commitment of $300bn per year by 2035 to support developing countries, unsurprisingly, fell far short of the $1.3trn called for to combat the effects of the climate crisis. This raised criticism from many emerging markets as issues such as grants versus loans or financing sources (public versus all sources) were not addressed.

In addition, Article 6[4] of the Paris Agreement – Cooperative Implementation - was set to be scrutinised, as carbon credits' integrity had for some time now sat centre stage.*

A dual layer registry system was agreed upon with regards to Article 6.2 which allows countries to exchange "mitigation outcomes" and use them towards their NDCs - aimed at tracking emissions reductions and transactions between countries.

This dual system would consist of an international registry[5] - a centralised platform administered by the United Nations Framework Convention on Climate Change (UNFCCC) secretariat which accounts for the emission reductions and integrating relevant registries used in the underlying regulatory frameworks.

As widely reported, the agreed text set up both disclosure requirements as well as suggestions, but it does not provide for any meaningful responsibility on the quality of emission reductions or removals transferred. The secretariat can check the data and make public any inconsistencies that are not addressed, but no mandatory fix is required.

In the same vein, double counting risk, although reduced, still exists for mitigation outcomes used by private companies under some carbon offsetting schemes such as the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)[6]. A future programme is planned to address this issue but, in the meantime, already-signed contracts will go through without further oversight.

On a more positive note, some key rules governing Article 6.4 - voluntary carbon credit trading between corporates – were finally agreed, more specifically in the field of emission reduction methodology and removals.[7] On that topic too, this is not the end of the road, and more work remains to be done to ensure the framework's integrity.

This is particularly the case regarding several subjects, including:

- Non-permanence: Projects failing to meet the carbon storage commitments for the promised time period
- Reversals: Stored carbon being released, undoing all the benefits provided – in the case of forest wildfires for instance
- Leakage: For example, when compressed carbon is stored in underground reservoirs and leaks gradually or abruptly

We view as crucial however, the inclusion of mandatory checks[8] aimed at ensuring strong environmental and human rights protection including explicit agreement by indigenous people.

With regards to climate finance initiatives, the launch of the Climate Finance Action Fund (CFAF), aimed at taking voluntary contributions from fossil fuel producing countries or companies, was eventually postponed.[9]

In our view, COP29 delivered a meagre outcome and only fuels the calls made for reforming the COP summits[10] that insist on the urgency to shift from negotiation to implementation.

Some key measures have been outlined, including improving the selection process for COP presidencies, streamlining the whole process to gain speed and scale, and improving implementation and accountability.

Trump 2.0: A renewed climate concern

Donald Trump's re-election as US president has sent a negative signal to the rest of the world, given among other things his support for fossil fuels. This is particularly the case for countries such as India, which already stands among the highest emitting countries – over half of the US's emissions[11] - while still facing important development needs.

The latter can only take the country's emissions higher going forward, and it is key that the US example does not encourage developing economies to step down their efforts to reach net zero by 2070.

However, we believe that the election's impact needs to be mitigated at a global level, due to a mix of drivers: structural factors, financial/economic realities on the ground and the global focus on low carbon technologies and innovation which will continue to prevail.

Structural factors

US emissions have been falling over the last 20 years, both in intensity and absolute terms, and including under Trump's first term and outside the pandemic period[12].

We may criticise the pace, which is below what is needed to meet the Paris Agreement's "well below 2°C" scenario; we may highlight the main driver of the move which relies on the gradual exit from coal, and hence question the future pace, but the country is unlikely to backtrack. The US is well aware of China's increasing domination in green technologies, and it would be a strategic mistake to leave the field totally open.

"Drill, baby, drill"

Beyond the fact that oil and gas production reached their highest levels during Joe Biden's presidency, increasing US production at any speed would increase the risk of overcapacity and would weigh on prices, which is not to US oil companies' advantage. Fears of global overproduction have already pushed Brent prices close to $70 a barrel, from a peak of over $90 at the beginning of the year[13].

At the beginning of December, eight members of the OPEC+[14] group of oil-producing nations - including Russia and Saudi Arabia - announced they would extend voluntary production cuts agreed in April 2023 and November 2023 to December 2026 and March 2025 respectively, to "support the stability and balance of oil markets".[15]

In the same vein, they postponed a planned increase in production by one year to September 2026. This raises the question of how oil prices will evolve from then – as low prices may also discourage consumers from shifting away from fossil fuels – while it also starkly illustrates the market's fragility.

Nonetheless, oil and gas companies, like all corporations, don't stop and go depending on politicians. They set up strategies designed for the medium term, and they need visibility.

Companies have already started investing in methane reduction, carbon capture and, less commonly, in hydrogen. As mentioned by Exxon[16] - it focuses on cost discipline and on respecting break-even points, which make it unlikely that a significant increase in production occurs.

Liquefied Natural Gas: Export moratorium

In January 2024, the Biden administration paused decisions on new liquefied natural gas (LNG) export permits[17] while it assessed new economic, environmental and national security considerations. This was a notable move, as the US is the world's leading LNG exporter, ahead of Australia and Qatar[18].

Trump has vowed to end this moratorium on licences when he takes office, but should the assessment find that additional exports cause more harm than good, or add new conditions to them, his new administration's approvals could potentially be challenged in court[19]. The ultimate impact of a moratorium lift is hence uncertain at this point in time, in particular given the time it takes to set up the underlying plants and infrastructures.

The Inflation Reduction Act

As previously highlighted[20], Trump will need to cut decarbonisation subsidies to fund additional tax measures and corporate tax cuts - he won't be able to keep both. It is not clear yet however which subsidies will be cut but there are some local forces in play which will act as safeguards. The Green Deal has generated jobs, growth, and tax revenues, most of them in Republican states.

By 2024, $165bn had already been invested in Republican districts, almost three times as much as in Democratic lands[21]. There will be some deceleration further down the road, for sure, but it is unlikely that plants which have recently opened will suddenly close, or that projects already launched are halted. It would be a political mistake ahead of the November 2026 Senate elections.

Global focus on green technologies

As mentioned above, the market for low-carbon technologies is undoubtedly one of the most dynamic in the world. Strategically, Trump and US companies can't leave the field completely open to China. Trump is pragmatic, and we believe that US companies will negotiate hard to be heard, at least partially.

Outside of the US, the transition to green energies is underway, the economic equation has improved and a lot are now competitive, so it is this reality that is likely to prevail, not politics. Of course, tariff threats are a significant driver of uncertainty. They have the potential to disrupt some manufacturing sectors such as the automobile industry, via electric vehicles and batteries, in both US and in Europe.

Trump vs. the environment

There's every reason to believe that Trump will act faster and harder than he did during his first term, when he rolled back more than 100 environmental rules[22], especially those related to air pollution and emissions, drilling and extraction, as well as infrastructure.

If he started with Arctic drilling being extended to protected areas, it would of course be significantly damaging for the planet. Whether the reality of climate change and increasing financial and social related costs will help prevent such a move is not a done deal, but it cannot yet be totally dismissed.

Beyond Arctic drilling, the famous 'Project 2025' set up by some right-wing politicians has already alluded to the redesignation of per-and-polyfluoroalkyl substances (PFAS) as hazardous chemicals, and although this project has proven to not be consensual among Republicans, it illustrates the issue clearly. It marks, in our view, a halt to further developments in that field, however damaging those chemicals can be for the environment and human health.

In the field of emission tailpipes, we would be more nuanced in our views. The automotive sector reportedly bypassed federal law during Trump's first term, to deal with individual states directly, hence limiting the impact of federal laws. It might well be the case once again, although this time, everyone in the US is more prepared than they were in 2016, and reportedly, ready to counterbalance the federal trend at the local level.

As with climate change, there are forces at work on the ground: air pollution and clean water are gaining ground in public opinion.

Lee Zeldin, who Trump has appointed to lead the Environmental Protection Agency, has taken this up in his speeches, insisting that restoring energy dominance must go hand in hand with protecting access to clean air and water.

Therefore, it's hard to believe that deregulation will open the door to overly controversial practices in these fields.

It's near-certain, however, that there will be sharp cuts in scientific research, the appointment of climate change sceptics, and more broadly, it will mark a halt to further developments in environmental action.

One certainty beyond multiple uncertainties

Beyond politics and speeches, beyond local safeguards at a state level, uncertainties are significant when discussing the impact of the US elections. Trade subjects and tariffs complexify the equation, and it remains to be seen how they evolve and interreact globally.

What is quite clear in our view though, is that these US elections should prompt Europe to accelerate the electrification of its economy.

Beyond the pure decarbonisation aspect, this is also in its economic interest, not to mention crucial aspects of energy security, national sovereignty and overall influence on the international stage.

[1] cma2024_L24_adv.pdf
[2] Written statements - Written questions, answers and statements - UK Parliament
[3] 2035 NDC | Climate Action Tracker
[4] Article 6 - Cooperative Implementation | UNFCCC
[5] Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement and in decision 2/CMA.3
[6] FAQ: Fixing Article 6 carbon markets at COP29 - Carbon Market Watch
[7] A6.4-SBM014-A05
[8] Mandatory Environmental and Human Rights Safeguards Agreed for UN Carbon Market | UNFCCC
[9] COP29 Day Four: Azerbaijan's fund on backburner and no finance progress
[10] COP talks need reform and other nature stories you need to read | World Economic Forum
[11] CO2 Emissions by Country - Worldometer
[12] U.S. CO2 emissions by year 2023 | Statista
[13] Brent crude oil - Price - Chart - Historical Data - News
[14] OPEC+ is a group consisting of the 12 members of the Organization of the Petroleum Exporting Countries (OPEC) plus 10 additional major oil-exporting nations. Its main aim is to regulate the supply of oil to the global market.
[15] OPEC : Press Releases
[16] Exxon Pours Cold Water On Trump's "Drill, Baby, Drill" Plans | OilPrice.com
[17] FACT SHEET: Biden-Harris Administration Announces Temporary Pause on Pending Approvals of Liquefied Natural Gas Exports | The White House
[18] Global trade in liquefied natural gas continued to grow in 2023 - U.S. Energy Information Administration (EIA)
[19] Biden Rushing Study That Threatens to Slow Trump's LNG Plans (3)
[20] Paying Tax Cuts with Carbon | AXA IM Corporate
[21] The surprising winners — and losers — of America's clean energy boom - Washington Post
[22] The Trump Administration Rolled Back More Than 100 Environmental Rules. Here's the Full List. - The New York Times

*(*Carbon credits, or carbon offsets, refer to carbon emissions reductions or removals, measured in tonnes of carbon dioxide equivalent (tCO_2e). Carbon credits can be generated through projects which take in carbon from the atmosphere or reduce the amount of carbon released into the atmosphere. Carbon markets enable the buying, selling, transfer and exchange of carbon credits. Source: What are carbon credits?)*