

ESG Series - COP26 and the emergence of China and US climate cooperation

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On 13 November 2021, COP26 ended with mixed reviews as world leaders signed off on a new climate change agreement after two weeks of intense negotiations.

In this article, we will briefly discuss the key outcomes from COP26 and more importantly, the emergence of China and US cooperation to save our planet.

1. More action is needed to keep temperatures from rising further.

It is critical to limit the rise in global temperatures to just 1.5 degrees Celsius above pre-industrial levels. Experts have warned that, the risk of climate disasters including heat waves, water shortages and ecosystem collapse would surge after this point and the Earth is currently sitting at 1.1 degrees Celsius above pre-industrial levels.

In COP26, more than 100 countries agreed to reduce their methane emissions (a form of potent greenhouse gas) by 30% relative to their output in 2020. Meanwhile, nations (including Brazil, China, Russia and the United States) holding more than 85 percent of the world's forests pledged to halt deforestation and land degradation by 2030.

India, being one of the biggest consumers of coal, pledged to reach net-zero emissions by 2070.

Despite these efforts, many nations were unable to agree on the emission reduction pace to save the world from the hazards and damages generated from climate-driven storms, heat waves and droughts. The commitments made at COP26 did not resolve questions like how countries must share the responsibility of curbing emissions, or how much and quickly each nation should cut its emissions over the next decade. In a nutshell, no clear pathway was identified to stop the planet from going over the 1.5 degree Celsius threshold.

2. Fossil fuels phased down but not phased out due to the importance of coal.

Fossil fuels is considered a leading cause of greenhouse gas emission and coal is regarded as an unclean type of fossil fuel that

contributes to almost one-third of global warming. To address this issue, language in initial commitments at COP26 were to “phase out” coal and subsidies for fossil fuels. However, the language in the final agreement were revised to “phase down” rather than “phase out” the use of coal.

Although, such change was met with disappointment, it also stressed the importance of coal for electricity generation, steel making and other industrial uses. Coal is also used by households in quite some countries for heating and cooking and this source of energy is especially important and necessary during the long cold winter months. Thus, coal may remain a significant energy source, at least in the short-run, for countries with large populations or engaging in heavy industries.

Before the coal-relying countries allocate funds to develop clean energy alternatives, coal as an economical and abundant source is not likely to be replaced altogether. To reduce reliance on coal, it is more practicable for nations to work together on technologies and investments in alternative energies which are safe and affordable.

3. The gap and responsibilities between rich and poor nations.

COP26 illustrated a clear divide between rich and poor nations in terms of the responsibility and funding required in tackling climate change. During the 2009 United Nations Climate Change Conference, wealthy countries pledged to give poorer nations US\$100 billion per year by 2020 to support climate adaptation efforts. But this target was never met. At COP26, donors promised

to meet their original US\$100 billion promise by 2023.

For small island countries like Tuvalu in the South Pacific, they are often on the front lines and paying for the price of climate change. Reversing climate change and obtaining funding is a matter of life and survival for the people in Tuvalu as its land continues to reduce due to rising sea levels.

Many such countries hoped to secure funds for “loss and damage” arising from climate change at COP26. Nevertheless, the final agreement did not include funding to compensate developing countries for the losses they are already incurring and will continue to incur from the climate change.

4. China and US climate cooperation.

Since last year, China has announced its goals of carbon peak and carbon neutrality, and then its decision of not building new coal-fired power projects abroad.

In an announcement at COP26, China and the US have agreed to boost climate cooperation over the next decade by recalling their firm commitment to work together to achieve the 1.5 degrees Celsius temperature goal set out in the 2015 Paris Agreement. This comes along with both countries transitioning to green and low carbon economies.

Shortly after reconfirming their commitment to tackle climate change in COP26, Chinese President Xi Jinping had a first ever virtual meeting with US President Joe Biden on 16 November 2021 in which both sides had an extensive yet constructive exchange of views

on China-US relations including their cooperation to tackle climate change.

Key takeaway

Reducing climate change heavily depends on the collective efforts of our world leaders to perform their commitments and balance the needs of their people, especially when there are no formal mechanisms in place to ensure goals and targets will be met. Overall, COP26 is heading towards the right direction but

there is still a whole lot more work that needs to be done.

For the commercial sectors, enterprises may have to watch out for changes in local government policies and regulations and adjust their operations on a timely basis. On the brighter side, this may give rise to new business opportunities (e.g. “green” investments and financing) which brings about benefits to the world.

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