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TRANSCRIPT

# ESG Now Podcast

# "COPacetic in Egypt and Methane is a Low-Hanging Fruit"

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**Bentley Kaplan:**

Hello and welcome to the weekly edition of ESG Now, the show that explores how the environment, our society, and corporate governance affects and are affected by our economy. I'm Bentley Kaplan, your host for this episode. In today's show, we are going to have a double serving of climate related content, which should not be that surprising given that it is COP27 in Egypt, which is a big deal whether you're a government, a company, or even just a human being contemplating your future on the planet. We'll start off by talking with Oliver Marchand, our global head of ESG and Climate Research and Models about some of his time at COP and his reflections on how this time round is a little different to the COPs that came before. Then, we'll take a closer look at the recent announcement from the Biden administration on its intent to clamp down on carbon's evil cousin methane and what that means for companies, and me, and you. Thanks for sticking around. Let's do this.

I thought about a few different ways of opening this episode up. Something along the lines of COP27 being the first time ever that the number of acronyms listed at the official event exceeded 1000. Or that Egypt's hosting of COP is the first time since the Paris Agreement that COP will be held in the same time zone as Paris itself. Neither of which is true, or at least one definitely isn't, and the other would require a manual counting of acronyms. It's quite fitting that Googling "COP27 trivia," doesn't really turn up many results. It feels like a serious, loaded event because it is just that. It's being seen as a key moment to renew global solidarity and delivering action. A key follow up to the Paris Agreement from the long, long ago of 2015, and many, many things have changed since the Paris Agreement. But I'm not really the one to talk to you about COPs, this one, the ones that came before it, and what it feels like to be in Egypt while I'm recording this, technically on the same continent, but around 9,000 kilometers away.

To get a closer, more credible perspective, I called Oliver Marchand, who is usually based out of MSCI's Climate Risk Center in Zurich. Now, I could have peppered Ollie with an endless list of questions, but in all honesty, the first thing I had to ask was what it was like to be there, to be in the mix and in the thick of it all. The disclaimer here is that we recorded this call from the literal thick of it all, so apologies for the slight drop in quality, but we trust the authenticity will make up for it. Here's Ollie.

**Oliver Marchand:**

You have a little bit of Groundhog Day feeling when you are here. You have many heads of state, over a hundred heads of state came. Very daring talks reminding you of how bleak the situation is, and then that morphs into very, very technical discussions about financing mechanisms. That creates this weird situation that you're scared on the one hand, you're hopeful on the other hand.

**Bentley Kaplan:**

Right, so it's a mixed feeling, naturally. If any global progress is to be made, it's hard to think of a better forum than COP. But the task is daunting, the timelines are pressing. As Ollie told me, the event has not been seamless. It's been a little bit difficult to get to the venue itself. There hasn't always been enough food or water, with long wait times, and in some cases delegates have confessed to their frustrations at signs that send them to dead ends or non-existent toilets. But there was also something symbolic or something fitting about holding this event in a country like Egypt. One, where the infrastructure is not always modern, and where questions of economic development are sometimes as pressing as those of climate change.

**Oliver Marchand:**

For COP27 being in Egypt was, of course, extremely important to the global south, because we have basically problems with all of the different financing mechanisms. Maybe, the Green Climate Fund, where the international community is still scrambling to gather the 100 billion per year and even dealing with some of the distribution mechanisms. Or loss and damage, this principle that western countries that are responsible for climate change should pay for extreme damage that is happening because of extreme weathers in countries in Africa, for example. All of these need to be debated from a perspective of the global south and it's only been the fourth conference in Africa, so that was an important signal.

**Bentley Kaplan:**

Right, so as Ollie points out, there is a definite emphasis on the contrast between developed countries and the developing. How the global south is looking for its own economic development story to lift people out of poverty and improve quality of life. But at the same time having to contend with increasingly frequent climate disasters like floods or slower growing, but equally devastating changes like reduced rainfall or rising temperatures. The incredibly prickly issue of where the countries that have already omitted disproportionate volumes of greenhouse gases should compensate those countries that have not, but still have to navigate its consequences. Even if the world was a perfectly harmonious place, hammering out the complex deals about how such reparation should be rolled out, when, and by whom would be tricky. But as I'm sure you've noticed, global harmony has been a little more elusive than usual. Russia's invasion of Ukraine was, of course, a war in itself, but it also triggered dramatic changes in energy accessibility and prices that rippled outwards. For Ollie, this tension colored in many of the debates and conversations in Sharm El-Sheikh.

**Oliver Marchand:**

Absolutely, if you would make a list of the five things which are important cornerstones of the context that this COP is happening under, the geopolitical tensions are definitely one of the major ones. A lot of people working in climate have always called out that climate is very interlinked with energy security, and I think it's just become more clear and that is another reason to push forward the decentralization of the energy system and the ramp up of renewables and that it can be done at a pace that was unthinkable before this crisis.

**Bentley Kaplan:**

The war in Ukraine has sparked an energy crisis, and in some instances the sudden crisis strengthened the appeal of renewable energy. Something that really stuck with Ollie was the speed with which new generation projects and collaborations were announced. But a sudden drop in natural gas availability cuts both ways, because in some cases, instead of using renewables to plug gaps, more ready loaded solutions were to ramp up coal power generation and supercharge oil and gas extraction and ultimately to nudge emission reduction commitments a little bit further back on the priority shelf. This theme of energy security versus climate change mitigation isn't new to COP. But the war in Ukraine has thrown it into a much starker light and that tension, the sometimes counteracting forces is part of what gave Ollie a sort of mixed feeling from COP, this mix of both fear and optimism. When I pushed him a little bit harder to pick out other reasons underpinning his mixed emotions, Ollie focused on two things. The first was the hard reality of the race to 1.5 degrees, and the second was how critical new stakeholders were seated around negotiating tables in Egypt.

**Oliver Marchand:**

Going up into the conference, there were a number of reports that came out, namely the UNEPFI report, the UNFCCC report, and then most notably the cover of the Economist. The main point of those reports was that a couple of organizations are now basically saying 1.5 really is out of reach. I do understand that. From a scientific point of view, 1.5 has been potentially out of reach for many years already, but I think there was hesitation to communicate that, because the question is what is the next step? It really has to be 1.6, because it can't be two that is too large of a step.

I think it's everybody's hope that we're more going towards the... Let's make a 1.6 goal rather than a two goal. That's why also some people are very frustrated with this kind of communication. I have to say, looking back a couple of years, I think we've made tremendous progress and part of that progress is the inclusion of the financial industry into this whole debate. We've seen over the last three days a massive presence by GFANZ members the Glasgow Financial Alliance on Net Zero that MSCI is a part of. You've seen a number of high level meetings, a lot of panels and the different sub organizations of GFANZ are really increasing their footprint, making plans, what to really do. That just didn't exist in Paris. When you look back, you really do see some progress. I guess the main question is is it fast enough?

**Bentley Kaplan:**

Right? The likelihood of hitting a 1.5 degree world may be getting smaller and smaller, maybe we've missed it. That in itself is bleak news. For conversations about loss and damage with the developed nation nations that help to pay for the impact of climate change rising temperatures only raises the stakes. It pushes conversations closer to things like climate adaptation measures. Not only thinking about how we can slow climate change down, but what we can do to prepare for the worst of it. But as Ollie points out, there are a lot of good reasons to not resign ourselves to the next best option of two degrees, which may seem small, but in terms of climate impacts means so much more. Ollie sees a big positive in the increasingly prominent role the financial sector is playing in negotiations and its presence at COP, not only in Sharm El-Sheikh, but also in Glasgow.

The presence that wasn't really a feature as early as the 2015 COP in Paris and the global financial sector is definitely a force, but there are those that may question whether to see it as a simple, well-intentioned force for good, or a force that can easily be steered towards climate mitigation efforts. It's too early to say whether Ollie's optimism or the views of skeptics will end up being correct. There are interesting ways in which finance is now being used and applied to drive private public collaborations that weren't really in the mix 10 years ago. My own South Africa signed a political declaration with

France, Germany, the U.K., the E.U., and the U.S. announcing a long term just energy transition partnership.

The partnership will essentially unlock an initial 8.5 billion through a combination of private and public funding. Over a 20 year period, some of the areas that the funding will target are coal plant decommissioning, funding alternative employment in coal mining areas, and speeding up the deployment of renewable energy. This partnership, like so much at COP, at its surface sounds encouraging and positive, but like so many promises and pledges, the key part of this is increasingly about implementation. For me and my fellow South Africans, and indeed all of us in the global south, the need to take the step from words to action is growing ever greater.

Now, as Ollie pointed out, there is a lot being said at COP27, which in many ways is no different to the COPs that preceded it. There's generally a lot of talking and some gripes out there fairly regularly expressed are that COPs are too much, much talking and not enough about the rubber hitting the road, which is why it's always encouraging to see concrete developments, measurable and definite changes. There have been a few of these in Egypt. Our next segment is going to focus on one of these developments. On Friday the 11th of November, on the same day I was recording Ollie, the White House National Climate Advisor Ali Zaidi announced at COP that the U.S. Would be further intensifying its efforts to curb methane emissions. Part of the country's aim to quote "Root out emissions everywhere we can find them." This announcement is very much centered on a rule that is expected to take effect in 2023 that would mostly be relevant for the oil and gas industry.

Broadly, this rule will mean banning things like the venting of methane that's produced as a byproduct of crude oil into the atmosphere, and upgrades to equipment such as storage tanks, compressors, and pneumatic pumps. Now, the oil and gas industry is emitting methane in a few different ways. In some cases, methane is actually intended to leak to avoid a buildup of pressure.

In others it's because equipment is either faulty or in the process of being repaired, and sometimes it's the wells themselves that are having direct leaks. Then sometimes it's through flaring, which is when methane is combusted basically turned into CO2. But that process isn't always a hundred percent perfect, and some methane can leak through. Now one other thing to know about this recent announcement from the bind administration is that it's not a new rule, it's technically an update to a rule that was announced in 2021. The actual text that is linked to the update runs at 504 pages. I don't have the patience or the time to read each of those 504 pages, but what I do have is Chris Cote, my colleague out of Boston, who knows a lot more about these things than I do. I asked Chris to help me break down some of these changes.

**Chris Cote:**

The rule now makes better use of technology. It suggests using specialized devices where possible, rather than having a person going out there to try to see, smell, or just hear the leaks themselves, the rule allows for new, better, and continuous monitoring technologies that some companies are actually already opting to use on a voluntary basis. Then I like this part, it also creates an opportunity for something that's almost akin to citizen science. If any group, maybe through like satellites or thermal imaging technology, detects and can certify that there's a very large methane leak that they can attribute to a single facility, the EPA will issue a public notice pointing this out for all to see, including the company that owns it, and forcing that company to take action immediately. If there's a super emitter, a pipeline has a major disruption and there's methane venting into the atmosphere, it may not be time yet for that company to go do a quarterly assessment and say "Is this leaking or not?" But others flying a plane over could notice this, notify the authorities, and then force the company to clean this up.

**Bentley Kaplan:**

Right, so these new updates are ratcheting up demands, calling for better tech, more proactive and comprehensive approaches, and opening up the space to third parties to help with monitoring. One other point that Chris told me about was which wells would be included in this update. Because the original rule drafted in 2021, pulled focus to a company's larger wells only. Granted, its 300,000 largest wells, but still it left gaps in terms of requirements for smaller, more marginal wells. Now, basically all wells will need to be included in this monitoring and required upgrades and fixes.

Now of course there is expected to be some cost that's linked to these changes, but the EPA contends it would only add pennies to the cost of a barrel of oil. This increased monitoring and equipment upgrades will ultimately mean that these companies effectively will be losing less gas over time, which will help recoup some of their costs. To help a little bit with the persuasion here a methane penalty fee will effectively be introduced as part of the recently passed Inflation Reduction Act. Now, there are a couple of questions that we haven't quite squared with. The one is why methane and the other is why now?

**Chris Cote:**

The oil and gas sector is the largest source of methane emissions in the U.S. There's more carbon dioxide that comes from the sector, of course, being combusted in vehicles and whatnot. But methane is a much better gas at trapping heat in the atmosphere, 30 times better over a hundred years, or 80 times better over 20 years. Reducing methane emissions is a way of getting quick wins in terms of mitigating climate change, especially over the short term. This matters for U.S. policy makers and other interested parties as they're getting ready to send more and more gas abroad over the coming decades. By 2026, the U.S. could be exporting 20 billion cubic feet of natural gas a day up from zero in 2015. Whether this gas is sent to Europe, to India, China, or elsewhere in Asia, all parties in this transaction, the buyers, the sellers, they all have an interest in having natural gas that has the fewest associated emissions, the lowest emissions intensity.

**Bentley Kaplan:**

Right. Methane is a powerhouse of climate change. It punches well above its weight in its capacity to trap heat. If you're serious about mitigating climate change, it really makes sense to try and clamp down on methane, especially when for oil and gas, it's a relatively feasible exercise given the recent improvements in technology. Although we've been talking about the oil and gas industry in the U.S. using a broad brush and some analysis he ran last year when the original rule around methane was released, Chris found that not all oil and gas companies are equally linked to methane emissions.

Indeed, some of the highest methane emitting facilities were held by companies like Hillcorp, Southwestern, BP and ConocoPhillips. It's some of these companies that may see the greatest net benefits from implementing monitoring and technology improvements. But another part of this, as Ollie can tell you from his time at COP, is that a lot of countries are also looking to bring down their emissions, even when it comes to things like where their gas comes from and the emissions associated with its production. Being able to produce methane free gas might offer a competitive advantage for U.S. producers, even if plugging those leaks may seem like an inconvenience or a cost that some have been unwilling to budget for. But even beyond the oil and gas industry, Chris is also seeing the outline of a bigger theme, one that centers specifically on how progress has been made.

**Chris Cote:**

I think one takeaway from the advancement we've seen just in the last year with this rule is that at least in some specific sectors, in this case, oil and gas, the screws continue to tighten, compliance costs are increasing to reduce emissions, even in the absence of that silver bullet of a carbon price. We may see this again and again in different sectors where it's its standards, its quotas, its thresholds that are driving decarbonization more than some sort of price incentive.

**Bentley Kaplan:**

Thankfully, it's less than 504 pages later and time to wrap this episode. By the time this airs, COP27 will be winding down. For Ollie, the conference has had many of the same features of previous COPs, but the dials and some things have been turned up, including the presence and challenges of the global south and the increasing frequency of climate related disasters around the world. Despite knowing that scientifically, the odds of the world meeting a 1.5 degree trajectory are becoming increasingly small, it just can't be a case of throwing in the towel and resigning ourselves to a two degree world or worse.

Happily, there are reasons for optimism. The role of financial institutions is becoming more and more central, a key development to direct capital to mitigation related projects. Maybe most of all, an energy crisis sparked by war has led to unexpected opportunities and an escalation of efforts to increase renewable energy production. But of course, much remains to be done. The scale of the task seems to get bigger while timelines compress. But as Chris showed us, in the case of methane emissions in the oil and gas sector, progress appears quite possible, even in the absence of cost incentives provided there is a necessary political will. As with all things climate, it's still very much a case of watch the space. But I hope that through the show we've at least given you an idea of where to watch.

That is it for the week. A massive thanks to Oliver and Chris for their take on the news with an ESG twist. Thank you very much for tuning in. It's been a great pleasure to have been your host for the last four episodes in a row, but there is a Mike shaped hole that I will never be able to fill, so it'll be very good to have him back behind the mic in just a couple of weeks. We're going to take a short break next week, but if everything goes to plan, we'll be back in your ears on the 2nd of December, squeezing some ESG out of the lemon of life. Until then, take care of yourselves and your loved ones, and I hope the next couple of weeks are a gentle glide into December.



Thank you.

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