

## CLIMATE ACTION

#2 Watch Out

25 October 2021

## Climate colonialism

- Historical emissions responsible for global warming – US, EU, China and Russia account for two-thirds of greenhouse gas dump
- Climate plans that don't address past emissions unfair to developing nations such as India whose carbon space was unfairly appropriated
- Earnings of emitting industries in India may remain intact but valuations will suffer due to waning investor interest

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**Disproportionate emission dump by developed countries:** The US, EU and Russia have dumped ~50% of global cumulative greenhouse gases, as per our estimate, despite housing a mere 12% of the world's population. China accounts for another 15% of cumulative emissions, with ~18% of the world's population. India has a staggering 17% population share but has contributed just 4% of global greenhouse gases.

**Past emissions matter as much as current emissions:** Per the Intergovernmental Panel on Climate Change's (IPCC) report, the world needs to limit its future cumulative carbon dump to 600-800Gt CO<sub>2</sub> (~20x CY19) to prevent temperatures rising 1.5°C above the pre-industrial era. This limit is due to the past dump that lingers on.

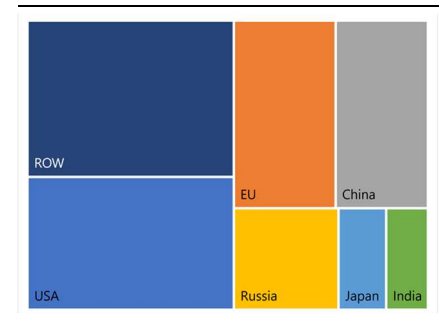
**Demands for sharp cuts unfair to countries like India:** Western countries have been able to improve the living standards of their citizens thanks to early industrialisation. However, in the process, they have used a disproportionately higher amount of carbon space. Now countries such as India, which are yet to bring the living standards of their population on par with those of the West, find that they have to curb carbon emissions due to the past excesses of developed nations.

India is thus being pushed to invest in expensive renewable and energy efficiency solutions. The COP26 President has already publicly demanded a sharp emission cut by India (Source: Hindustan Times, 16 Aug 2021), which would require an early closure of coal-based power plants that currently generate 70% of India's electricity.

**Implications for India:** We believe western countries do not have the moral high ground to force a sharp emission cut on India. However, we expect pressure on Indian companies via indirect routes like financial flows and border adjustment taxes.

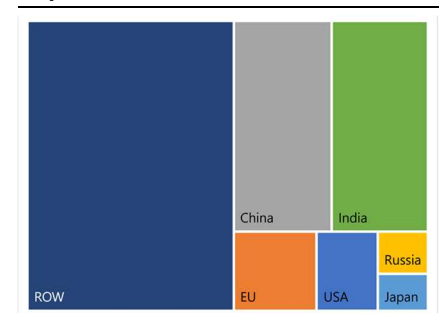
This will likely mean that (a) Indian companies exporting products and services to the West will have to invest in greening up production processes, and players geared to providing green services (renewables, hydrogen, energy efficiency) will likely benefit from the new capex; and (b) listed large emitters such as coal, refiners, steel and cement will find valuation multiples coming under pressure (for details, see our note of 9 June 2021: [Clean your way up](#)).

## Relative share of cumulative carbon dump



Source: BOBCAPS Research

## Population distribution



Source: BOBCAPS Research



**Fig 1 – Key gainers from the green capex**

Energy Efficiency	Hydrogen	EV Ecosystem	Renewables
<ul style="list-style-type: none"> <li>• Siemens</li> <li>• ABB</li> <li>• Cummins</li> <li>• Honeywell</li> <li>• Thermax</li> <li>• Alstom</li> <li>• Schneider Electric</li> </ul>	<ul style="list-style-type: none"> <li>• Siemens</li> <li>• ABB</li> <li>• Bosch</li> <li>• 3M</li> <li>• Linde</li> <li>• Alstom</li> <li>• Cummins</li> <li>• Schaeffler</li> </ul>	<ul style="list-style-type: none"> <li>• OEMs</li> <li>• Battery makers like Exide, Amara Raja</li> <li>• Auto Ancillaries</li> </ul>	<ul style="list-style-type: none"> <li>• Tata Power &amp; Adani Solar are manufacturing solar panels in India</li> <li>• Developers include Tata Power, Adani Green, Repower, Greenco, Azure Power, JSW Energy</li> </ul>

Source: BOBCAPS Research

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**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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