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Will COP29 be an enabling COP?

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Key points

- The United Nations Climate Change Conference COP29 follows the first-ever stocktake of global climate action
- Climate finance is expected to be a key area for negotiations at November's event
- We don't expect decisive measures in terms of a transition away from fossil fuel
- Scrutiny is likely to focus on implementation rather than targets and translating ambition into action

The 29th United Nations Climate Change Conference COP29 comes at a unique point in time.

Set to take place in Baku, Azerbaijan, from 11 to 22 November 2024, it commences just after the US presidential election - one of multiple elections around the globe this year – and as the world tackles ever more extreme weather events as well as conflict in the Middle East and Ukraine.

This year's event will have to follow up on the first-ever stocktake of global climate action and the call to gradually transition away from fossil fuels that was agreed at last year's COP28.

It will be headed by Mukhtar Babayev, who has served as Azerbaijan's Minister of Ecology and Natural Resources since 2018 and has close ties to the country's national oil company, the State Oil Company of Azerbaijan (SOCAR).

Like the United Arab Emirates, which hosted COP28, Azerbaijan's economy largely relies on oil and gas production, which accounts for around half of the country's GDP and over 90% of its export revenues[1].

While it might not be conducive to concrete actions aimed at transitioning away from fossil fuels in the short term, the current backdrop of exacerbated geopolitical risks and conflict in the Middle East raise in our view more impactful questions. Supply disruptions have the potential to weigh on energy prices - around 20% of today's oil and liquified natural gas supplies flow through the Strait of Hormuz[2] - in turn impacting the future of energy demand alongside energy security obligations. It is likely to colour the debates at this upcoming COP on future carbon dioxide (CO_2) emissions data.

Meanwhile, key negotiations at COP29 are expected to widely focus on climate finance. In our view, climate ambition is likely to remain confined to advocating enhanced Nationally Determined Contributions (NDCs) and advancing on 2030 renewable energy and energy efficiency targets announced at COP28.

Where do we stand?

The International Energy Agency (IEA)'s just-published World Energy Outlook 2024[3] noted that global CO_2 emissions reached a record high in 2023 with the vast majority stemming from the energy sector at 37.7 gigatonnes (Gt) of CO_2. Following a 1% rise in 2022, global energy-related CO_2 emissions rose 1.3% again in 2023, with 80% of demand being met by fossil fuel, only slightly down from 82% in 2013. This is clearly at odds with a transition away from fossil fuels.

There are some positives though. The IEA reports that fossil fuel demand is projected to peak in all three of its scenarios – which explore potential outcomes according to different policies - by 2030, suggesting that a turning point in emissions should be near. Rapidly increasing deployment of clean energy technologies, in particular solar and wind, has already begun to dampen the upward trajectory of CO_2 emissions, opening the door to a structural slowdown in energy-related CO_2 emissions.

This finding reinforces the importance of COP28 targets related to a tripling of global renewable energy capacity by 2030 and a doubling of energy efficiency rate by 2030, and we expect COP29 to follow suit. We expect that progress towards these targets will take place through a focus on transport and storage infrastructure, in line with our convictions[4]. In the same vein, and with regards to energy efficiency, methane should continue to be a focal point of discussions, not least because of the specific situation of the Caspian region. Methane intensity in the oil and gas sector of the Caspian region is three times higher than the global average, mostly due to leakage and ageing gas infrastructures built under the Soviet Union[5]. The impact is far from negligible, as fugitive emissions in the region account for almost 10% of the global oil and gas sector methane emissions.

Climate ambition and NDCs

As part of the Paris Agreement, countries are to submit the next round of NDCs - new or updated - in 2025 and 2030. It means that early next year, all countries will have to set new emissions targets for 2035 while revising their 2030 targets.

While global greenhouse gas emissions must be cut by between 21% and 43% below 2019 levels by 2030 to limit global warming to between 2°C and 1.5°C[6], respectively, the full implementation of all NDCs - those submitted by September 2022 - would imply an 8% reduction by 2030[7]. We are far off track, even more as this 8% is based on the assumption that all conditional elements of the NDCs are implemented, including access to enhanced financial resources, technology transfer and availability of market-based mechanisms. This is a clear indication that NDCs need to be significantly scaled up now, if we want to avoid an emissions cliff edge post 2030.

Carbon markets

Article 6 of the Paris Agreement is aimed at providing a framework for countries to cooperate towards the implementation of their NDCs through carbon markets: article 6.2 refers to direct country to country trading and 6.4 to a centralised carbon market[8]. While COP28 failed to finalise Article 6 rules and modalities, we will see if COP29 manages to move forward on transparency and integrity around Article 6.2, in a context where the Bonn Climate Change Conference held in June 2024 did not manage to reach an agreement on those fronts.[9]

Another recurring concern has been whether emissions avoidance activities can be used to generate credits. The Bonn conference did not reach an agreement to exclude them once and for all and will reconvene to reconsider the topic in 2028[10]. In the meantime, current guidance will continue to apply, excluding emission avoidance projects and preserving the integrity of the framework, albeit only for the next four years.

Implementation matters

More than targets, scrutiny is likely to focus on implementation: only 48% of the parties indicated that they have integrated their NDC targets into national legislative processes[11].

On that front, an important step ahead of 2025 will be the publication, by the end of 2024, of the first national progress reports, known as Biennial Transparency Reports (BTRs). BTRs will focus on how countries are reducing emissions, what climate policies they are putting in place and how they are ensuring that climate finance is provided where needed. This should be particularly scrutinised, if released in due time.

China's strengthening control over carbon emissions

A 2024 analysis published by Carbon Brief[12] suggested China's emissions could have peaked in 2023, highlighting their 3% fall in March 2024. The future will tell whether this is indeed the beginning of a structural trend driven by an increase in renewables, or if economic growth challenges have much contributed to the decrease.

Meanwhile, given China is by far the highest global CO_2 emitter, there are some positives that cannot be ignored. Historically, China has focused on managing both total energy consumption and energy intensity, a strategy known as *dual control of energy*. With the growing need to fight climate change, in 2021 China announced it would gradually transform from a system of dual control of energy to *dual control of carbon emissions*, aimed at achieving carbon neutrality in 2060, reducing carbon intensity by 18% between 2020 and 2025 and reaching peak – absolute - carbon emissions in 2030.

Building on this new goal, in August 2024 the State Council announced a shift towards stricter control of total carbon emissions post 2030 through the release of its so-called Work Plan for Accelerating the establishment of a Dual-Control System for Carbon Emissions [13]. More specifically, it introduced for the first time the notion of a carbon budget into official policy, while from the 16th Five-Year Plan period onwards (2031-2035), stricter total carbon emission control measures will be implemented through quotas introduced in national economic and social development planning. This is more significant than perhaps first appears, and such a move could nudge other economies to consider doing the same as they prepare updated climate pledges.

Climate and adaptation financing: From billions to trillions

Over and above enhanced climate ambitions, we expect COP29's focus will concentrate on strengthening climate finance.[14]

Developed countries' pledge to mobilise US$100bn annually by 2020 to support climate action in developing countries was only met in 2022, still with criticism related to a high proportion of loans.

A commitment was taken to set a New Collective Quantified Goal (NCQG) for the period after 2025, a point COP29 aims to address. While no precise number has been put forward during negotiations, requests have tended to hover about the $1trn mark, indicating the high level of pressure. This should not come as a surprise: funds required for adaptation in low and middle-income countries are estimated to be between $215bn and $387bn per year this decade[15], while wider climate action needs in developing countries are estimated at nearly $6trn by 2030.[16]

Where do we stand on previously announced initiatives?

<u>Loss and Damage Fund</u>:

We will closely monitor if further details are released related to the concrete operationalisation of the Loss and Damage Fund, as well as the amounts ($800m promised in 2023). Of course, much remains to be done before it starts to be operational (who will be the beneficiaries and the donors? What kind of projects and which format? etc.), but at least things are moving in the right direction, albeit slowly.

July 2024's decision to domicile the fund in the Philippines is positive, in our view, as the choice of the World Bank as host of the fund had been criticised for its ties to the western world. In the same vein, we welcome the recent announcement of the American-Senegalese Ibrahima Cheikh Diong as its executive director for a period of four years[17]. His dual nationality will serve as a bridge between the Global North and the Global South, while his background as a multilateral finance expert could hopefully support more fit-for-purpose adaptation projects in developing countries.

<u>Multilateral Development Banks</u>

We note from the stocktake published by the G20 Independent Expert Group[18] in April 2024 that the pace of Multilateral Development Banks (MDB) reforms remains insufficient to have a material impact on sustainable development. At this stage, the combined effect of the reforms carried out translate into an additional $30bn-$40bn of annual lending by MDBs. Barriers to taking on more risk and expanding pipelines stand out as the main obstacles, and better valuation of callable capital is reported to be a key element of balance sheet optimisation. New guarantee designs, unfunded risk participations and sovereign portfolio securitisations are additional levers being discussed, but we doubt that anything concrete will come out of COP29.

Climate Finance Action Fund

COP29's presidency announced the creation of a Climate Finance Action Fund (CFAF), that would be capitalised with at least $1bn voluntary contributions from fossil fuel producing countries and companies with the aim of catalysing public and private sectors across mitigation and adaptation to address the consequences of natural disasters in developing countries. Voluntary contributions fall short of a regulatory levy on fossil fuels that some campaigners have been calling for, as well as of global amounts that need to be put on the table. It is therefore crucial that those voluntary contributions do not serve as an excuse to continuously postpone the effective "transitioning away from fossil fuels" agreed at COP28.

International taxation on world billionaires

The contentious topic of a minimum international levy on world billionaires is unlikely to be the topic of climate financing next month but we expect discussions to continue behind the scenes.

The subject has gained the attention of Brazil's G20 presidency under the leadership of Gabriel Zucman, a French economist and Associate Professor of Public Policy and Economics at the University of California. According to Zucman, some of the world's 3,000 billionaires currently pay no tax at all on their annual earnings. In his calculations, a minimum tax that would bring their personal tax payments to 2% of their wealth might generate $214bn in annual government revenue globally[19], a decent amount at a time of significant budget deficits across the world. Still, even if such tax were to materialise, it remains to be seen if the proceeds could be allocated to climate change adaptation, given the pressure weighing on national public finances across the globe.

While the most pessimistic will find it naïve to believe such international cooperation could occur, we cannot deny that international tax cooperation has made significant progress over the last 15 years, from the automatic exchange of banking information to the end of banking secrecy and a minimum tax for multinational companies. COP29 will certainly not be a game changer on that front but we hope that it paves the way for future progress.

Ambitions without finance are just words. COP29 must deliver on the latter.

[1] Azerbaijan - Market Overview (trade.gov)
[2] World Energy Outlook 2024 – Analysis - IEA
[3] World Energy Outlook 2024 – Analysis - IEA
[4] Infrastructure and the energy transition: Moving electrons and molecules | AXA IM
[5] World Energy Outlook 2024 – Analysis - IEA
[6] IPCC_AR6_SYR_SPM.pdf
[7] 2023 NDC Synthesis Report | UNFCCC, Projected GHG Emissions Levels
[8] Article 6.4 will create a global carbon market overseen by a United Nations entity, referred to as the "Article 6.4 Supervisory Body" (6.4SB).
[9] Will Bonn reset lead to Baku handshake on Paris Agreement's Article 6? - Carbon Market Watch
[10] Summary report 3–13 June 2024
[11] 2023 NDC Synthesis Report | UNFCCC, Planning and implementation process
[12] Analysis: Monthly drop hints that China's CO2 emissions may have peaked in 2023 - Carbon Brief
[13] Work Plan for Accelerating the Establishment of a Dual Control System for Carbon Emissions - Sino-German Cooperation on Climate Change, Environment, and Natural Resources (climatecooperation.cn)
[14] UN Climate Change Conferences | United Nations
[15] As climate impacts accelerate, finance gap for adaptation efforts at least 50% bigger than thought (unep.org)
[16] From Billions to Trillions: Setting a New Goal on Climate Finance | UNFCCC
[17] Ibrahima Cheikh Diong Selected as Inaugural Executive Director of the Fund for responding to Loss and Damage | UNFCCC
[18] Implementing MDB Reforms A Stocktake (icrier.org)
[19] Global Tax Evasion Report 2024 - EU Tax Observatory