

COP28: Limited expectations met with some progress on climate finance

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Key points:

- COP28 saw agreement on transitioning away from fossil fuels, but there is still much more to be done to turn words into concrete actions
- Increased support for developing countries was a welcome step, and of potential interest to fixed income investors
- We also see potential opportunities for equity investors given new pledges around food systems and sustainable agriculture

It has taken eight years - but there is finally a consensus that the world will have to move away from using fossil fuels. It was at the 2015 United Nations climate change conference COP21, which gave rise to the Paris Agreement on climate change, that the spotlight fell on the need for a dramatic reduction in the use of coal, oil and gas. Finally, 2023's COP28 saw countries agree for the first time to "transition away from fossil fuels in energy systems" – and in a "just, orderly and equitable manner".¹

But what might be a diplomatic victory is definitely not a climate one, whatever the efforts and intense negotiations that have underpinned it, as there is still much to be done. Notably the agreement did not say to "phase them out", which many were calling for. There are some positives though and we welcome more the announcements made in the field of climate adaptation finance, including the operationalisation of the loss and damage fund. Although not perfect, it can now work - a pre-requisite to support more large-scale financial support to developing countries alongside other initiatives announced.

Climate mitigation and fossil fuel

Although the world renewed its commitment to limiting global warming to 1.5° above pre-industrial times, these remain words rather than tangible actions - we had hoped for at least an intermediate milestone towards reducing oil and gas supplies, even if conditional on peak demand. This would have preserved the need to adjust to different levels of development and to integrate a fairer transition for all, while preventing the can being kicked further down the road.

Undoubtedly, this objective of "transitioning away from" fossil fuels - not "reducing" fossil fuel supply - is now written in black and white, and governments will have to follow suit with policies and actions. Acknowledging it is positive, but it is vital that it is delivered - and delivered soon. The next round of Nationally Determined Contributions in 2025 will be a key test on that front, although more broadly, the absence of progress on global carbon pricing remains a significant issue. At the end of the day, reducing reliance on oil and gas, and shifting to

consumption sobriety, ultimately depends on making it uncompetitive and we are not there yet.

Regarding the Oil and Gas Decarbonisation Charter, in our view commitments remain minimal. Some 50 companies, accounting for 40% of global oil production, have signed on to the Charter², with national oil companies representing over 60% of signatories. Emission reduction commitments remain long term (with a goal of net zero in 2050), limited to companies' operations (i.e., scope 1 and 2 emissions) while ending routine methane flaring by 2030 and "near zero" upstream methane emissions. In a nutshell, it leaves scope 3 (emissions found in firms' value chains, both up and downstream) out of the commitments - although accounting for roughly 90% of the sector's emissions - leaving to others the responsibility to contribute to the transition of the whole ecosystem/demand side.³

In the same vein, methane targets are of course key, given the materiality of the gas in global warming, but it remains more of a necessary catch-up after years of operational negligence from some players. Of note is that some US companies like Exxon have now joined the Charter alongside some national oil companies.⁴

The Global Renewable and Energy Efficiency Pledge included an already-announced tripling of renewables capacity to at least 11,000 gigawatts and a doubling of energy efficiency by 2030, alongside an increased mobilisation of carbon capture and hydrogen technologies. We already commented that the latter are no silver bullet and have to be restricted to just some hard-to-abate sectors.⁵ Nuclear energy was recognised as a key contributor to achieving net zero by mid-century, with 20 countries pledging to triple capacity by 2050. The US, the United Arab Emirates (UAE), the UK and some European countries were among the signatories, opening the door to investments in small modular reactors that could be used for power generation and wider industrial use.

Increased support for developing countries

More concrete steps were taken in climate finance, starting with the operationalisation of the loss and damage fund which was the necessary condition to make it work. The World Bank will host it for a four-year interim period. There is still some way to go to move from theory to practice, as the US\$792m financial commitments made still fall short of the amounts required – between \$160bn and \$340bn per year by 2030⁶ - and could hardly be seen as a decisive step for vulnerable countries. The launch of the climate-focused investment fund Alterra and the \$30bn capital already committed by the UAE is

of larger scale, aimed at mobilising up to \$250bn in private finance benefitting the global south.

Some geographies have been explicitly earmarked for increased financial support, such as the Philippines to which the Asian Development Bank promised to allocate \$10bn for climate finance between 2024 and 2029.⁷

In addition, the Inter-American Development Bank is planning to triple climate financing for Latin America to \$150bn over the decade.⁸

This should be of particular interest to fixed income investors, who will be watching this closely, as well as what comes out of the Task Force on Credit Enhancement for Sustainability-linked Sovereign Financing for Nature and Climate. New commitments include the use of climate-resilient debt clauses (CRDCs) allowing debt service to be paused to provide breathing space when countries are hit by climate catastrophes.

The first meeting will be held in January 2024 and will define the role of its members, which include major multilateral banks such as the Asian Development Bank, the Inter-American Development Bank and US International Development Finance Corporation. Notably, credit rating agencies such as Fitch Ratings indicated their intention to consider revisions to credit rating criteria for loans to ensure use of CRDCs does not impose an additional burden for borrower countries.

Opportunities in food and agriculture

The thematic days during COP28 have led to a flurry of declarations around health, youth, poverty, nature and food systems. Food systems are one area where we especially see significant potential investment opportunities beyond energy infrastructure and renewables, through the goal to achieve climate-resilient food and sustainable agricultural production by 2030. Regenerative agriculture and sustainable production are likely to underpin further development of specific technologies extending to the reduction of water consumption and to waste recycling, that will complement actions and solutions to prevent deforestation. These are segments that equity investors can potentially address at this stage.

Whatever the progress or disappointments from COP28, a lot remains to be done to support the transition of developing countries. Investors can play a significant role here, but it won't be enough if the US and China do not take drastic action in the field of emission reduction. The upcoming 2024 US Presidential Election is likely to be of high importance on that front.

¹ [What was agreed on climate change at COP28 in Dubai? - BBC News](#)

² [Oil & Gas Decarbonization Charter launched to accelerate climate action \(cop28.com\)](#)

³ [Understanding scope 3: How responsible investors can wrestle with the unruliest of emissions | AXA IM Corporate \(axa-im.com\)](#)

⁴ [Our Methane Emission Reduction Goals | ExxonMobil](#)

⁵ [COP28: What can investors reasonably expect? | AXA IM Core \(axa-im.com\)](#)

⁶ [Adaptation Gap Report 2022 | UNEP - UN Environment Programme](#)

⁷ [ADB to Program \\$10 Billion in Climate Finance for Philippines | Asian Development Bank](#)

⁸ [IDB | IDB Group Aims to Triple Climate Financing Over Next Decade \(iadb.org\)](#)

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