

COP29: Final \$300bn deal falls short of requirements

The 29th Climate Change Conference of the Parties (COP29) summit concluded on 24 November 2024.

Funding for developing nations was the main focus of the summit labelled as the 'Finance COP'. Whilst an agreement was reached on new targets for financing the low carbon transition, negotiations became hostile at times, with Argentina walking away from talks in week one and representatives from the Alliance of Small Island States and Least Developed Countries also removing themselves from discussions.

In this briefing, Rebecca Helme discusses key outcomes from COP29 and the implications for investors.

In brief:

- ▶ COP29 took place in Baku, Azerbaijan in November 2024
- ▶ A new deal was agreed for developed nations to provide \$300bn annually to developing nations, but this falls short of \$1.3tn deemed to be required
- ▶ No progress on commitment to reduce fossil fuel use, with discussions delayed until next year
- ▶ New agreement on consistent mechanism for trading carbon credits internationally
- ▶ UK strengthens its climate commitments, targeting 81% reduction in emissions by 2035
- ▶ 2024 set to breach 1.5°C for the first time, with drastic change needed to meet global objectives of the Paris Agreement and avoid catastrophic global warming

Background to the conference

The UN Conference of the Parties meet every year to accelerate action towards the goals of the 2015 Paris Agreement, which created a binding commitment to limit global warming to 1.5°C above pre-industrial temperatures by 2100.

COP29 was hosted against the backdrop of Trump's election victory (the President-elect is a notable climate sceptic who has vowed to pull the US out of the Paris Agreement) and the controversy of a key executive from the host nation caught describing his country's oil and gas reserves as a "gift from God".

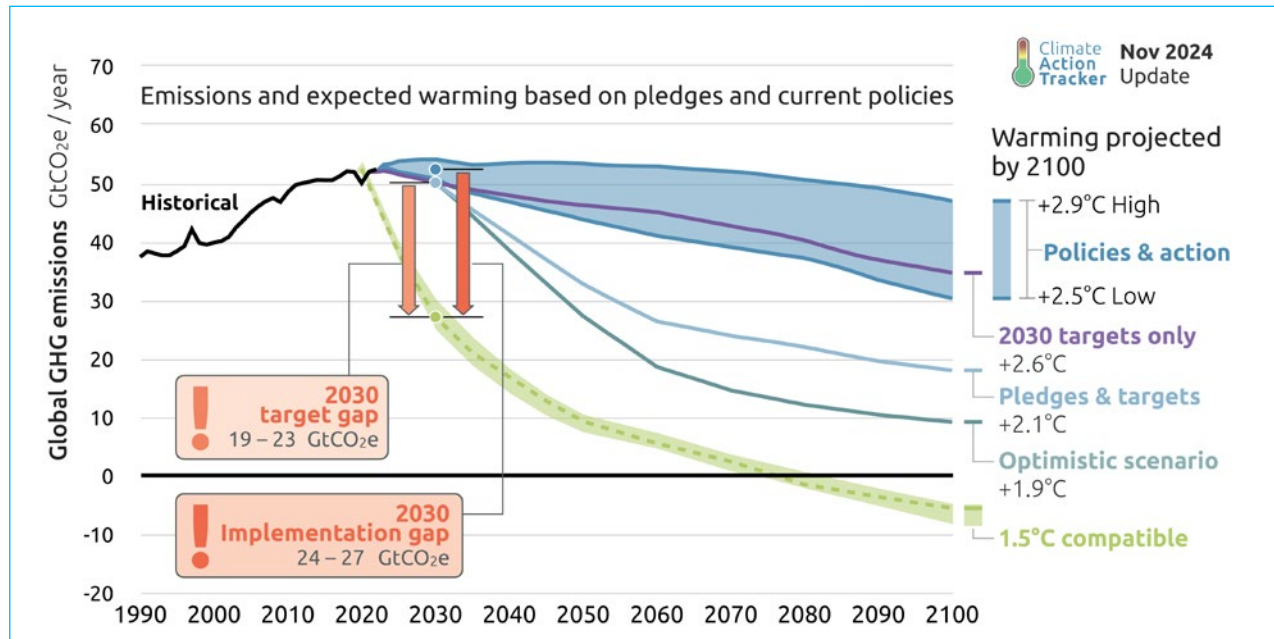
2024 is set to be the hottest year on record, and the first year where global temperatures exceed the 1.5°C threshold. Estimates from the UN Environment Programme suggest global emissions need to fall 42% by 2030 to avoid the worst impacts of global warming, and current actions will fall well short of this.



The commitment of additional finance to developing nations is welcome, as it is critical to address the global challenges, but more is needed and the private sector will be expected to make up the difference.

Rebecca Helme
Deputy Head of ESG Research

Significant reduction in emissions needed to deliver the Paris Agreement



Source: Climate Action Tracker November 2024 update

Summary of key outcomes and commitments from COP29

1. Final deal sees \$300 billion pledged to developing countries, but many feel it's not enough

The final agreement stated that developed countries will provide \$300bn per year by 2035 to help developing nations prepare for the impacts of climate change and transition away from emission producing fossil fuels. The wording is quite ambiguous but this means increasing contributions up to \$300bn per year by 2035, rather than \$300bn every year between 2025 and 2035.

This is an increase on the previous \$100bn annual target agreed in 2009, but is significantly lower than the \$1.3tn a year which is estimated to be needed for a successful climate transition. The expectation is therefore that the bulk of what is needed will come from the private sector.

Many developing nations have reacted negatively, including Indian delegate Chandni Raina who stated the “amount that is proposed is abysmally poor”, and many are sceptical that rich nations will actually deliver on the promise, given they missed the previous \$100bn per annum target by two years.

2. No stronger commitment on phasing out fossil fuels

COP28 concluded with the agreement to ‘transition away from fossil fuels in energy systems in a just, orderly and equitable manner’. There was no stronger commitment made at COP29, with further discussions on reducing use of fossil fuels delayed to next year. In particular, a Saudi official stated that the 22-nation Arab Group would not accept any text in the deal which targeted specific sectors including fossil fuels.

This was seen as a big disappointment by many who feel that any amount of transition finance provided is unlikely to be effective without swift and significant phase out of fossil fuels.

3. Agreement on carbon credit markets

After a decade of discussions, a deal was secured on the latest set of rules for “Article 6” of the Paris Agreement. The rules will allow countries to trade carbon credits with each other as well as with companies. Within the rules there is an accounting system for how a country selling a credit can deduct that from its national carbon inventory to prevent the same credit from being used twice.

However, there are still some concerns amongst campaigners that the rules set a low bar for countries, that work is still needed to ensure the quality of credits is robust, and that in voluntary carbon markets companies will simply continue to purchase credits rather than reduce their actual emissions to meet their Net Zero targets.

4. Limited progress for Loss and Damage Fund

The “Loss and Damage Fund” was established at COP27 to assist developing countries address emergencies such as sea-level rise, migration, reconstruction and recovery.

Steps were taken at COP29 to ensure full operationalisation of the Loss and Damage Fund, including appointment of the Fund’s Executive Director and other governance aspects. To date, the total pledged financial support for the Fund exceeds \$730 million, with the largest contributions made during COP29 coming from Australia and Sweden. The Fund is expected to start financing projects from 2025.

5. China stepping up as climate leader

Following Trump’s re-election, and plans to pull the US out of the Paris Agreement, many commentators have been encouraged by the positive steps taken by China, the world’s highest emitter, to establish itself as a global climate leader.

Before the conference, China disclosed it had made voluntary contributions of \$24.5 billion in financing towards developing nations since 2016 (among the highest contributor of any nation). It is a leading investor in solar and wind power, and electric vehicles, supported by a Landmark Energy Law which comes into place in 2025 to boost investment in renewable energy. China provided Pakistan with 13Gw of solar power capacity in the first half of 2024 alone (the UK’s total solar capacity is 17Gw).

During the conference China agreed to disclose its ongoing contributions and for its contributions to count towards the global target of \$300bn (despite not being defined as a developed country), which many saw as being key to unlocking the negotiations. We do note that if China was already contributing but wasn’t being counted, then including this now in the \$300bn effectively reduces what the \$300bn represents.

6. UK and others submit updated national commitments

Kier Starmer announced the UK’s new climate targets, with a pledge to reduce all greenhouse gas emissions by at least 81% by 2035 (up from 68% by 2030). The Clean Industry Bonus (“CIB”) was introduced to encourage offshore wind developers to invest in industrial regions, coastal communities, and oil and gas hubs. There was also reference to the UK being the first G7 nation to end its dependence on coal power.

Mexico set a new goal to be Net Zero by 2050, but the UAE and Brazil submitted targets which are not yet 1.5°C aligned.

Next year will see all parties review their targets in advance of COP30 in Brazil. The hope is countries use this as an opportunity to map out long-term investment plans – and the UK has already set the tone of potentially more ambitious commitments.

7. Other developments

- 30 countries, responsible for nearly 50% of global methane from organic waste emissions, endorsed a declaration to reduce this. The US launched the first ever methane fee on oil and gas emitters.
- “Energy day” saw a number of new pledges launched including targets for a six-fold increase in global energy storage and significant grid expansion by 2030, critical for meeting targets to triple renewable energy capacity, set at COP28.
- Host country Azerbaijan committed to developing its renewable energy potential, increasing renewable power capacity to 30% by 2030, with the aim to reduce emissions by 40% by 2050.
- UAE’s \$30bn Alterra fund, the world’s largest private climate investment fund, a COP28 success and designed to stimulate \$250 billion for climate action by 2030, has spent little so far.

Limited progress on biodiversity loss at COP16

Another key piece of context for COP29 was COP16 on Biodiversity, which took place in October 2024.

Outcomes were generally viewed as mixed with some biodiversity breakthroughs but also disarray and indecision, meaning the event ended without any agreed finance strategy for delivering the targets agreed at COP15 two years ago. Similar to the outcomes of COP29, only limited new funding was agreed, taking the “Global Biodiversity Framework Fund” to just \$396m, far short of the billions needed, and many countries are yet to share their national biodiversity plans for meeting the pledge to protect 30% of nature by 2030. There continues to be concern in the lack of genuine integration between climate and biodiversity policy.

For investors

Investors have a fiduciary duty to act in the interests of members and it's clear that considering the impact of and solutions to climate change is aligned to members' long-term financial interests.

The focus on climate change around the world and how it feeds into financial markets could exacerbate future risks, opportunities, and compliance requirements for investors.

- **Opportunities** - There may be potential opportunities from green investments linked to climate change protection (e.g. sustainable agriculture, ecosystem restoration, reforestation). Integrating such climate-based solutions into portfolios could offer both financial and environmental benefits.
- **Risks** - Physical and transitional climate risks should be taken into account by investment managers. Investors with strong views on ESG, climate change and sustainability may wish to consider divesting from companies/ industries not aligned to the climate transition
- **Regulatory compliance** - There is expected to be stronger intervention from regulators and policy makers, forcing pension schemes to take action. In their manifesto, Labour stated they will require financial institutions to implement "credible transition plans that align with the 1.5°C goal of the Paris Agreement".

Actions for investors:

- 1 Undertake **training** to understand the risk posed by climate change, and the implications this will have on your investments.
- 2 Set your **objectives and policy** to ensure climate change factors into strategic decisions.
- 3 **Work with managers** and your advisors to communicate concerns and requirements for your mandates. Where investments do not meet your expectations, review the holdings.
- 4 Consider a **switch into Sustainable funds** which have a Paris alignment objective, or which contribute to UN Sustainable Development Goals (supporting the Just Transition). The XPS Sustainable Designation and Impact Designation can help you identify funds which deliver these outcomes whilst supporting your financial objectives.
- 5 **Assess and monitor** your exposures to climate-related activities. Undertake climate risk analysis to gain deeper understanding of exposures to risk and opportunities.

Find out more

For further information, please get in touch with **Alex Quant** or **Rebecca Helme** or speak to your usual XPS Group contact.



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