

# COP28: Key Takeaways for Banks

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## Overview: A Just Transition

The need for a *Just Transition* prominently emerged during UAE's COP28 under the theme 'Leave No One Behind'. A Just Transition, by definition, encapsulates considerations of an entire economic ecosystem including investors, consumers, key sectoral players, key economic industries, financial institutions, governments, and regulators. The concepts of climate justice and Just Transition are not only compelling from an ethical standpoint, but also crucial in rallying the extensive level of engagement required to achieve enduring environmental transformation and mobilizing climate finance to limit global temperature rise to 1.5 degrees Celsius (°C) as per the Paris Agreement goals.

One of the key achievements underwritten by the UAE Presidency during COP28, was the agreement of operationalizing the [Loss and Damage Fund](#), which received a total of USD 792 million from Parties. The agreement to establish a [Loss and Damage Fund](#) was a historic breakthrough announcement made at the end of COP27 in 2022. There is now a global acknowledgment that wealthier nations bear significant responsibility for carbon emissions, which are the primary drivers of climate change. The concept of climate justice has gained increased significance and recognition over the last decade, which compelled Parties to agree to the fund's creation.

COP27, which took place in Sharm El Sheikh, Egypt, marked a significant turning point in global efforts to establish a [Loss and Damage Fund](#) to support the achievement of the climate goals under the Paris Agreement. During the conference, the diversified funding model, increased awareness of gaps in climate finance, sustained advocacy efforts, and extensive negotiations finally led to an agreement being reached. The fund witnessed the first agreement of its operationalization at COP28 in the UAE.

Under the Action Agenda of COP28, over USD 85 billion in climate financing has been mobilized and at least eleven pledges and declarations have been launched as a result of historic support from national governments, multilateral development banks, private financial institutions, and philanthropists.

To deliver the scale of climate action needed by 2030 and then by 2050, a new socio-economic taxonomy within and between countries is required in order to ensure that imperative climate measures are implemented in a just and equitable manner, while 'leaving no one behind'. This strives to optimize the socioeconomic benefits derived from climate initiatives, with an emphasis on elevating the roles of traditionally marginalized groups within the global economy, including individuals from developing nations, women, and youth; an ethos encapsulated in the notion of 'bringing everyone along'.

## The Global Stocktake

COP28 marked a remarkable milestone under the Paris Agreement – for the first time almost 200 nations gathered to take stock on the progress made against Nationally Determined Commitments (NDCs) so far. The [Global Stocktake \(GST\)](#) is a critical component of the Paris Agreement, collectively assessing the efforts and outcomes achieved to date, which will set the scene for evolved NDCs. After an 18-month technical review phase, the goal in Dubai was to reach the end of the final phase, also known as the political phase, of the Stocktake, which would provide an actionable response to the technical phase's conclusions.

The GST report revealed that even though there has been some improvement in the global efforts to tackle climate action, the current levels of greenhouse gas emissions (GHG) worldwide do not align with the global

temperature goal. Researchers believe that time is limited to increase efforts and carry out the existing pledges to restrict the rise in global temperature to 1.5°C above pre-industrial levels in line with the Paris Agreement. This signaled the need to reach peak global GHG emissions no later than 2025 without exceeding it, before drastically reducing emissions thereafter. To achieve this, there must be fast and substantial reductions in global GHG emissions by 43 percent by 2030 and net zero carbon dioxide (CO<sub>2</sub>) emissions by 2050.

The last day of COP28 saw the refinement of the final [Global Stocktake](#) text. Parties were called upon to contribute to global efforts in a way that aligns with their national circumstances and strategies, as outlined in the Paris Agreement. This includes transitioning away from fossil fuels in the energy sector in a viable, orderly, and equitable manner, while also taking urgent action within the next decade to achieve net-zero emissions by 2050 based on climate science. The [Global Stocktake](#) agreement further emphasized the acceleration of the development and deployment of zero- and low-emission technologies, such as renewables, nuclear power, carbon capture and utilization, as well as low-carbon hydrogen production, particularly in hard-to-abate sectors.

## **Energy Transition**

To achieve the target of limiting global warming to 1.5°C, it is crucial to rapidly reduce carbon emissions in the energy sector. This requires both increasing the adoption of renewable energy sources and prioritizing the deployment of energy-efficient solutions while sustaining global energy security. The COP28 Presidency played a significant role in this effort by launching the [Global Renewables and Energy Efficiency Pledge](#). With the support of 130 national governments, including the European Union, the pledge commits signatories to collaborate in tripling the world's renewable energy capacity to at least 11,000 GW by 2030 and doubling the rate of energy efficiency improvements to over 4 percent annually.

The [Global Renewables and Energy Efficiency Pledge](#) requires that climate action in the next few years reaches unprecedented scaling levels, in alignment with climate science, to prevent catastrophic outcomes. Achieving this transformation will require significant transformations across various sectors and the global economy. Shifting towards low-carbon and sustainable economies not only provides a means to combat environmental degradation, but also holds the potential for creating jobs, driving technological innovation, and building resilient societies.

Equally important, it is vital to ensure that these opportunities are available to everyone and that the transition does not further exacerbate existing inequalities. Without careful planning, marginalized and vulnerable populations could be left behind, facing the impacts of climate change, and missing out on the economic and social advantages inherent in this monumental transformation.

A strong international support for phasing out fossil fuels prevailed at COP28, as at least 127 countries called for an end to fossil fuels. This was seen as “a significant step towards the end of the fossil fuel era”. The speed at which fossil fuels are replaced will depend on whether the concept of a Just Transition goes beyond a mere slogan and becomes a reality for communities that rely on coal, oil, and gas. The outcome of the [Global Stocktake](#) shaped significant decisions made under fossil fuels, greatly impacting the global energy transition roadmap:

- Tripling renewable energy capacity globally and doubling the global average annual rate of energy efficiency improvements by 2030.
- Accelerating efforts towards the phase-down of unabated coal power.
- Accelerating efforts globally towards net zero emissions energy systems, utilizing zero- and low-carbon fuels well before or by around mid-century to achieve net zero by 2050.

- Accelerating and substantially reducing non-carbon-dioxide emissions globally, in particular methane emissions by 2030.
- Transitioning away from fossil fuels in energy systems, in a just, orderly, and equitable manner.
- Phasing out inefficient fossil fuel subsidies that do not address energy poverty or just transitions, as soon as possible.

The [Oil and Gas Decarbonization Charter \(OGDC\)](#), which was launched by the UAE COP28 Presidency, witnessed over 50 signatories representing over 40 percent of global oil production. The Charter was supported by International Oil Companies (IOCs) including BP, Repsol, Shell, and TotalEnergies, as well as National Oil Companies (NOCs) like Saudi Aramco, SNOOC, Petroleum Development Oman, and ADNOC. Under the Charter, signatories committed to achieving net zero emissions by 2050, ending routine flaring by 2030, and achieving near zero upstream methane emissions – representing a significant step towards “the beginning of the end of the fossil fuel era.”

National peers with similar economic and geopolitical landscapes in the region, like Saudi Arabia, the UAE, and Oman, have adopted robust pledges and commitments towards the decarbonization of the energy sector under the OGDC. It is expected that this will in turn have an impact on the oil and gas sector in Kuwait, an oil dependent economy, which gradually but surely will steer the industry towards similar operational strategies of reducing routine flaring and methane emissions. This forecasts an inevitable shift in investment strategies in the energy sector on every level.

The [International Energy Agency \(IEA\)](#) predicts that the use of fossil fuels will reach its peak in the next decade, which could lead to chaotic transitions if proper plans are not put in place to support various stakeholder groups across economic value chain, including consumers, employees, investors, lenders, and industrial sectors. The recent closure of the Grangemouth oil refinery in the UK without a transition plan is a warning sign of what should be avoided in the future to ensure and protect global energy security. Such event, among others, forecasts that sometime during the upcoming decade, and as a wave of mature climate action unravels, financial institutions and investors will see less return on investments in fossil fuel sectors, if not economic losses, as well as bearing stranded asset risks whereby lenders default on corporate, national, and multinational scales. Another determining factor of the speed of transition is how effectively countries implement the new and ambitious commitments made at COP28 to significantly increase the use of renewable energy and improve energy efficiency by 2030 in order to avert both climate-related and socioeconomic risks associated with climate change.

### **Scaling up Collaboration for Climate Finance**

Limiting global warming to 1.5°C and achieving the transformation required in global economies will require significant changes across various sectors and industries. Shifting towards low-carbon and sustainable economies requires monumental investments in climate technologies to decarbonize sectors and diversify the global energy mix.

Amid the discussions that took place under the four pillars of COP28 in Dubai, it was evident that a key enabling factor of the anticipated global transition lies in the development of climate-related policies and legislation at the national level. The Just Transition principles need to be endorsed at the national, regional, and international levels with the aim to distribute the challenges and opportunities of decarbonization more equally and achieve greater harmony between economic returns and net-zero and climate mitigation strategies. Policy formation and legislation reform are required across various interrelated avenues including fiscal, labor, energy, climate, and

public participation to incentivize climate action and build financing infrastructure which creates synergies between the public and private sectors.

Financial institutions play a key role in channeling capital in the global finance system and by implication are relied on to finance and scale green and low-carbon projects, facilitate transformations in high-emitting sectors, and help society adapt to the effects of climate change. Research shows that the private sector could contribute 70 percent of the investments required to achieve net-zero goals while the [UN has indicated that USD 125 trillion of investment globally is needed by 2050](#) to meet the Paris Agreement goals. A major focus of the discussions at COP28 circulated around how to accelerate the flow of private capital to developing and emerging markets and bridge the gap between the Global South and the Global North. Adopting the blended finance approach can be used to channel public finance to attract private capital investments in clean and transition projects across developing nations, thereby unlocking potential capital that otherwise would not have been available.

As such, there is no doubt that, the integration of Just Transition principles in the financial sector plays a key role in effectively scaling up climate finance to meet the needs of developing and emerging markets to achieve the 1.5°C global temperature goal. This takes financial institutions a step beyond sustainability integration within their business models to a global system-wide reallocation of trillions of dollars each year. Both transition investments and portfolio decarbonization strategies form the decarbonization pathway of a financial institution, which includes closing the adaptation financing gap. The [United Nations Environment Programme \(UNEP\) 2023 Adaptation Gap](#) found that this gap range has grown by at least 50 per cent to USD 194 – 366 billion per year.

Another important development from COP28 is the increase in the global adoption of the International Sustainability Standards Board (ISSB) climate-related disclosure standards with [over 400 organizations from 64 jurisdictions](#) committing to advance adoption. This also includes investor membership groups, gathering thousands of global investors with more than USD 120 trillion of assets under management (AUM). This will draw in a greater number of investors and financial institutions to follow the newly launched global standards, further strengthening the global reporting baseline for sustainability and climate-risk related reporting in financial and capital markets. This is expected to create a significant number of value-creation and transition opportunities for greener portfolios and incentivize the scaling of climate finance.

## Voluntary Carbon Markets

One of the key outcomes of the COP26 climate summit in Glasgow in 2021 was the approval of [Article 6](#) of the Paris Agreement governing carbon markets. [Article 6](#) of the Paris Agreement allows countries to voluntarily cooperate with each other to achieve emission reduction targets set out in their NDCs. Under [Article 6](#), a country will be able to transfer carbon credits earned from the reduction of GHG emissions to help one or more countries meet climate targets and develop mitigation and adaptation strategies. Essentially, the market mechanism under [Article 6](#) permits countries to collaborate voluntarily to achieve their specified emission reduction targets as well as their financing pledges.

Carbon markets play a crucial role in achieving global climate objectives, especially in the short and medium term. They facilitate the allocation of resources and cost reduction by providing countries and companies with the opportunity to transition to a low-carbon economy smoothly, effectively reaching the target of zero net emissions. Carbon markets motivate climate action by offering the ability to trade carbon credits, which are earned through activities that decrease or eliminate GHG emissions, such as shifting to renewable energy sources or conserving carbon-rich ecosystems like forests.

Despite the long-standing ethical controversy around carbon trading, there is an evident need for carbon trading markets to be regulated and mobilized under UN-oversight to achieve the global temperature goal of 1.5°C. The urgency of this matter was made evident by the results of the [Global Stocktake](#). However, COP28 concluded without any tangible agreements regarding the endorsement of a global standard to guide carbon trading. One argument is that as countries progress towards achieving their net zero ambitions, it is anticipated that carbon markets will become unnecessary as the need for emissions trading fades away.

Carbon market and trading mechanisms remain largely voluntary and unregulated, which inevitably discourages stakeholders from engaging in the market. The regulation of carbon markets under the oversight of UN is one of the global action gaps yet to be addressed in the upcoming COPs. The delay of such agreement by Parties raised many political and ethical questions around the current deployment of carbon trading strategies. Nevertheless, the push against the operationalization of [Article 6](#) of the Paris Agreement signals the importance of the quality of mechanisms to develop the necessary guidance and resolve the issues that have associated with the operationalization of carbon markets.

### **What's Next: Call to Action**

The [Global Stocktake](#) report has highlighted a significant investment gap of USD 41 trillion in mitigation efforts by 2030, with emerging markets facing a higher share of this gap relative to their gross domestic product (GDP). Despite COP28 being seen as a milestone in terms of ambition, it falls short in terms of committing to the climate finance needed to meet these ambitions. Financial institutions cannot solely be held accountable for closing this gap, as other key players have an equally important and enabling role to play in developing the necessary policies, financial frameworks, and climate-related risk assessments. The development of globally recognized and harmonized standards requires continuous and monitored data flow from both national and business fronts to inform and influence economic activities towards the transition. Increasing regulatory requirements and emerging frameworks are preparing the global financial system for a dynamic shift. It is crucial for financial institutions to begin implementing portfolio decarbonization strategies and advocating for sectoral transitions through financial innovation and value-creation opportunities. Financial institutions have a significant role in enabling the flow of data related to economic activity within different sectors in relation to climate change mitigation, and adaptation, and by doing so, they are effectively priming themselves and their economic ecosystems for future economic paradigm shifts.

Scaling up climate finance is the next crucial step for global financial institutions to effectively combat climate change and limit it to 1.5 °C. Climate finance includes transition finance and advancements in climate technology. This requires imminent policy reforms from governments, regulators, and business owners to drive a successful and just transition. Financial institutions are strategically positioned within the global ecosystem to drive round table discussions and understand the financial innovation and strategic partnerships necessary to enable and advance the transition towards low-carbon economies.

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