



COP28 unveiled

Assessing global climate progress and the road ahead

Virginie Derue

This year's United Nations Climate Change conference [held 30 November–30 December 2023], COP28, is in many ways an important milestone, as it will respond to the first so-called 'global stocktake'—the most comprehensive assessment of the world's collective progress towards the 2015 Paris Agreement goals.

Published by the United Nations Framework Convention on Climate Change (UNFCCC) on 8 September, the global stocktake follows two years' analysis informed by the *Sixth assessment report of the UN Intergovernmental Panel on Climate Change (IPCC)*.

From the outset, COP28 has been steeped in controversy, namely because of insufficient progress made towards reducing carbon dioxide emissions—which reached a record high in 2022¹—and because of its Emirati presidency.

The IPCC report's conclusions are alarming. It warns the direction of travel in terms of keeping global warming significantly below 2°C above pre-industrial times is off track—and that the chances of triggering climate tipping points are rising.²

The study also found that with regard to financing the fight against climate change, investment flows to reduce emissions and increase adaptation efforts need to be some three to six times higher than what they are today. Adding to the concern, the World Meteorological Organization recently warned about the return of El Niño,

a massive climate disruptor drying part of the globe while drowning others with extreme flooding.³

A controversial COP

Meanwhile, the announcement that COP28 would be under the chairmanship of Sultan Ahmed Al-Jaber, the United Arab Emirates (UAE) Minister of Industry and Advanced Technology—and chief executive of Abu Dhabi National Oil Company (ADNOC)—has understandably raised significant controversies. This included opposition from several US Congress and European Parliament members.

In addition, the country's poor record in terms of energy sobriety and its reaffirmed willingness to continue to harness its natural oil and gas natural wealth until 2030 have not helped.⁴

Importantly, in our view, adding to the controversies is the fact the UAE invited Syrian President Bashar al-Assad to COP28, despite the accusations of war crimes and human rights violations made against him.

The stocktake: Key takeaways

The UNFCCC's global stocktake reminds us how far off we are from reaching the Paris Agreement goals. It starkly highlights that much more action is needed—and needed now, on all fronts—from emissions reduction to the stemming of deforestation and greater financing.

It is calling for everyone to be involved, not only governments through domestic action, but all stakeholders for more efficient inter-

national collaboration and innovation. It also details the different levers which need to be activated, such as the finance required to bridge the gap to developing countries' needs and meet just transition objectives.

Three points are worth highlighting:

- The stocktake insists on systems transformation that are required across all sectors, aimed at implementing both supply- and demand-side measures. This is to be emphasised, as too often there is a sole focus on the oil and gas industry, and the broader picture—including the demand side—often receives insufficient attention from society or some investors.
- In contrast to deforestation, the stocktake is not prescriptive on requiring a reduction in oil and gas production by 2030.⁵ This does not preclude reduction efforts or at least a stabilisation, but it implicitly obliges to take some distance from 1.5° scenario implications.
- Carbon capture is presented as a valid option in the near term, in hard-to-abate sectors, though not across the board.⁶

A more pragmatic COP?

In our view, COP28 is set to be pragmatic, driven by governments' collective failure to lead and impose changes so far. There are obstacles of course, linked most notably to political, financial and, more recently, energy security factors.

A less obvious but still worrisome reason is the increasing multipolarity of the world—demonstrated and exacerbated by the gap in developed countries' promises to achieve the US\$100 billion annual financial transfers to developing countries, although bridging the gap will not reverse the trend. China and India remain at loggerheads, making international collaboration a tricky topic for Western countries intending to help the latter while preserving already-sensitive relationships with the former.

The Emirati presidency's priorities

In essence, the Emirati priorities are neither disruptive nor transformational. They boil down to a strong emphasis on increasing mitigation and adaptation solutions, stepping up renewable capacity targets, advocating more equitable access to finance and calling for the operationalisation of COP27's Loss and Damage Fund, which is aimed at providing funding for vulnerable countries hit hard by climate disasters.⁷

Unsurprisingly, the Emirati defend a holistic energy transition that still includes hydrocarbons, insisting on energy security concerns while also having several dedicated thematic working groups around nature and oceans, food and agriculture, health, education and women's rights.

There is, of course, a clear incentive for Gulf countries to try to monetise their oil and gas reserves as much as they can before demand and prices start to decrease. But there are obviously significant divergences between increasing supply by 2030, trying to stabilise it, and even cutting it. Comments by UAE Sultan Al Jaber on the en-

ergy transition and the role of ADNOC leave few doubts as to its continuing focus on oil and gas production in the medium term.⁸

More broadly, the precise commitments taken at COP28 will enable us to judge whether ambition has been strengthened or whether the can is kicked further down the road.

We also have some reservations about the strong focus on hydrogen and carbon capture. Here, once again, the devil is in the detail. As we previously explained, hydrogen and carbon capture technologies are not silver bullets, namely because of their use likely to be restricted to hard-to-abate sectors like steel or long-haul shipping for the former, and the questionable cost-effectiveness and infrastructure requirements associated with the latter.⁹

In the majority of industrial sectors, an actual reduction of emissions must be orchestrated in the first place, contrary to what the Emirati programme on carbon capture seems to propose. The oil and gas sector in particular cannot rely too heavily on this technology, but has to change its whole business model.

On those fronts, we would have hoped for more ambitious targets from the UAE presidency. While oil majors are the usual target of non-governmental organisations and of the civil society's activism in Europe, they only account for a minor part of global production, at less than 15% versus above 40%¹⁰ for national oil companies, such as ADNOC. Such national oil companies have the technological and financial capacity to step up investments and foster change, and the Emirati presidency could lead by example here.

Great expectations?

In terms of potential tangible outcomes from COP28, our main expectations pertain to increased financial transfers to developing countries. However, making COP27's Loss and Damage Fund operationally effective is not straightforward, as seen with the hurdles associated with blended finance.

Mobilising adequate finance to facilitate adaptation represents a huge challenge, but here also governments have a key role to play. Reallocating existing subsidies to fossil fuels, agriculture and fishing would free up hundreds of billions of dollars,¹¹ net of subsidies that are essential to maintain affordable food prices.

In the same vein, we would also wish for positive developments in terms of International Monetary Fund and World Bank reforms, that would be instrumental in freeing-up further money to help finance developing countries.¹²

Whatever it takes, as investors

Our expectations for COP28 are limited, not because of the Emirati presidency per se, but more broadly because of the lack of international consensus over priority actions and the increased multipolarity of the world that is slowing international collaboration.



The quote

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We hope the controversies related to the COP28 presidency prove wrong, and if we do not see a decisive move towards a gradual decline in fossil fuel production, that at least COP28 should mark critical progress towards wind and solar through underlying energy infrastructure investments.

Only through this will developing countries no longer be forced to face a trade-off between monetising their natural resources and combating climate change causes. African countries, for instance, have great potential in solar or wind energy. However, right now, local demand is insufficient to make large-scale wind and solar projects economically viable; there is no infrastructure capacity to store and export the produced green energy.

As investors, we have no magic wand to replace government action. However, we will continue to push for more government action through advocacy, while engaging with the private sector so that across the board, it reduces emissions and contributes to changing the whole ecosystem and demand patterns.

Conclusion

COP28 follows the first global stocktake of progress towards climate goals, which have starkly highlighted that far more action is urgently needed.

There has been controversy over COP28's presidency, while a lack of international consensus over priorities is slowing action.

We expect to see increased financial transfers to developing countries as one outcome from the event and continue to believe governments as well as investors have a key role to play. **FS**

Notes

1. International Energy Agency, *CO₂ Emissions in 2022—Analysis*. Available at <https://www.iea.org/reports/co2-emissions-in-2022> [accessed 17 November 2023].
2. Heading towards 2.4–2.6°C global warming, and possibly limiting it to 1.7–2.1°C should all long-term net zero targets be effectively implemented.
3. World Meteorological Organization, 'World Meteorological Organization declares onset of El Niño conditions', press release 4 July 2022. Available at <https://wmo.int/news/media-centre/world-meteorological-organization-declares-onset-of-el-nino-conditions> [accessed 17 November 2023].
4. However, since 2020 Al-Jaber has been also the chairman of Masdar, a Gulf leader in renewable energy.
5. "Net zero CO₂ energy systems require the phasing out of all unabated fossil fuels over time". "... the timing of phase-outs will differ for different contexts and fuels, and the phase-out of any unabated coal power needs to be accelerated in this decade".
6. "Methods of CO₂ removal can further reduce net CO₂ or GHG [greenhouse gas] emissions in the near term, counterbalance residual emissions from hard-to-abate sectors."
7. COP28 presidency and leadership—COP28 UAE/COP28 president-designate, HE Dr Sultan Al Jaber. Bio available at <https://drsultanaljaber.com/> [accessed 17 November 2023].
8. Ibid.
9. Eugène O, 'Hydrogen and the energy transition: One molecule to rule them all?', AXA IM Corporate, 4 October 2022. Available at <https://www.axa-im.com/investment-institute/sustainability/environmental/hydrogen-and-energy-transition-one-molecule-rule-them-all> [accessed 17 November 2023]; Eugène O, 'Carbon Capture and Storage: Hiding dirt under the rug or a real clean up?', AXA IM Corporate, 21 March 2022. Available at <https://core.axa-im.com/research-and-insights/investment-institute/sustainability/carbon-capture-and-storage-hiding-dirt-under-rug-or-real-clean> [accessed 17 November 2023].
10. AXA IM/Urgewald 2022 database.
11. World Bank, 'Transforming trillions: Repurposing subsidies for climate action and economic health', 15 June 2023. Available at <https://www.worldbank.org/en/topic/climatechange/publication/detox-development> [accessed 17 November 2023].
12. G20, *Boosting MDBs' investing capacity: An independent review of multilateral development banks' capital adequacy frameworks*, G20 Expert Panel, 2022.