

GLOBAL X ETFs RESEARCH



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COP28: An Explicit Agreement to Transition Away from Fossil Fuels and Other Key Takeaways

The 28th United Nations Conference of Parties (COP) was held in Dubai, an annual meeting where United Nations member states assess progress towards climate action. After two weeks of negotiations, nations ultimately came to a new landmark climate deal titled the UAE Consensus, which will feed into other climate treaties like the Paris Agreement. Notably, the UAE Consensus represents the first time nations have explicitly agreed to transition away from fossil fuels.

The UAE Consensus has mixed feedback: on one hand, no previous COP text has ever specifically called out the fossil fuels industry, but vague language and the lack of a coerced fossil fuel phaseout leaves room for interpretation and inaction. While there are no clear targets related to the fossil fuel energy “transition,” the UAE Consensus maintained a net-zero emissions target by 2050.

COP28 encompassed a wide array of climate topics, and there were many developments related to renewable energy, carbon markets, private finance, sustainable cities, agriculture innovation, and sustainability reporting. Below are what we believe to be the main takeaways from the conference.

Key Takeaways

- COP28’s landmark climate deal, the UAE Consensus, marks the first time an agreement explicitly calls on nations to transition away from fossil fuels to reach net zero, establishing the potential for an acceleration of the clean energy transition.
- Strengthened commitments for CleanTech adoption, climate financing, and sustainable agriculture and food innovation bolster potential growth opportunities throughout climate change-related themes.
- Changes to ESG reporting and voluntary carbon markets could create more efficient processes and help these climate solutions become more widely adopted.

Stengthend Commitments Could Accelerate the Clean Energy Transition

The recurring theme of this year’s COP was the climate “transition”. To ignite the path ahead, the UAE Consensus also outlines targets for tripling renewable energy capacity by 2030 to at least 11,000 GW and doubling the global average annual rate of energy efficiency improvements from 2% to over 4%.¹ This is the largest commitment towards the growth of renewable energy within the power sector, and there were additional commitments made throughout COP28 that relate to decarbonizing the entire energy sector.

- Fifty oil and gas companies pledged to reach near zero-methane emissions by 2030, including oil giants like Saudi Aramco and ExxonMobil.² The companies are expected to submit plans by 2025 that outline how they can meet the target.
- Adani Green Energy, India’s largest renewable power producer, announced plans to invest an additional \$22 billion to increase its capacity by over five times by 2030.³



- U.S. Special Climate Envoy John Kerry launched an international engagement plan aimed to advance nuclear fusion technology by rallying 35 nations who will focus on nuclear fusion research and development, supply chain issues, regulation, and safety.⁴
- Hydrogen was front and center, as 27 countries agreed to endorse a global hydrogen certification standard through the UAE Hydrogen Declaration of Intent, including the U.S., Germany, Australia, Brazil, and India.⁵
- Within the shipping sector, 30 companies signed a Joint Commitment to enable the use of renewable hydrogen-derived shipping fuel to meet maritime industry decarbonization targets related to fuel use, fleet development, and port infrastructure necessary to scale green hydrogen.⁶

Private Markets Are Stepping Up Climate Action, Creating Additional CleanTech Growth Opportunities

The financing gap to meet net zero by 2030 is estimated to be \$18 trillion⁷, but COP announcements illustrated that the private markets are looking to take a larger role to bridge that gap.

- The UAE unveiled Alterra, a \$30 billion climate fund for global climate solutions, aimed to become the world's largest private investment vehicle for climate action, in partnership with BlackRock, TPG, and Brookfield.⁸
- The European Investment Bank and Allianz Global Investors announced additional capital commitments from the governments of the United Kingdom and Germany to the Emerging Market Climate Action Fund. The innovative blended finance fund provides catalytic early-stage equity financing to greenfield climate mitigation and adaptation projects, as well as companies with a green business model in emerging and developing markets.⁹
- Copenhagen Infrastructure Partners also launched its Growth Markets Fund II, investing in greenfield renewable energy investments and offshore wind, with a target size of \$3 billion.¹⁰

Expanded Policy Support Paves the Way for Sustainable Cities and Transport

Transportation and building construction are both climate-intensive areas that are critical on the road to decarbonization. Both areas were prioritized by climate leaders at COP28. The Breakthrough Agenda, launched at COP26, is a clean technology plan that provides frameworks for countries and businesses in key emitting sectors through public and private initiatives. As part of the Breakthrough Agenda, plans were made related to electric vehicles and building construction.

- The Global Zero Emissions Vehicles (ZEV) Transition Roadmap was presented as a holistic framework laying out how governments can strengthen support for EVs in emerging markets and developing economies, with the aim of making EVs the most “affordable, accessible, and attractive option in all regions by 2030.”¹¹
- Building upon the Breakthrough Agenda, the Buildings Breakthrough was launched with the support of 27 countries with the aim of making “near-zero and resilient buildings” the new normal by 2030.¹²
- The Cement and Concrete Breakthrough was launched by Canada and the UAE with the goal of making clean cement the preferred choice in global markets with near-zero cement production established and growing in every region of the world by 2030.¹³

Sustainable Agriculture and Food Innovation Are an Increased Focus for Governments and Companies

Agriculture accounts for nearly one quarter of global carbon emissions, and there was a magnified focus on their climate impacts this year.

- Over 130 countries signed a declaration to include emissions from agriculture and farming into their national climate plans. Countries have agreed to scale adaptation and resilience efforts for farmers to address issues like soil health, food waste, and biodiversity loss by accelerating innovation and increasing financing for agriculture-based climate solutions.¹⁴
- Over 25 of the largest food companies, such as Danone, PepsiCo, and Nestle, have agreed to advance regenerative agriculture practices on over 160 million hectares of land. Participants have already invested \$2 billion into regenerative projects with an additional \$2.2 billion committed.¹⁵

Public-Private Collaboration Aims to Get Voluntary Carbon Markets off the Ground

The U.S. Department of State, along with the Rockefeller Foundation and Bezos Earth Fund, presented a framework related to driving private capital towards high-quality voluntary carbon credits called the Energy Transition Accelerator (ETA).¹⁶ The unregulated voluntary carbon markets, separate from the highly regulated compliance carbon markets, have struggled to gain traction due to a lack of verifiable, high quality standards. Post-COP, carbon trading desks at bulge bracket banks such as Goldman Sachs, Citigroup, JP Morgan, and Barclays are looking to finance the development of carbon sequestration projects, trade credits, and advise corporate clients buying offsets.¹⁷

Corporate ESG Reporting Is Streamlined

For public companies, the “alphabet soup” of ESG reporting is becoming simpler. The Financial Stability Board (FSB) and the International Financial Reporting Standards (IFRS) announced that the widely accepted Task Force on Climate-Related Financial Disclosures (TCFD) has disbanded.¹⁸ The International Sustainability Standards Board’s (ISSB) new global sustainability reporting standards that were launched in June 2023 will now become the standard. TCFD was launched in December 2015 with the goal of informing investors about climate-related risks that companies face. Since then, it became a widely accepted reporting standard that ESG investors expected companies to disclose. The farewell to TCFD indicates that the new ISSB standards could move the industry towards greater global harmonization of sustainability reporting standards.

Conclusion: Net-Zero Targets Require Fossil Fuel Reduction and a Greater Focus on CleanTech, Renewables, and Sustainable Business Models

While the UAE Consensus is a move towards limiting the biggest culprit of carbon emissions, the reality is that global carbon emissions are expected to reach a record-high in 2023. The agreement to transition away from fossil fuels within energy systems still illustrates the climate ambition of member states to work towards limiting emissions from fossil fuels, even if the plan forward is currently unclear. What is evident is that there is favorable momentum for renewable energy systems, other clean technologies, sustainable transport, and green building construction through private market, industry, and national commitments.



Footnotes

1. COP28. (n.d.) Global Renewables and Energy Efficiency Pledge.
2. The Washington Post. (2023, December 2). Oil companies' unexpected plan to tackle climate change.
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5. COP28. (2023, December 2). COP28 Presidency launches landmark initiatives accelerating the energy transition.
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7. Boston Consulting Group. (2023, November 20). Bridging the \$18 Trillion Gap in Net Zero Capital.
8. Alterra. (n.d.) Financing the New Climate Economy.
9. European Investment Bank. (2023, December 2). COP28: EIB and AllianzGI announce new capital commitments to the Emerging Market Climate Action Fund (EMCAF).
10. Environment + Energy Leader. (2023, December 5). Copenhagen Infrastructure Partners Launches New \$3B Fund Focused on Renewable Energy.
11. ZEV Transition Council. (2023, December 5). Global Zero Emissions Vehicles Transition Roadmap.
12. COP28. (2023, December 6). COP28 announces new partnerships and initiatives to advance sustainable urban development.
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14. Agriculture Dive. (2023, December 7). The biggest food sustainability pledges at COP28, from Bezos to JBS.
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17. Bloomberg News. (2023, December 10). Wall Street Gets Ready to Cash In on \$1 Trillion Climate Market.
18. IR Magazine. (2023, December 11). TCFD bids adieu at COP28.

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