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COP28 has come and gone - But Its lessons on climate finance should not fade away

The launch of a historic collaboration by six of the major independent voluntary standards at COP28 aims to promote integrity throughout 2024 to create the next step-change in the dependability of carbon markets.

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Almost three months have passed since COP28, the most recent UN climate conference held in the UAE in late 2023. Numerous government representatives, climate experts, advocates, pundits, and sustainable ‘do-gooders’ flew in and out of Dubai and had their moment in the sun. And there was plenty of sun to be had in 2023, enough to make it the hottest year on record.

Lots have been said about how COP28 over promised and under delivered, or surpassed expectations with the levels of unprecedented multilateral consensus that was reached on several critical initiatives. Many were underwhelmed by the debate around whether fossil fuels would be "phased out" or "phased down", particularly when neither formulation was ultimately adopted. The conference settled for "transitioning away from fossil fuels ... in an orderly and equitable manner."

Whenever lawyers draft a contract, they analyse the degree of commitment represented by particular phrasing. Despite the commitment in COP28's language being hard to see, the promises made are not insignificant when combined with the other goals and undertakings expressed in the 196 written paragraphs constituting the outcomes of the first global stocktake, which is, in many ways, the fruits of COP28's labours, according to Hessam Kalantar and Samuel Miller of Kalantar Business Law Group.

It is in the stocktake that we see the word "finance" mentioned no less than 39 times, including in the statement that $4.3 trillion per year needs to be invested in clean energy until 2030, increasing to $5 trillion thereafter; or that 31 contributors to the Green Climate Fund have pledged $12.8 billion to date.

"The stocktake also tells us that where financial commitments have mostly fallen short is within adaptation finance, which is what is most urgently needed to build resilience to climate change in developing countries and help secure biodiversity", says Kalantar, whose corporate practice includes advising on private financing for climate change mitigation projects.

Even those who support a global "transition away" from fossil fuels disagree on the mechanics of its implementation. As expected, developing countries expressed their desire for a "staggered" reduction in hydrocarbon consumption, allowing them to continue using affordable fossil fuels while wealthier countries transition to alternatives first.

Zambia's Minister for Green Energy, for example, emphasized the "full right of Africa to exploit its natural resources sustainably", making the point that any transition "should be premised on differentiated pathways to net zero and fossil fuel phase-down". This in effect requires Western countries that have long benefited from fossil fuel consumption to move further and faster in their transition than other countries.

According to Kalantar, this only illustrates that the choices are indeed not solely scientific or economic, but premised on interests involving social justice, human rights, and redressing historical inequities.

"Should developing countries be entitled to continue using fossil fuels to stimulate their economies in the way those fuels benefited developed countries during nearly two centuries of industrialisation? Arguably yes if that is, the claim that this can be done 'sustainably' is supportable," he says.

The importance of unlocking climate finance and carbon markets

The global stocktake touched on many different forms of climate finance, including funding the loss and damage fund, public investment in the development of renewable energy technologies, and, albeit indirectly, carbon markets. As much as COP28 saw greater support from political and business leaders on the importance of carbon markets as a key source of climate finance, the talks failed, for example, to agree on common transparency, reporting, and crediting authorisation revocation rules applicable to bilateral agreements for country-to-country investment and credit transfers under Article 6.2 of the Paris Agreement.

Projects such as reforestation or using carbon capture technology have the promise of removing carbon from the atmosphere, where one ton of CO_2 removed generates a credit that can be bought and sold as an offset. Voluntary carbon markets are proliferating, despite ongoing challenges in measuring exactly how much a particular course of action, such as planting trees, actually removes CO_2 or ensures that such removal is not interrupted, as would be the case if the trees were felled.

Voluntary carbon markets continue to show great promise, with projections that prices will rise past $200 per tonne post-2030, according to BloombergNEF.

"This success, however, hinges almost entirely on what happens in the coming year or two," says Kalantar.

"Initiatives like the Integrity Council for Voluntary Carbon Markets (ICVCM) and the Voluntary Carbon Markets Integrity Initiative (VCMI) are important to help restore eroded trust in the quality of carbon offsets, and this is happening as we speak, aided with technology that is constantly improving verification methodologies", he says.

Indeed, among the accomplishments of COP28 was the launch of a historic collaboration by six of the major independent voluntary standards. The collaboration which includes the American Carbon Registry, ART (Architecture for REDD+ Transactions), Climate Action Reserve, Global Carbon Council, Verra, and Gold Standard aims to promote integrity throughout 2024 to create the next step-change in the dependability of carbon markets.

"This is no small achievement", says Kalantar, "to have these leading organisations come together to standardise the measuring of carbon credits".

Between this collaboration and the work of ICVCM and VCMI, "bankability", as Kalantar puts it, should return to the voluntary carbon markets.

Local markets rising to the challenge

Leading economies in the Gulf Cooperation Council (GCC), including the Kingdom of Saudi Arabia (KSA), the UAE, and Oman have announced ambitions to reach net zero emissions by 2060 for KSA and 2050 for UAE and Oman. These nations plan to achieve this with decarbonization strategies that rely on a mix of well-established levers, such as renewable energy and energy efficiency, and forward-looking carbon abatement solutions, such as hydrogen, carbon capture, and 'nature-based solutions' (NBS). The governments have announced that they will use a wide array of these levers to meet their respective nationally determined contributions (NDCs).

According to Kalantar, the carbon markets in the GCC are still in the early days, but action is afoot. In KSA, the Public Investment Fund (PIF) and Saudi Stock Exchange, Tadāwul, established a voluntary carbon exchange in Riyadh, known as the Regional Voluntary Carbon Market Company (RVCMC), for the trading of verified high-quality carbon credit certificates. RVCMC's more recent carbon offset auction in Nairobi reportedly transferred two million tonnes of carbon credits generated from removal projects undertaken in Africa and KSA.

In the UAE, the Abu Dhabi Global Market (ADGM)'s formation of a voluntary carbon credit trading exchange and clearinghouse predates COP28. More recently, the UAE Carbon Alliance, launched by the UAE Independent Climate Change Accelerators (UICCA) and backed by the likes of ACX, First Abu Dhabi Bank, Mubadala, and ADNEC, reportedly pledged an indicative intended purchase of $450 million in African carbon credits by 2030.

"When you add in the world's largest private investment vehicle for climate change - the $30 billion commitment to the UAE's newly launched "catalytic climate vehicle", Alterra, chaired by none other than Dr Sultan Al Jaber, the President of COP28 himself - there is no question that the quest to unlock climate finance beyond governmental pledges and policy is now underway," Kalantar says.