HSBC Global Research

10 October 2023

A guide to COP28

Will 1.5°C survive?

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Climate Change & ESG - Global

- Climate talks will resume against a backdrop of record extreme events, geopolitical tensions, and a growing focus on integrity
- Key to watch will be the outcomes of the global stocktake, as this will shape ambition levels, policy, and the survival of 1.5°C
- Finance discussions will be fractious as usual – public-private collaboration will be more prominent as future goals take shape

Wai-Shin Chan, CFA
Head, Climate Change Centre; Head, ESG Research
The Hongkong and Shanghai Banking Corporation Limited

James Rydge
Head, ESG Research, EMEA
HSBC Bank plc

Linnet Cotterill
ESG Analyst
HSBC Bank Middle East Ltd, DIFC

Anushua Chowdhury
ESG Research
HSBC Securities and Capital Markets (India) Private Limited

Survival at stake: The science, the stocktake and extreme weather events all point to the urgency to act on climate change. However, as global attention turns to climate change for two weeks, the *talk* must become *action,* and the *paradigm shifts* should become *reality,* in our view, for climate goals to be met and the transition to be effective. COP28 takes place in the UAE, from 30 November to 12 December, with key decisions to be taken that will shape future climate pledges (which are due for updates soon). That we are *off track* is a given; the question is whether we can get back *on track* through ambition of policy and finance to keep the 1.5°C goal (by 2100, with limited overshoot) alive. We think COP28 also needs to show that the global climate talks are fit for purpose and can deliver real change.

Focus pocus: Delegates will need to agree on messages from the global stocktake, the global goal on adaptation, some finer points of Article 6 as well as the promise and delivery of finance across multiple channels. The perspectives of both sides have hardened in our view, as developed Parties' wallets tighten and vulnerable nations espouse the need for adaptation. Agenda-tussles and walk-outs are not off the table as juggling ambition and impacts, economics and politics, requires a sharp focus.

Beyond the mirage: Besides the negotiations across various climate issues, we will be looking out for *meaningful* pledges and participation on renewables, finance, health and linkages with biodiversity that could shift policy direction. Although image and reality may be different, convergence at COP28 is a matter of climate urgency.

Figure 1: Some issues should reach agreement at COP28; others will not

Key issues to be concluded at COP28	Ongoing discussions of other issues
Global Stocktake	New Collective Quantified Goal on finance
Global goal on Adaptation	Scaling up mitigation ambition
Technical report on doubling adaptation finance	Definitions of climate finance
Article 6.4 – the inclusion of Emissions avoidance	Operationalization of Article 6
Operationalization of L&D fund	Santiago Network rules of procedure

Source: HSBC (based on UNFCCC documents)

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Did you know?

The global climate change process

COPs, the UNFCCC and the Paris Agreement

1. The climate summit taking place in the UAE is known as COP28, the 28th Conference of the Parties to the UN Framework Convention on Climate Change or UNFCCC. It will be presided over by the United Arab Emirates. *(CMP18, CMA5, SB59 will all take place concurrently, see page 22 for details).*

2. The Paris Agreement aims to keep the rise in global average temperatures to well-below 2°C above pre-industrial levels and preferably to 1.5°C in order to significantly reduce the risks and impacts of climate change. For more details on the goal, see page 21.

Rising temperatures and carbon dioxide

3. Globally, the World Meteorological Organisation estimates that the annual mean global near-surface temperature for each year between 2023 and 2027 is expected to be between 1.1°C and 1.8°C higher than the 1850-1900 average.

4. Concentrations of CO_2 emissions in the atmosphere are now 50% higher than in pre-industrial times (according the US National Oceanic and Atmospheric Administration, NOAA). It touched 423ppm in June, compared with below 320ppm in 1960.

Parties and taking stock

5. There are 198 Parties to the UNFCCC. As of October 2023, 195 Parties, covering around 98% of global greenhouse gas (GHG) emissions have ratified the Paris Agreement. There are only three Parties yet to ratify (see page 24).

6. The first-ever Global Stocktake (GST), providing a comprehensive assessment of progress towards achieving the goals of the Paris Agreement, is due to conclude at COP28.

Climate pledges and Net Zero

7. Some 197 Parties submitted a climate pledge (that's all except Libya) – Nationally Determined Contributions (NDCs) – covering emissions reductions as well as preparing for the impacts of climate change by building up resilience. These are due for an update in early 2025.

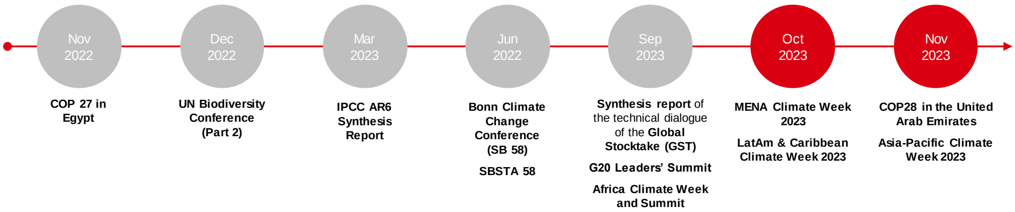
8. Net zero refers to the balance between the sources and sinks of GHG emissions. The IPCC states we must reach net zero by 2050 in order to limit warming to under 1.5°C. Around 90 countries (including the EU) have set targets (net zero / 1.5°C / climate or carbon neutral / zero carbon). More than 900 companies (out of world's largest 2,000 publicly listed companies by revenue sampled) have set net zero / science-based / carbon neutrality, etc. targets (as per Net Zero Tracker).

Climate linkages to biodiversity and health

9. Climate change is one of the key drivers of biodiversity loss – the Glasgow Climate Pact recognised "the interlinked global crises of climate change and biodiversity loss, and the critical role of protecting, conserving and restoring nature and ecosystems in delivering benefits for climate adaptation and mitigation".

10. Health is to be formally discussed for the first time at COP28 – as climate change puts a heavier burden on health systems (through higher incidence of heatstroke, harsher workplace conditions, vector-borne diseases and changing crop nutrition and yields).

Figure 2: Timeline of events leading up to COP28 in the UAE



Source: HSBC (based on UNFCCC and IPCC)

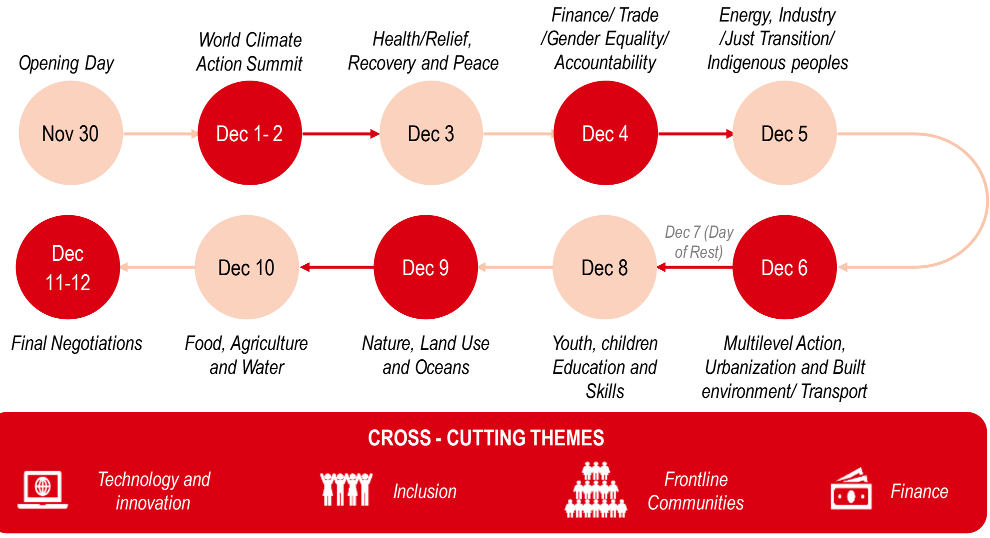
The UAE has been preparing to host COP28, and working to bring all sides to the table, but this has not been without some controversy

The balancing task of the UAE as COP28 hosts

The UAE will continue the UNFCCC progress but add its local flavour to the gathering. On the *COP28 website*, it states it is seeking to bring the world together "for global transformative climate action." The UAE highlights that it was the "first country in the region to ratify the Paris Agreement" as well as various other commitments such as a net zero by 2050 pathway. The UAE's hosting of COP28 has not been without controversy as there are some who see the nation as too close to oil and gas interests. Some commentators (most notably Al Gore) have been very vocal about the perceived conflicts of interest here. It remains to be seen whether the UAE will be able to balance the urgency of climate progress with meaningful change in the fossil fuel industry, while using its negotiation prowess to move key climate issues forward.

The COP28 Presidency has already laid out its vision to all Parties. There will be 4 cross cutting themes at COP28: technology & innovation, inclusion, frontline communities, and finance. COP28 will also see a specific focus for each day.

Figure 3: Focus days and events during COP28



Source: COP28 Presidency

We acknowledge the contribution of Saumya Nautiyal and Abhinav Verma, climate change associates, Bangalore, in the preparation of this report.

Key issues to watch at COP28

- The political messages from the global stocktake will determine the level of ambition for updated climate pledges over the next two years
- The targets of the global goal on adaptation should be set – we think it will be a collection of targets that cover multiple angles
- Article 6 will be closely watched as delegates decide whether to allow *emission avoidance* as part of the carbon credit mechanism

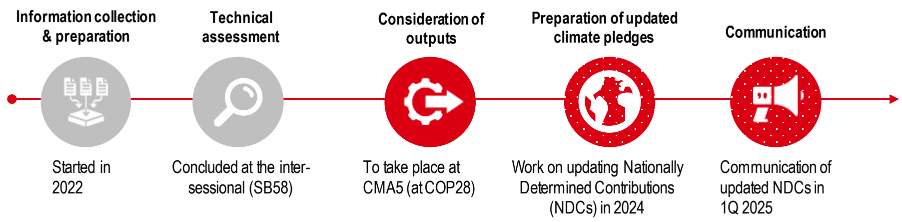
Recap: COP27 – Sharm el-Sheikh Implementation Plan
There was inconsistent progress at COP27 after quite bitter negotiations. In our view, ambition was not raised in any meaningful way, leaving the 1.5°C target alive only on paper. The dominant and most contentious issue was the establishment of a Loss and Damage Fund, although virtually none of the details of the Fund were agreed. The goal is to operationalise the fund by the end of COP28. Little progress was made in moving forward key discussions over the global goal on adaptation (GGA) and the new collective quantified goal (NCQG) on climate finance. Many other issues were left on the table for discussion at future climate COPs.

Global stocktake – we're not on track, now what?

The "off track" message is loud and clear, but the political response to that message is far from clear

The first global stocktake (GST) to assess progress towards the Paris Agreement's purposes and goals will conclude at COP28. It consists of three phases: (1) information gathering, (2) a technical assessment, (3) outputs. The technical assessment (Phase two) concluded at the inter-sessional (known as SB58) in June with the *synthesis report of the technical dialogue of the global stocktake* released on 8 September. Essentially, the Technical Assessment report shows that we are not on track for 1.5°C and that there is a 20-24GtCO_2e emissions gap in 2030.

Figure 4: The first global stocktake will conclude at COP28



Source: HSBC (based on UNFCCC)

Strongly worded? The *consideration of outputs* will take place at COP28. We think this final phase will be the most challenging and political as this will determine how ambitious the messaging of "getting back on track" will be. Parties were invited to submit submissions (suggestions) for the outputs by 15 September 2023 along the lines of some guiding questions.

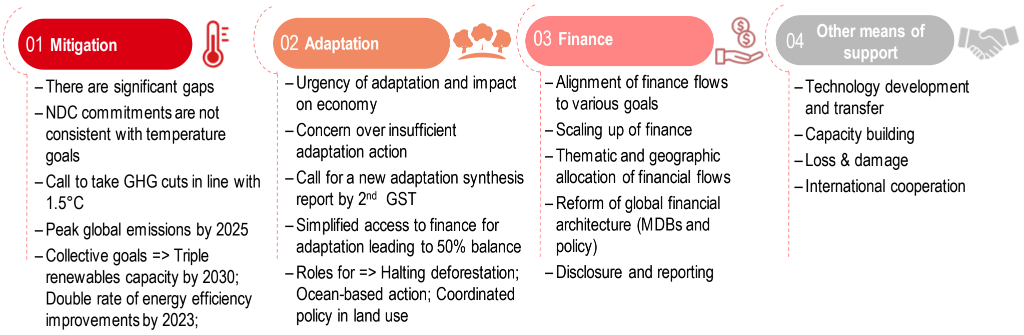
Figure 5: Summary of guiding questions for Phase 3 of the global stocktake

Source: Chairs of the subsidiary bodies, UNFCCC

Views on the outcomes of the GST are strong and varied – but science and equity are key

Submissions received by 2 October 2023 (there were responses representing 180 Parties) have been compiled into a *synthesis report*. There was strong acknowledgment of the importance of the best available science as well as equity of the outcome. There were many, many suggestions on what to include in the consideration of outputs – we highlight some key issues and their possible elements (to be considered and debated) below.

Figure 6: Key issues and possible elements of Phase 3 of the global stocktake

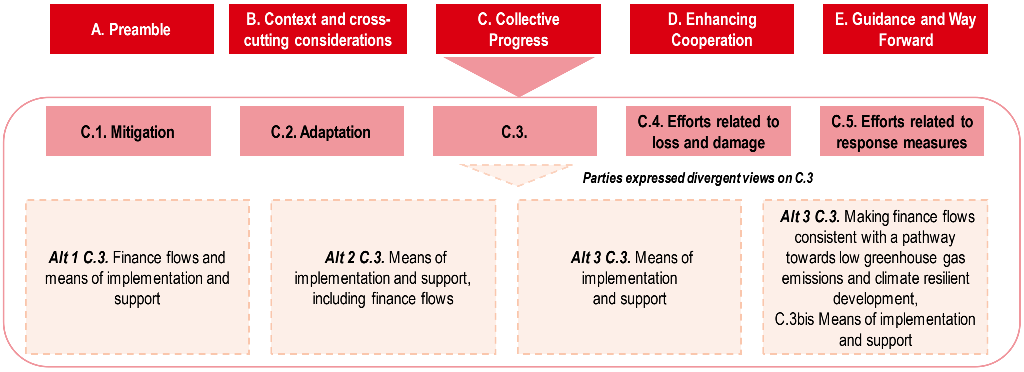


Source: 2023 Synthesis report on GST elements

In our view, the "Guidance and Way Forward" section is most important

During the climate inter-sessional at Bonn in June (SB58), the subsidiary bodies settled on a draft indicative structure of five sections.

Figure 7: Indicative structure of the global stocktake – with lots of wording options



Source: SB58, UNFCCC

What to look out for: We think the political messages for strengthening action and support will be one of the critical measures of success at COP28. It is this that could have the largest influence over global climate policy. There are likely to be varying views at COP28 – those that want much more ambition, and those that are happy with BAU – with many Parties focusing on different aspects e.g. the action, the support, the challenges etc. **The nuance comes with which Parties are obligated to do what** – the *wording* (degrees of certainty) and the *inclusivity* (all Parties versus Developed Parties etc.) will be crucial here.

The political messages of the GST will strongly influence the ambition embodied within updated NDC pledges

> **Almost all Parties proposed that the global stocktake outcome invite countries to provide an indication, in the NDC, on how their NDCs have been informed by outputs from the first global stocktake …**
>
> **Paragraph 91, 2023 Synthesis report on GST elements**

The guidance is especially important as Parties update climate pledges to 2030 – NDCs should be prepared in 2024 and submitted by the end of 1Q25, so the political messages of the GST really will determine what policy will look like given mounting geopolitical tension and a wavering global economy. In the submissions for discussion of the GST, under *Part E Guidance and Way Forward*, a large proportion of the submissions mentioned inclusion under NDCs.

Mitigation – old wording, new pledges?

Not very strong: COP27 called for Parties to revisit and strengthen their 2030 climate pledges by the end of 2023. As of October, only 7 Parties have done so – most notably the UAE as hosts. (A similar COP26 call saw only 29 NDC pledges revisited, with the "strengthened" aspect questionable.) The focus will now shift to the formal update of NDCs – these are to be prepared in 2024 and communicated by the end of the first quarter of 2025. As mentioned above, the strength of the wording of the GST outcome will guide the ambition levels of these NDCs.

Progress on *mitigation ambition* has been slow

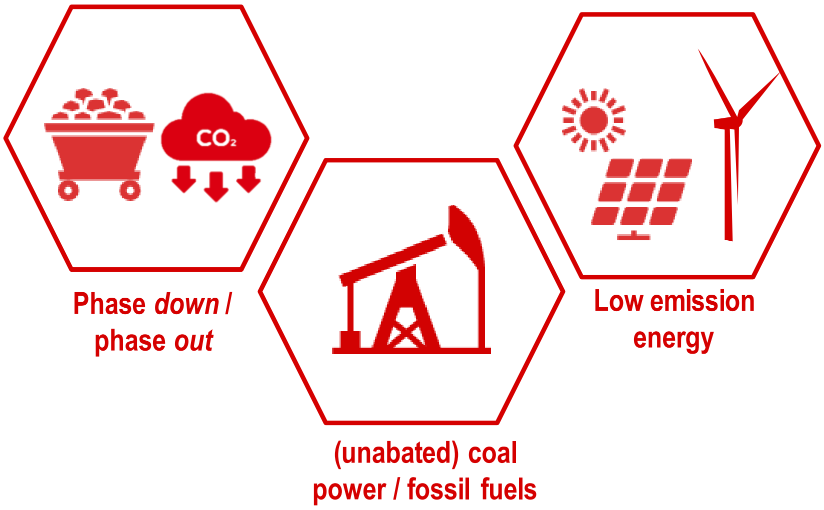
Ambition dragging: There is a work programme on *scaling up mitigation ambition* that began immediately after COP27, and will last until 2026 (COP31/CMA8). (At the time, many were calling for this to continue through 2030 as a means to force the 1.5°C target to be retained for longer.) In our view, there has been little evidence of progress for this work programme through 2023. For example, the global dialogue on the work programme at SB58 in June was hampered by a major wrangling over the official agenda. Also the work programme is to be implemented through an "exchange of views" (workshops and discussions) but without the intention to set or agree new targets or goals.

It's all in the wording

***Cover decision* language will be closely watched**

***Down* but not *out*:** We expect a lot of debate over the wording that will go into the Cover decision text. The wording "phasing *out"* vs "phasing *down"* has caused much debate at the previous two COPs. We do not expect much change at COP28 and anticipate the continued use of "phase *down*" (because it is weaker) – in relation to *coal power*.

Figure 8: Key phrases to be debated for inclusion in the Cover Decision



Source: HSBC (based on UNFCCC)

In our view, it is unlikely that mentions of *coal* will give way to *fossil fuels*

Coal vs fossil fuel: There has also been a lot of discussion whether to replace "coal power" with "fossil fuels" – although we expect renewed calls for this from some Parties at COP28, we do not expect it to make it into the final decision. If it does however, it is likely to be qualified with the word "emissions" i.e. phasedown of fossil fuel *emissions* – which essentially relies on carbon capture of the emissions, rather than the reduction of the actual fossil fuels.

There is wide confusion as to the meaning of *low-emission energy* as some question its climate integrity

Low-emission energy: There will also be discussions over the mentions of "low-emission energy" – not something which is clearly defined. It has caused concern among some Parties at previous COPs because the phrase tends to be placed next to "renewable energy" and is thought to refer to natural gas but could also include other quasi-forms such as coal with carbon capture. For example, it was mentioned more often at COP27 than COP26 – the concern is that it is mentioned even more often in the Cover text of COP28 without being properly defined.

Pledges on energy (and others) might make it into the Cover decision

What to look out for: There is an expectation of an inclusive pledge to triple Renewables capacity by 2030 and doubling the average rate of energy efficiency improvements (as mentioned in the COP28 Presidency letter to Parties). The pledge would be broader i.e. not just targets but also breaking down the barriers of permitting and grid capacity. There is also an expectation of a potential policy pledge from the O&G industry – on how they can decarbonise but this is likely to only cover their scope 1 & 2 emissions.

Note: Cover decision texts and language are closely watched because it shows the level of agreement, collective (average) ambition levels, and the determination to change policy. However, they do not always reflect the actual changes on the ground as implementation is largely done through businesses. Intention *is not the same as* action*.*

Adaptation – recognition and contribution

In our view, there is not enough focus on adaptation (preparing for the impacts of climate change) in general – with finance and support heavily skewed towards mitigation. This is a concern of many vulnerable nations that have minimal emissions but are poised to be at the sharp end of both extreme climatic events as well as slow onset events. The focus is growing slowly but many would argue that we are far from an appropriate balance with mitigation.

The task of agreeing the GGA at COP28 will be challenging as views are still divergent

Global goal on adaptation (GGA)

The Glasgow-Sharm el-Sheikh work programme on the global goal on adaptation (GGA) is a two-year work programme that began immediately after COP26 and will end at COP28. GGA discussions have been slow (both at COP27 and SB58). Throughout 2023, a formal *structured approach* (focusing on Dimensions, Themes, the Approach) was taken, as various *thematic workshops* worked through targets, implementation, the cycle, sectors involved and the approach.

Setting targets: There are summaries of the various *workshops* as well as *concept notes* from the Chairs of the workshops. Many aspects of the GGA are covered in these and many will continue to be discussed (and possibly finalised) at COP28. One key area of focus will be a possible target or array of targets associated with the GGA. There are a broad range of these.

There is unlikely to be a single adaptation target – we think a combination of GGA targets is more likely

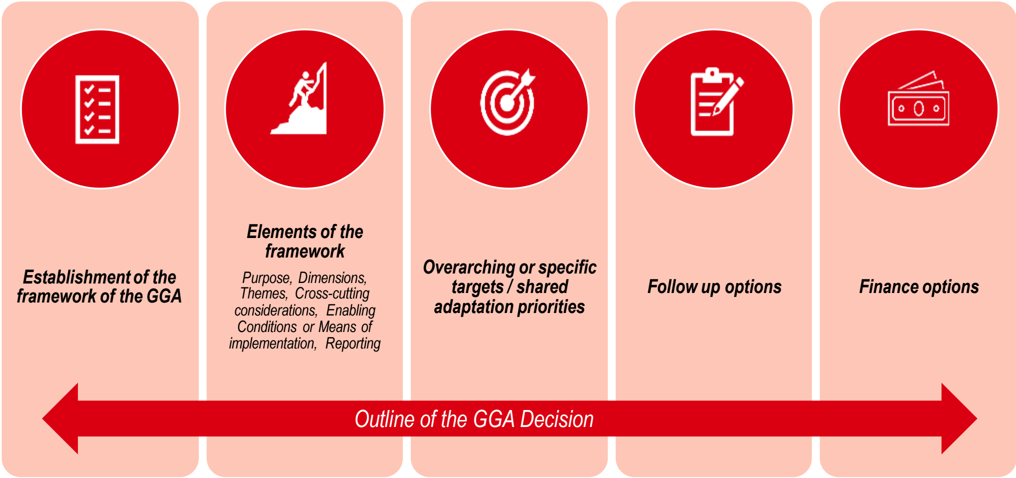
Figure 9: Example of some of the targets being discussed for the GGA

Source: Summary of 7th workshop of the GGA, UNFCCC

We think that the GGA target will likely be a combination of various targets that include exposure, resilience, equity, financial means as well as adaptive capacity and support for implementation.

Framework outline: At SB58 in June, the format and layout of the GGA was discussed. There are currently three options in play with varying degrees of detail – with developing countries in favour of more detail, whereas developed countries prefer a much slimmer framework. The broad outline (not quite finalised) is below.

Figure 10: the Framework outline of the global goal on adaptation (GGA)



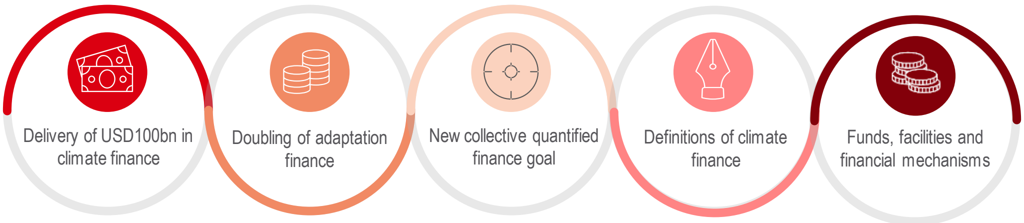
Source: SB58, UNFCCC

Developing and vulnerable nations have been especially vocal about the importance of the GGA, and will be looking for a very strong GGA outcome at COP28.

Finance – flows and definitions

Finance (or the lack thereof) permeates many issues and discussions during climate COPs. For instance, it was the main cause of the delayed approval of the agenda at the inter-sessional SB58 in June.

Figure 11: There are 5 key finance tracks to be aware of at COP28



Source: HSBC (based on UNFCCC). Note, we discuss the L&D fund below on page 13.

There is an expectation that the USD100bn will be met (on paper at least) in 2023

The long quest for USD100bn

In 2009 (COP15), developed nations promised to provide USD100bn in climate finance to developing nations annually by 2020. Needless to say this deadline was missed – as it was in 2021 and 2022. It has been a major sticking point to progress in other issues as it shows that promises can be broken. According to the *Fifth biennial high-level ministerial dialogue on climate finance*, there are estimates that USD100bn "might be achieved by 2023". We note that this comes with a lot of caveats such as definitions, what is included (earmarked, bilateral, multilateral etc.) as well as disputes over what is received and what is new (additional). Another *Climate Finance Delivery Report* should be published ahead of COP28.

We expect the USD100bn discussion to continue in earnest at COP28 along the lines of the key messages from the ministerial dialogue (Figure 12).

Figure 12: Key messages (and discussion points) in the delivery of USD100bn

Source: Fifth biennial high-level ministerial dialogue on climate finance

The potential role of MDBs has come into focus for delivery of climate finance

We think that the discussions will focus on the role of multilateral development banks (MDBs) as well as transparency. The magnitude of the task is highlighted in a *synthesis report of finance* (specifically Article 9.5 finance but also partly covering the USD100bn). The synthesis report only covers 35 Parties and shows the inconsistent nature of climate finance – some ex-ante, others ex-post; some targeted towards specific funds, others a general allocation.

We expect *concessional finance* to be firmly in focus across climate finance discussions

Concessional finance: The concept of concessional finance has featured much more prominently across all climate finance discussions in recent years. The idea being that financial provision should not add additional burden (through interest on loan repayments) to recipient countries, but instead have low interest rates, be in grant form, or come with guarantees to mobilise private participation, for example. It is mentioned across many of the finance discussions such as Article 9.5, the NCQG, the L&D Fund and others.

A technical report on "Doubling adaptation finance" will be published before or during COP28

Doubling adaptation finance

Developed nations have agreed to "at least double their collective provision of climate finance for adaptation" from 2019 levels by 2025. This roughly translates into a 2025 target of USD40bn. Although it is a far cry from what is required for adaptation, especially in light of extreme weather events in recent years, developing countries will be looking for assurances as to how this will be delivered. The *Standing Committee on Finance (SCF)* has been tasked with producing a technical report on the "Doubling of adaptation finance" by COP28. The SCF has already agreed on the outline of the report and will cover: methodologies, an overview of provisions, an assessment of the adequacy of provisions, and how to double these by 2025 (challenges and opportunities). Besides discussions on what is *additional* or not for adaptation finance, we expect COP28 to reiterate the need to scale up well ahead of 2025.

The NCQG is not scheduled for a decision at COP28

The new collective quantified goal on climate finance (NCQG)

A formal work programme of "setting a new collective quantified goal in 2024" (for after 2025) was established at COP26, lasting until 2024. The overall aim of the new goal is to contribute to the Paris Agreement (especially 1.5°C) and also be transformational in supporting future mobilisation, access and delivery of climate finance. Progress has been rather slow (with COP27 self-acknowledging this). There have been a number of technical dialogues covering a very wide-range of related issues such as funding responsibility, funding predictability, accountability, structure, access, spending and transparency.

We highlight two areas to watch for the NCQG: (1) the quantum, (2) the qualitative scope.

Figure 13: Two key areas under discussion for the new collective quantified goal (NCQG)

The Quantum was always supposed to be from a base of **USD100bn.**

Besides all the considerations that need to be taken into account, we will be looking at:

- How the **"needs and priorities of developing country Parties"** will be considered (*as this will determine its acceptance among developing Parties)*
- Flexibility *(for changing needs and priorities)*
- A possible **mechanism** for revising the quantum.

The Qualitative Scope covers the softer (non-numbers) side of the NCQG such as *the design, evolving requirements and improving the quality of impact.*

- It will focus on the **type of finance** e.g. concessional or grant-based, the balance between mitigation and adaptation, and the **"consideration of climate finance and its impact on debt levels".**

Source: The 6th & 7th Technical Expert Dialogues on the NCQG (UNFCCC)

We anticipate only modest progress on the NCQG as a decision is not expected until 2024 (COP29). A perennial overhang, however, is that there is no official or agreed definition for climate finance as this determines what may actually be counted towards financing goals.

Definitions of climate finance are settling on "clusters" or groupings of where definitions appear to agree

Definitions of climate finance

There is no official UN definition of what constitutes climate finance and so a lot can be (and tends to be) grouped into this category in an attempt to make it seem like a larger amount that it actually was – much to the understandable frustration of receivers of this finance. The *Standing Committee on Finance* was tasked with coming up with a definition of climate finance at COP25 (2019). Discussions were ongoing at both COP26 and COP27.

The SCF is preparing a technical report on clustering types of climate finance – this essentially means whittling down, to a manageable number, the various working definitions in use. The report will feed into COP28 – and could help to update the SCF's operational definition of climate finance. However, we do not expect a full conclusion of this topic – not to the extent that all Parties agree to use the same definition. There will be further consideration of the definition in 2024 (at the 6th Biennial Assessment). We think that a clustering approach is useful for at least categorising the different forms of climate finance – such that it is somewhat easier to aggregate.

Funds, facilities and financial mechanisms

There will also be various updates to the funds that serve the UNFCCC and the sub-agreements. The funds include the Green Climate Fund, the Global Environment Facility, the Adaptation Fund, the Special Climate Change Fund and the Least Developed Countries Fund – these are collectively known as the Financial Mechanism. There is always discussion as to which fund can/should serve which agreement as well as who can/should supply these funds or access them. There is also the newly established 'Loss and Damage Fund' – which we discuss below (page 13) – and whether it should become a Financial Mechanism vehicle.

Article 6 of the Paris Agreement – to include, or not to include?

Article 6 essentially covers voluntary cooperation in implementing climate pledges (NDCs) with a view that cooperation allows for higher ambition. The component parts are **Article 6.2** (Cooperative approaches), **Article 6.4** (The Mechanism), **Article 6.8** (Non-market approaches). The task at COP28 will be to continue to operationalise each of the components – hence discussions will be mostly quite technical in nature.

Figure 14: The component parts of Article 6 still need to be made operational

Article 6.2: Cooperative approaches
the bilateral trading of ITMOs, (internationally transferred mitigation outcomes) between Parties for use in NDC climate pledges.

Article 6.4: The mechanism
a global carbon market that supports emissions reduction and sustainable development. Often referred to as a “Sustainable Development Mechanism”, it is supposed to replace the ill-fated “Clean Development Mechanism”.

Article 6.8: Non-market approaches
a framework across institutional arrangements that promotes emissions reduction and resilience for both the public and private sectors.

Source: HSBC (based on UNFCCC)

Article 6.2 (Cooperative approaches)

Art6.2 will focus on accounting and recording

Discussions at COP28 will continue to form the guidance for these Art6.2 approaches, for example, how and where to record information, how to ensure consistency and interoperability, authorisation and tracking as well as consistent terminology. These will more or less determine what counts as an ITMO and feed into discussion of the recording of ITMO transfers, and to ensure appropriate accounting for these transfers.

Article 6.4 (The Mechanism)

Art6.4 will focus on *emissions avoidance* and *emissions removals* among other operational issues

This component has been more contentious as it could potentially allow a lot of carbon credits, which some Parties deem as dubious (i.e. lacking carbon integrity), into international carbon markets, whereas other Parties are fighting for their inclusion because it makes it easier for them to reach their national targets. Two key issues are whether *emissions avoidance* is to be an allowed activity, and how to account for *emissions removals*.

Emissions avoidance: Although there is an understanding for the need for clarity, there are strong views on all sides as to whether *emissions avoidance* should be a separate category, should be eligible for inclusion, should not be considered as an activity. Some believe that “the focus should be on real emission reductions”; others believe inclusion “has the benefit of broadening collective efforts on mitigation”. This discussion caused such debate at COP27 that a decision was postponed until COP28.

Emissions removals: This covers a broader range of potential activities and includes both natural (some call it “nature-based”) and technological removals. The main areas of debate cover real and long-term benefits, how to minimise the risk of non-permanence, how to avoid negative environmental and social impacts. There will be a lot of discussion over reversals – that is, what to do when, upon monitoring, an activity is discovered to be non-permanent or there is a change in the climate contribution – and so what is the mechanism for the reversal process.

There is a lot of interest (and scrutiny) of Art6.4 credits because of potential linkages with other carbon markets

There are already some draft recommendations that cover the *activities* (not a list but a description of what might qualify), as well as *draft standards on activities* (requirements for project design, registration, monitoring, etc.) and also *draft standards on verification* (validation approach, compliance, implementation and crediting). Wider Article 6.4 discussions will also cover other technical angles such as authorisations and registries and the overlap between Art6.2 and Art6.4. There is a lot of interest in the Article 6.4 Mechanism given its potential linkages with other carbon credit schemes, including voluntary carbon markets (VCMs).

Article 6.8 (Non-market approaches)

There is no formal definition of a non-market approach (NMA) so COP28 discussion will deliberate on this (whether it is necessary or not), as well as whether the recording of these should be voluntary or not (regardless of definitions), and how best to match activities (from those *providing* with those *using*) NMAs.

In general, Article 6 discussions at COP28 will continue with the development of the rules, modalities and procedures that will guide and govern Article 6 with a view to enhancing the ability of Parties to meet reductions in GHGs.

Loss and Damage – operationalisation of the Fund

The L&D Fund was the most controversial – yet one of the most successful – issues at COP27 …

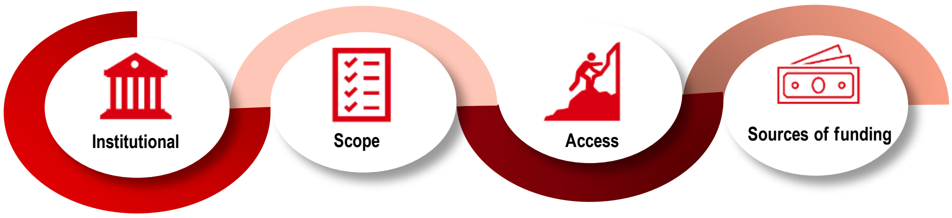
The issue of Loss and Damage (L&D) has become increasingly prominent in recent years as there is no escape from the impacts of climate change. The issue almost derailed COP26 but there was a significant breakthrough during the final few days of COP27 under *agenda item 8(f)*.

1. “to establish a fund for responding to loss and damage whose mandate includes a focus on addressing loss and damage” but specifically for “assisting developing countries that are particularly vulnerable to the adverse effects of climate change”;
2. “Establish a transitional committee on the operationalisation of the new funding arrangements for responding to loss and damage and the fund”.

… so, operationalising the fund is a major task, fraught with strong views and a growing sense of urgency

The **Transitional Committee** has the unenviable task of ensuring the L&D Fund would be operational by the end of COP28. The Committee has held multiple workshops and dialogues so that it can reach (some form of) consensus and make recommendations on how to operationalise the L&D fund for adoption at COP28. It has been very busy through 2023 examining the current landscape, gaps and priorities, as well as working through institutional arrangements and funding arrangements. The task is especially difficult in that it covers governance and equity as well as funding sources and access i.e. very different elements.

Figure 15: Example of the myriad issues to be agreed on the L&D Fund at COP28



- **Board** – size, composition
- **Trustee** – World Bank on an interim basis
- **Guidance** – on an annual basis, but flexible
- Linkages with the UN or standalone legal status

- Extreme events, slow onset events, economic & non-economic losses
- Recovery, reconstruction, rehabilitation
- Priorities for activities and flexibilities
- Eligibility
- Sub-funds

- Direct or programmatic
- Via governments or national entities / accreditation
- Priority access for LDCs/SIDs
- Delivery modes (full budget or partial disbursement)
- Triggers
  - Thresholds
  - Type of event
  - Declarations
  - Projections
  - Cumulative,
  - Science-based

- Public, private, innovative.
- From *which Parties*
  - Developed,
  - Those able/ready
  - All
- From *which entities*
  - Governments,
  - Organizations
  - Private
  - Philanthropic
  - Other

Source: HSBC (based on UNFCCC documents related to the L&D Fund)

The above highlights just some of the elements (most with strong and opposing views) that must achieve convergence and agreement at COP28. We think the operationalisation deadline could be missed or postponed given the ferocity of views on L&D funding at previous COPs and the opposite perspectives of *providers* of funds (developed) vs *user* of funds (developing).

Other issues to be discussed

Many other issues will be discussed at COP28 as part of the ongoing evolution of climate policy, moving towards the goals of the Paris Agreement and the Climate Convention.

The **Santiago network** for loss and damage is designed to provide relevant tools and technical assistance to developing countries. The functions of the Santiago network were established in Glasgow (COP26) and there was good progress in terms of operationalising the Santiago network at COP27. More details will be fleshed out at COP28, including how the funds to support technical assistance will be provided. The rules of procedure are still to be developed although the deadline for this is not until 2024 (COP29).

***Inclusion* is a theme at COP28, but it is not without its own controversies**

Just transition pathways are likely to feature a lot at COP28 given *Inclusion* is a key cross-cutting theme of focus for the COP28 Presidency. This will cover human rights, gender, indigenous communities, and the most vulnerable amongst others. **A work programme on just transition was established** at COP27 and work should continue at COP28. There will also be a high level ministerial roundtable on just transition at COP28.

Many issues, similar to finance, are also cross-cutting – in that they are sprinkled across various negotiation tracks. For example, technology transfer, capacity building, transparency, monitoring, reporting, verification, communication.

The choice of location for COPs is important

Future venues: although a strictly administrative matter, the locations of climate negotiations have a bearing on the outcome as the host nation starts early to build consensus and drives negotiations during the actual COP. Future locations are still to be determined and these will be deliberated (after offers are received) – for COP29 (Eastern Europe), COP30 (LatAm), and COP31 (Western Europe).

Green zone activities – outside the formal COP28 process

Besides the potential varying announcements from countries either updating a pledge or joining a global initiative (forestry, methane, vehicles, industry, etc.), there could be a few bigger initiatives launched. These have been indicated by the COP28 Presidency already.

The role of energy at COP28 has been controversial – it could bring a new direction, or just be a distraction

Energy – the COP28 Presidency letter to Parties, as mentioned above, has highlighted other pledges it hopes to deliver: triple Renewables capacity and double the average rate of energy efficiency improvements by 2030; halving Scope 1 and 2 emissions from the Oil & gas sector and zero methane emissions in the value chain by 2030; more hydrogen use, more carbon capture, more carbon dioxide removal in heavy-emitting sectors; and a shift towards fossil-free transport such as more electrification. We explore how these might be delivered on page 16.

Health – is to be a COP28 focus for the first time. The angle is not clear but we'll be looking out for a specific discussion and statement on climate-health and preparedness after the ministerial level dialogue. Sunday, 3rd December is dedicated to Health, Relief, Recovery and Peace.

Biodiversity – the linkages between climate and biodiversity are more recognised. For example, there were important dialogues on *oceans* at COP27 and *forests* were mentioned separately in the Cover decisions of COP27 for the first time. We expect to see more related discussions on various components of biodiversity. Saturday, 9th December is the dedicated day to *Nature, Land Use, and Oceans.* There is also a day (Sunday, 10th December) for *Food, Agriculture and Water* and we expect a high-level declaration that addresses how food systems and agriculture need to be transformed.

The business of COP28

- The messages are clear – and that means corporate participation at COP28 and responses to urgency need to be meaningful & impactful
- Action days will focus on energy, biodiversity, health – but we think paradigm shifts are required for transition to be effective
- In our view, more policy certainty would help investment into the climate response – and encourage more public-private collaboration

The inevitable rise of the private sector at UNFCCC COPs

The technical assessment of the global stocktake sent a clear message to the public and private sector. The world is off track in meeting the goals of the Paris Agreement. The 2030 emissions gap for a 1.5°C path is large and rising and urgent action is needed on implementation over the coming seven years. The 1.5°C pathway requires global emissions to fall by 43% by 2030.

There has been criticism that pledges (country and company) do not come with credibility of action

Given this backdrop, high-level pledges and new initiatives that lack credibility are falling out of favour – concrete actions are in. In this regard, some found New York Climate Week in September disappointing. A raft of new and uncoordinated climate initiatives were announced but many feel the week lacked real ambition overall. In our opinion, the week did not suggest the world is prepared reduce emissions at the pace and scale needed for 1.5°C by 2030.

The COP28 Presidency recognises the growing role of the private sector

In contrast, the COP28 Vision, set out by the UAE COP28 Presidency, recognises the urgency of the shift to implementation. It also recognises that most of the clean investment needed to meet 2030 climate goals will be delivered by the private sector;[1] it is increasingly artificial to separate public and private climate action, both must work together to shift and scale green finance and deliver real clean investment on the ground, in particular in hard-to-abate sectors – a full *systems transformation*.

Fossil fuel participation at COP28 will be under the spotlight – help or hindrance?

There is also acute pressure on fossil-fuel companies to align with 1.5°C. The COP28 Presidency is set to announce a new fossil fuel alliance at COP28 – more on this below. This will put the fossil fuel industry (including the oil and gas majors) in the spotlight at COP28.

It is no surprise then, in our view, that the influence of the private sector at COPs has been increasing in recent years and we expect the largest presence yet at COP28.

[1] It has long been recognised that the majority of clean finance and investment will be delivered by the private sector. The IMF has reminded the world of this again in its latest Global Financial Stability Report, Chapter 3 (October 2023). Of the USD2trn in investment needed annually by 2030 in emerging and developing economies to meet climate goals, the private sector will need to supply around 80% (90% excl. China).

The COP28 Presidency plans for the private sector

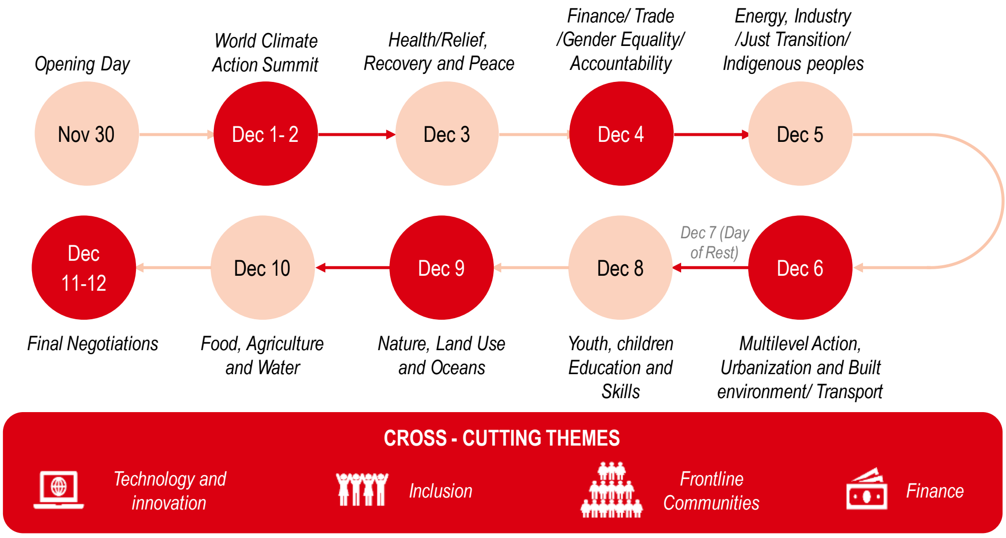
A quick review of the COP28 Presidency's vision and agenda highlights the various places where we expect the private sector to be active and vocal.

The Action Agenda
The key pillar of the COP28 Presidency's vision to close the emissions gap and respond to the Global Stocktake is *The Action Agenda*. (There are three pillars – the other two are *The Negotiated Outcome* and *A Call to Action*.) *The Action Agenda* involves a two-day *World Climate Action Summit* on 1-2 December 2023, attended by world leaders, followed by a number of thematic days.

The private sector will be looking to participate in events, especially focus days

The COP28 Presidency, however, is clear that "action" goes beyond world leaders (and the formal UNFCCC negotiated outcomes). It says it's expecting all stakeholders, including the private sector, to come to COP28 with real actionable solutions to contribute to the Action Agenda. To facilitate this, it has set out how it expects the private sector to contribute. It will also hold a Business and Philanthropy Climate Forum in parallel to the Climate Action Summit.[2]

Figure 16: Focus days and events during COP28



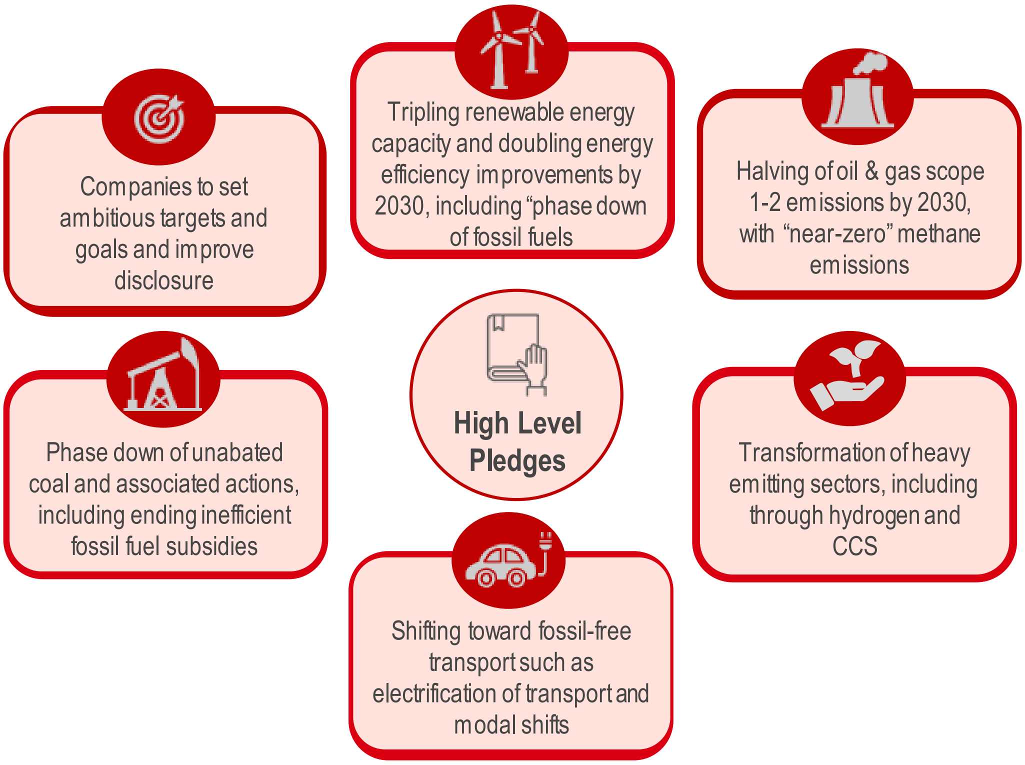
Source: COP28 Presidency

Key "paradigm shifts" – energy transition and reducing emissions
The COP28 Presidency states that all public or private sector contributions to the Action Agenda need to focus on four key areas or "paradigm shifts". The first is **fast-tracking the energy transition** and slashing emissions before 2030, the second **delivering climate finance**, the third **nature, just transition and people**, and the fourth around **inclusion**. It stresses that the private sector, in particular the energy sector, has a significant role in contributing to the first of these paradigm shifts.

The COP28 Presidency has set out six objectives it expects the energy sector (including state actors) to help deliver on (Figure 17).

[2] Efforts to harness the philanthropic sector are growing, e.g. The Giving to Amplify Earth Action (GAEA) initiative launched at the 2023 World Economic Forum brings together Public, Private, and Philanthropic Funding to unlock the $3+tn of green financing needed annually.

Figure 17: Six objectives for the Energy sector as set out by the COP28 Presidency



Source: COP28 Presidency letter to Parties

It takes a village – or at least multiple stakeholders – to drive holistic change

Expecting announcements: The International Energy Agency (IEA), the UNFCCC and the International Renewable Energy Agency (IRENA) will encourage key stakeholders, including the private sector, to come up with specific actions to deliver on these objectives – to be announced at the World Climate Action Summit. We expect fossil fuel companies and heavy emitting industry to be very vocal on these objectives, given the push by the COP28 Presidency for these sectors to make a strong contribution to the Action Agenda.

While the choice of COP28 country host and its President has proved contentious, the science and GST make it clear that substantially reducing the use of unabated fossil fuels is the biggest immediate challenge the world faces in meeting its 2030 climate objectives, so having the fossil fuel sector at COP28 is almost inevitable if implementation is to accelerate.

The role of fossil fuel companies

With renewables and EV's following a rapid adoption curve (close to exponential and in line with IEA Net Zero 2050 modelling), and the IEA expectation for peak coal, oil and gas before 2030 based on current global climate policies (a claim that has caused tensions with OPEC), it will be interesting to watch how the fossil fuel industry organises and the line they take at COP28.

Will a *Decarbonisation Alliance* be meaningful or just another pledge?

In our view, it is likely that the major fossil fuel companies will align themselves via a COP28 Presidency organised "Global Decarbonisation Alliance", which will be formally announced at COP28. This is likely to involve a commitment to net zero by 2050 (Scope 1 & 2) and a 2030 (value chain) methane target.

Behind the scenes: We think it also likely that fossil fuel companies will come to COP28 with a strong view on the use of Carbon Capture and Storage (CCS) as well as removals, e.g. Direct Air Capture. Hence, they will likely be in favour of, and push for, maintaining language in the Cover decision that could be interpreted as allowing the continued use of fossil fuels, through the phasing up of CCS and removals. This will play out in the *phasedown* (rather than *phase out*) language mentioned above.

CCS is seen as both a panacea and a distraction – depending on which side of the debate you take

The other side: Given the significant uncertainty around the scalability of CCS and removals by 2030 and beyond, and with the other side of the debate (e.g. the EU and High Ambition Coalition) looking for firm *phase-out* language (and possibly a date) for all fossil fuels, in line with the science and the technical assessment of the GST, we think the conversation at COP28 will shed further light on the size of the gap between the two sides.

The Business and Philanthropy Climate Forum
In parallel to the World Climate Action Summit, the Business and Philanthropy Climate Forum will be held, attended by global CEOs and philanthropists. It is a forum where CEOs and philanthropists can share knowledge, collaborate, and plan real action on closing the emissions gap and protecting nature.

Nature and biodiversity is gaining prominence – although announcements have often been vague

Nature announcements: We will be watching out for a wide range of companies discussing or announcing transition plans, which are now expected by markets and are increasingly mandatory, e.g. in the UK and soon the EU. Also, with TNFD now live. Companies could also be committing to TNFD disclosure and explaining how important nature is to their business and achieving their climate goals but the credibility of their nature-climate transition plans will come under intense scrutiny from civil society at COP28 – as the scrutiny on greenwashing continues to grow.

Maintaining momentum: As shown from previous COPs, there are difficulties in maintaining the momentum and coordination of initiatives and alliances borne out of previous meetings, the pressure will be on companies to deliver real and credible action, not merely more working groups and pledges. We also expect more scrutiny of any new corporate collaborations or initiatives that are announced at this forum or elsewhere around COP28.

Other opportunities for private sector engagement

The private sector will be present at many of the thematic days, in particular the Energy & Industry day (Tuesday, 5th December 2023). For example, on this day, there will be a private sector initiative called *Energy Transition Change Makers* that will give prominence to innovative and scalable decarbonisation projects. There will also be sector dialogues on decarbonisation of heavy emitting industry.

Innovation has a dedicated opportunity to shine at COP28

Innovation: Also, the COP28 Presidency will host a *Climate Innovation Action Zone*. This will consist of a *Climate Action Arena* and a *Climate Knowledge Hub*. In this Arena, there will be a *Breakthrough Innovation Pavilion and Exhibition*; the COP28 Presidency has called for companies to demonstrate scalable technologies. Some emerging clean technology companies could rise up and make a positive contribution to COP28.

The Climate Knowledge Hub will consist of four main forums:

1. the Sustainable Innovation Forum;
2. the Sustainable Finance Forum;
3. the Hydrogen Transition Summit; and
4. the Agri-Food Systems Summit.

Public and private sector stakeholders (including major institutional investors) will come together at these events to share knowledge and collaborate. Major private sector initiatives such as the Principles for Responsible Investment (PRI), UN Race to Resilience and UN Race to Zero (led by their high-level champions), and others, will be present. We expect nature and biodiversity to be much more prominent at these events.

It remains to be seen whether any of these fora will result in any real implementation action, however, knowledge sharing is important and we expect this to be the main benefit from these events.

Delivering on climate finance commitments – mobilising private finance

There is growing recognition of the role of private finance in the climate agenda

Leaving the discussion around public climate finance commitments aside, e.g. delivering on the USD100bn per annum, it will also be key to watch real commitments from private finance, rather than the repackaging of existing commitments or other new / rehashed initiatives.

Headwinds: With public sector balance sheets constrained, meaning there is less public money to leverage private finance, and higher interest rates and inflation, as well as geopolitical tensions, the upfront costs for many green projects, as well as the cost of capital, is now higher than pre-COVID; in our view there are significant headwinds to *scaling* green private finance and investment.

> **“We think that COP28 needs to find real and effective ways for PPPs or collaborations to lower the cost of private capital, in particular for green investment in developing countries at a time of global economic uncertainty**

Concessional finance and collaboration will be widely discussed at COP28

Private-public partnerships (PPPs): Existing initiatives aiming to help lower the cost of capital, e.g. the Bridgetown Initiative for International Financial Institution (IFI) reforms, need to be discussed at COP28 and taken forward.[3] Pressure on the new World Bank President to accelerate reforms at the institution is growing daily, with multiple stakeholders suggesting the World Bank could make more effective use of its balance sheet to reduce the cost of capital and expand lending. As a testimony to its influence, it is the designated interim Trustee for the Loss and Damage Fund, for example. Capacity building and strengthening of local institutions are also crucial pre-conditions for reducing the cost of capital and scaling green finance and investment in emerging markets.

Opaque reform: The COP28 Presidency Vision is somewhat vague on how it will advance this agenda. There will be various discussions on the thematic days. It also says it has “commissioned a second report by the High-Level Independent Expert Group to define the contours of an adequate landscape for climate finance…”. And it sets out how it would like to see international financial institutions work better. However, in terms of private finance specifically, it simply says there is a need to “reform and harmonize regulatory systems, including agreeing on definitions for transition finance and disclosure of climate-related data, and unlock voluntary carbon markets.” We expect modest progress but not full clarity to emerge from the various discussions around COP28.

The need for policy certainty: While these types of private sector reforms can help build private sector confidence and shift risk perceptions, we think they are unlikely to be enough on their own. To unlock green finance, strong and credible climate policy is needed to reduce the perception of risk, lower the cost of capital, and deliver bankable projects. The policy angle is crucial here, for example, credible phase-out dates for fossil fuels, credible and clear carbon taxes, strong and enduring domestic green investment banks; these types of policies are needed to permanently shift risk perceptions, generate confidence in the direction of change and lower the cost of capital. However, it is also likely that a precondition for countries taking

[3] See Bhattacharya (2022) for a complete list of initiatives that aim to mobilise private capital. Bhattacharya, et al. (2022) Financing a big investment push in emerging markets and developing countries for sustainable, resilient and inclusive recovery and growth. Brookings and LSE, Grantham Research Institute.

stronger domestic policy action would be an extremely strong COP28 outcome. This remains uncertain, in particular as some key countries, such as the UK, are weakening policy in the face of post-COVID economic, social and political instability.

Article 6 and Voluntary Carbon markets (VCM)

There has been growing scrutiny over the integrity of carbon credits and its role in implementing net zero

There will likely also be much discussion, as mentioned in the COP28 Vision document, around mobilising private finance for climate and nature action through Article 6 and voluntary carbon markets (VCMs).

The Glasgow Financial Alliance for Net-Zero (GFANZ), the Voluntary Carbon Markets Integrity Initiative (VCMI), and the COP28 Presidency are working together to increase the quality of voluntary carbon markets, increase demand, and ramp up these markets. The general idea is that Article 6 could help increase investment in low-carbon projects in developing countries. For example, government's looking for ITMOs could help finance projects in developing countries, which would lower the cost of capital and help to leverage private finance.

However, we expect a lot of noise from civil society and others who believe that carbon credits are a mere distraction from real decarbonisation and that the inherent limitations in these markets cannot be overcome.

Understanding COPs

Blue vs Green: There is a lot going on at COPs. There are (usually) tens of thousands of delegates representing countries, regions, companies, investors as well as civil society and other organisations striving to make their voices heard; there are multiple work streams convened under various official bodies; there are a myriad of official and unofficial documents which change on a daily basis; there are also a whole host of side and affiliated events that happen during the COP fortnight.

There are two sides to COPs – official negotiations and stakeholder side-events

- **Blue zone:** The main official (formal) UNFCCC negotiations take place in the Blue zone.
- **Green zone:** The side events and other activities from other stakeholders take place in the Green zone.

Although all COPs are important in that progress made at one facilitates decisions made at others, some COPs are more prominent (and hence attract more side-events) because major decisions are expected. For example, COP21 (Paris Agreement), COP26 (Paris rulebook). COP28 is up there because it comes with the first Global Stocktake of the Paris Agreement.

We highlight some of the key salient features to be aware of at COP meetings.

Parties involved

The UN Framework Convention on Climate Change (UNFCCC) was adopted in 1992 at the Rio Earth Summit and entered into force in 1994. The main aim of the convention is the "**stabilisation of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.**"

'Parties' refer to UN member states (and the EU) that have joined various agreements

This is implemented through different sub-agreements such as the **Kyoto Protocol** (adopted 1997, in force 2005) and the **Paris Agreement** (adopted 2015, in force 2016). However, UNFCCC Parties are not automatically bound by sub-agreements. Each of these has to be ratified by individual Parties.

The goals of the Paris Agreement are often thought of solely in terms of the 2°C or 1.5°C targets. In fact, there are three parts to the goals – also covering adaptation and finance.

(a) Holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;

(b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and

(c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Official UN bodies involved

The discussions are organised into different work streams, assigned to different UNFCCC bodies. Many delegates, representing different groups and interests will attend COP28. Many will be a part of various (even multiple) bodies or observers to these.

Various bodies meet concurrently and discuss different topics & issues

Key Bodies under the UNFCCC

Conference of Parties (COP) is an annual meeting of the 198 Parties to the UNFCCC. Its purpose is to implement the aims of the convention i.e. stabilisation of GHGs at safe levels. This will be the 28th Conference of Parties to the UNFCCC (COP28).

Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA): All Parties which have formally ratified the Paris Agreement form the CMA, Parties yet to ratify participate as observers. There are currently 195 Parties to the Paris Agreement. The CMA oversees the implementation of the Paris Agreement and takes decisions to promote its effective implementation. It is convened alongside the COP and this will be the fifth session of the body (CMA5).

Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP): All Parties that have ratified the Kyoto Protocol form the CMP. There are currently 192 Parties to the Kyoto Protocol. The CMP oversees the implementation of the Kyoto Protocol and takes decisions to promote its effective implementation. It is convened alongside the COP and this will be the eighteenth session of the body (CMP18).

Subsidiary Body for Implementation (SBI): The SBI supports the work of the COP, the CMP and the CMA through the assessment and review of the effective implementation of the Convention, its Kyoto Protocol and the Paris Agreement. This will be the 59th session of the body (SBI59).

Subsidiary Body for Scientific and Technological Advice (SBSTA): The SBSTA supports the work of the COP, the CMP and the CMA through the provision of timely information and advice on scientific and technological matters as they relate to the Convention, its Kyoto Protocol and the Paris Agreement. This will be the 59th session of the body (SBSTA59).

Other important groups

Countries often club together into groups for logistical reasons as well as strength in numbers. For example, smaller countries may lack the resources to send delegates to every work stream and discussion. A banding together on specific or similar issues is often more efficient because there is already a consensus to build upon and it strengthens their individual position.

Many countries will align themselves with other countries to strengthen their bargaining power

Key negotiating groups in the climate process

The Association of Small Island States (AOSIS): Small Island and low-lying coastal countries e.g. Haiti, Kiribati, Palau, Nauru, Samoa, Suriname and Vanuatu (39 member states).

View: Adaptation is a key issue, especially financial support for adaptation by larger countries since AOSIS members are often the most vulnerable to climate impacts such as sea level rises.

Group of 77 and China (G77 & China): Originally a group of 77 developing countries, membership has expanded to 135 as other countries have joined but others have left as they became more developed. China is not an official member, but joins the G77 on climate issues. Cuba is the current chair of the G77 and China group for 2023.

View: Seeks balance on key issues (mitigation, adaptation, transparency) but often with an element of differentiation between developed and developing economies.

Like-Minded Developing Countries (LMDCs): A group of larger developing countries e.g. Bangladesh, China, India, Malaysia, Nicaragua, Saudi Arabia, and Venezuela.

View: Believes developed or more industrialised nations could do more, as they are responsible for the majority of historical emissions, but developing nations should also play their part.

The Small Island Developing States (SIDS): Similar to AOSIS but includes some territories that are not UN member states in their own right (with some overlap) e.g. Cabo Verde, the Maldives, Timor-Leste – but also Aruba, Curacao, Guadeloupe, and Montserrat (57 members).

View: Believes much more prominence needs to be given to adaptation since SIDS members are vulnerable to climate impacts such as rising sea-levels and more severe storms.

Countries can be a part of multiple groupings – depending on the issue or particular stance

Other groupings: There are others that may club together depending on the issues. Independent Association of Latin America and the Caribbean **(AILAC);** Bolivarian Alliance for the Peoples of Our America **(ALBA);** High Ambition Coalition **(HAC).** Brazil, South Africa, India, and China **(BASIC).**

Country distinctions under UNFCCC definitions

Bifurcation – When the UN Framework Convention on Climate Change (UNFCCC) was set up in 1992, countries were split into Annex 1 (industrialised as of 1990) and non-Annex 1 (everyone else). This led to the traditional sides of *developed* vs *developing* countries.

However, the world has changed a lot since 1990 – both in terms of emissions profile and economic development – which means that the dividing line between developed and developing becomes less clear. Some argue that the emissions of certain countries (e.g. China) are so large that they must also bear responsibility, and the relative wealth of some countries (in terms of size of the economy) means they should be able to contribute to any funding provisions.

Trifurcation and beyond – Some even unofficially split developing countries into three classes: developing but wealthy (e.g. China), developing in general (e.g. Pakistan), and most vulnerable (e.g. Haiti). However, there is no official UNFCCC dialogue on potential reclassification but it does mean climate discussions can be challenging as some want to make this distinction.

Climate pledges

National climate pledges come in many forms

In the run up to the adoption of the Paris Agreement in 2015 (COP21), Parties were invited to present their contribution – a climate pledge – towards the global efforts to combat climate change. These were initially known as 'Intended Nationally Determined Contributions' (INDCs) and became simply 'Nationally Determined Contributions' or NDCs (i.e. without the 'intended) after Parties ratified the Agreement. Parties were invited to revisit and strengthen their NDCs in 2022 but only a few have done so. In 2023, only 7 countries submitted updates to their Nationally Determined Contribution targets (as of October 2023). Parties should be preparing formal updates to NDCs in 2024 in order to submit them before the end of March 2025.

Signatories, Ratification (and Withdrawal)

Sign: A Party to the UNFCCC signing the Paris Agreement indicates its intention to be bound by the Agreement at a later date, subject to ratification, acceptance or approval. All 198 Parties are signatories to the Agreement (195 signatories plus Syria, Nicaragua and the Holy See directly ratifying).

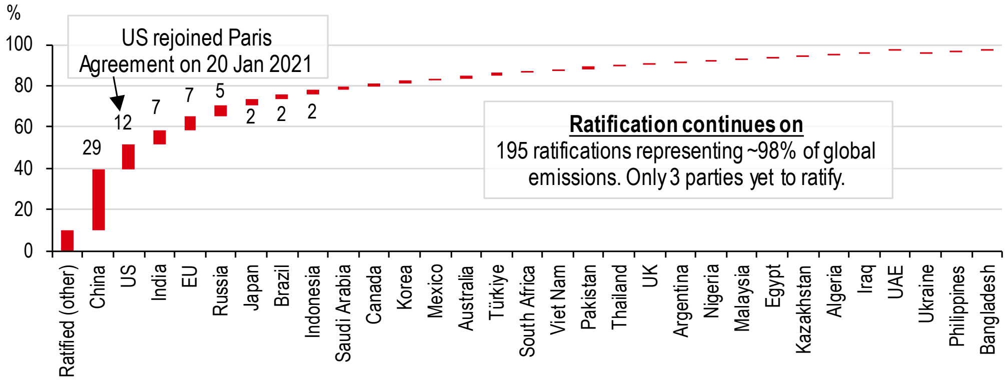
> There are only three Parties which have not yet ratified the Paris Agreement (Iran, Libya, and Yemen)

A Party is only allowed to vote on decisions aligned with *Bodies* they have legally ratified to become a part of

Ratify: A Party becomes legally bound by the Agreement only once it deposits an instrument of ratification, acceptance or approval (which all carry the same legal effect). Parties that have ratified are legally bound by the Agreement and are allowed to take decisions with respect to the Agreement. Parties which have not yet ratified are only allowed to participate as observers in official meetings.

Some 195 Parties have ratified (Eritrea is the newest addition on 7 Feb. 2023). There are only three Parties which have not yet ratified: **Iran, Libya, and Yemen.**

Figure 18: Ratification of the Paris Agreement trickles on



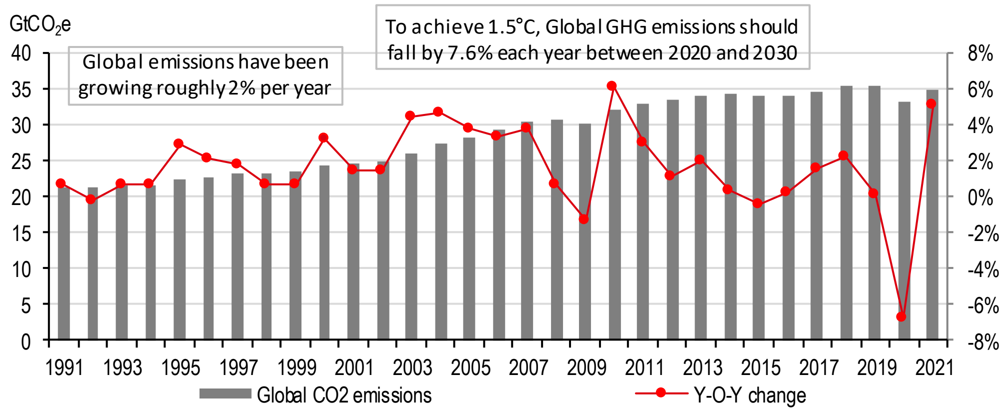
Note: emissions exclude land use change and forestry (LUCF)
Source: UNFCCC, WRI CAIT

We do not expect any Parties to withdraw from the Agreement – although US politics can be unpredictable

Article 28 of the Agreement allows for a Party's withdrawal, essentially four years after it has entered into force (for that Party). In June 2017, the US announced its intention to do so and then formally exited on 4 November 2020. However, following the change in administration, it re-joined on the day of President Biden's inauguration and formally became a Party to the Agreement again on 19 February 2021 (an absence of 107 days). We do not expect any other Parties to withdraw from the Agreement.

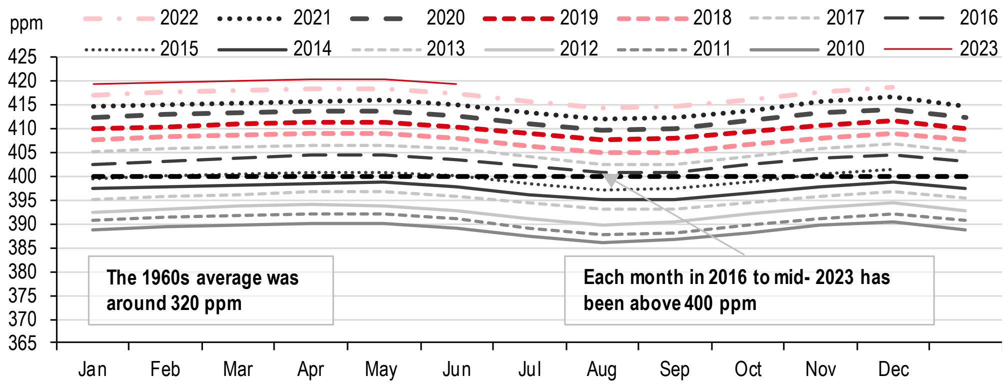
The state of the climate

Figure 19: Global historical annual CO_2 emissions (1990-2021)



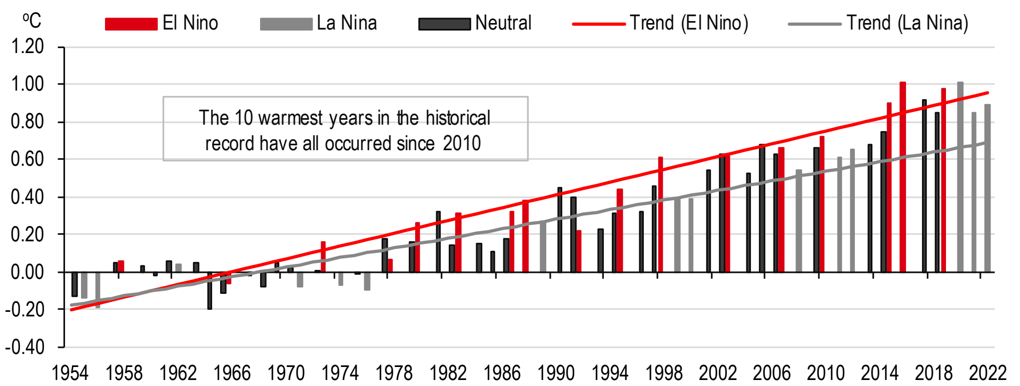
Source: CAIT, Carbon Monitor

Figure 20: Atmospheric concentrations of carbon dioxide (CO_2)



Note: This is the highest that atmospheric CO2 concentrations have been for at least 800,000 years
Source: Earth System Research Laboratory (NOAA)

Figure 21: Global land-ocean temperature anomalies (1950-2021)



Note: Base year 1951-80; El Niño data starts from the year 1950
Source: NASA; NOAA

Disclosure appendix

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