

Market Insights: COP29 – Frontier's observations

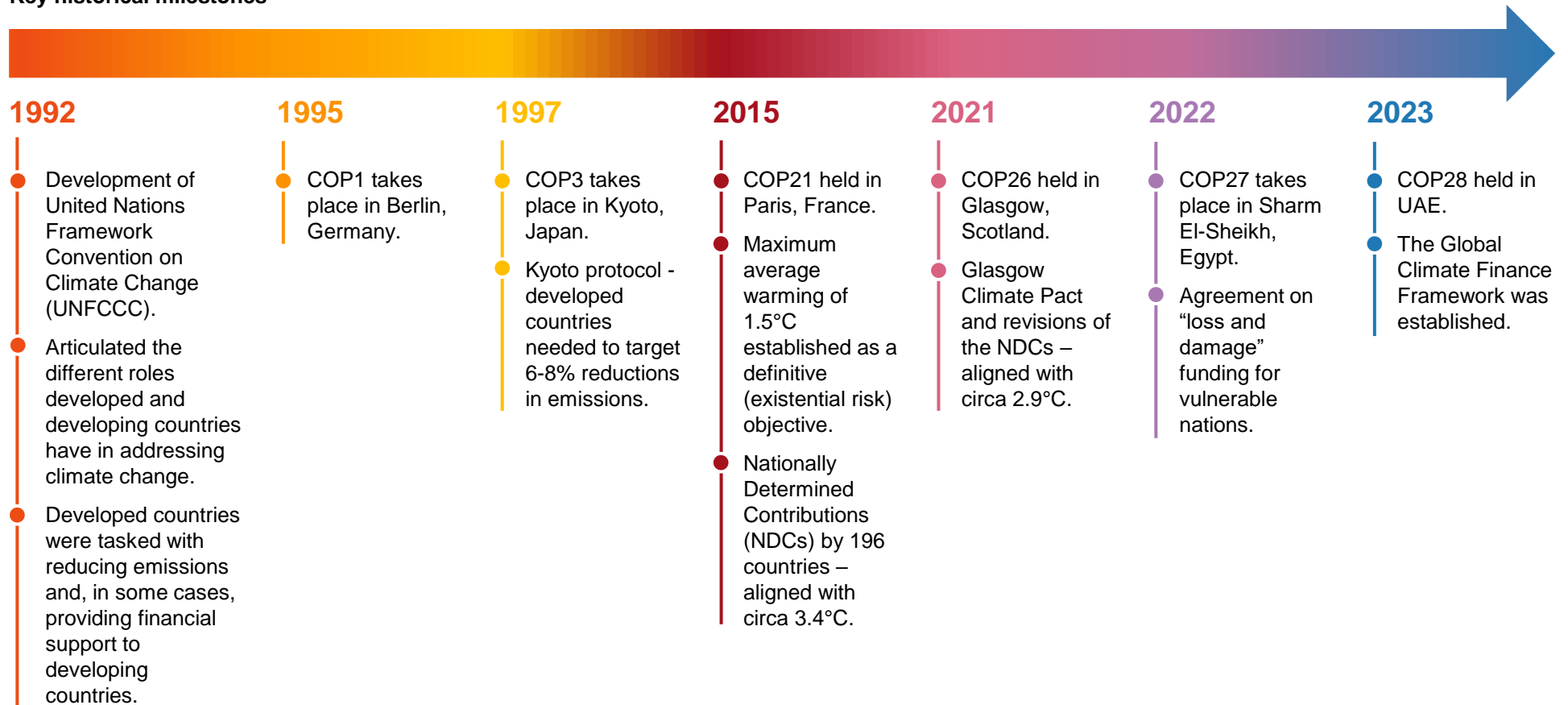
January 2025

COPs – the annual United Nations conference on climate change

Conference of the Parties = COP

The United Nations (UN) has long acknowledged the profound impact human-induced climate change could have on its core objectives of global peace and security, leading the organisation to take a prominent role in addressing this critical issue. In the near 30-year history of COP, climate change has emerged as a focus of policy co-operation.

Key historical milestones



COP 29 - Baku

Timing and attendees



COP29 Baku Azerbaijan



Venue and timing

- Conference was headquartered at Baku Stadium in Azerbaijan. Location was chosen by the UN in line with a policy to rotate the venue among five UN regional groups.
- Fossil fuel extraction remains an important part of Azerbaijan's economy, and more recently oil and gas extraction and refinement comprised about 90% of export income.
- The conference was held between 11-22 November 2024 (inclusive).



Attendees – how many and who

- There were ultimately around 56,000 attendees at COP29. This is the second highest in history but a substantial reduction on the number of attendees at COP28 in Dubai, where 83,000 were present (that high number attracted criticism from some quarters).
- Attendees at COP29 represented a range of organisations and vocations.
 - Government officials, diplomats, NGOs, corporates, lobbyists, investors, scientists and technologists, media representatives.

Climate Finance – Adaptation and Mitigation

New Collective Quantified Goal (NCQG) set up by the UNFCCC



Goal

- To facilitate development of climate-resilient infrastructure to deliver food and water security; address biodiversity loss and deforestation; address methane; carbon market; and critical minerals



Background

- Costings to meet NDCs by developing countries were US\$455-584 billion p.a. until 2030, plus adaptation finance required at US\$215-387 billion p.a. until 2030.
- Based on above costings, there is a significant funding gap for mitigation and adaptation for developing nations.
- Goal previously set at US\$100 billion p.a. (in 2020, after in-principle pledges in 2009).
- At COP29, recipient countries were lobbying for up to US\$2.0 trillion p.a. by 2035.



Agreed at COP29

- US\$300 billion p.a. to developing countries from 2025 (public and private capital).
- An ambition to increase to US\$1.2 trillion p.a. by 2035.



To be determined

- Speed of ratcheting up towards US\$1.2 trillion p.a. target.
- Mechanisms involved and trade-offs between mitigation and adaptation (the Agreement references weightings applied depending on the requirements of each recipient country).
- Which countries involved and distribution of financial flows to and from (often a contentious discussion).
- Capacity for private sector to be involved.

NDCs, carbon trading, loss and damages and other developments

Updated NDCs

- A few countries submitted updated NDCs at Baku. The remainder are required to submit it by February 2025 (with expected ratcheting up).
- There were significant upticks from Brazil and the UK. Early signs show the dial has not moved much in aggregate with national commitments to interim targets.

Article 6 – conclusion on high integrity carbon markets

- Outlines a framework for trading credits between countries, and a centralised carbon market – expected to be operational in late 2025. Detailed rules are yet to be finalised.
- This is separate to the existing regulated schemes that operate in California, the EU, China etc. It could function as an important mechanism for climate finance flows between developed and developing countries.
- UNFCCC estimates this could reduce the cost of implementing NDCs by up to USD \$250 billion p.a.
- No significant developments for voluntary carbon markets.

Loss and Damage Fund

- Announced in COP27 and established here at COP29.
- Expected to begin distributing funds by 2025.

Other initiatives

- Water for Climate Action: Baku declaration – flood barriers, wildfire defences, restoring natural environments
- Declaration on reducing methane from organic waste (Australia is not a signatory).
- Joint statement endorsing initiative on Human Development for Climate Resilience.
- Biennial Transparency Reports (BTRs) submitted early by 11 countries. This is part of the Enhanced Transparency Framework (ETF).
- Continuity Coalition for Climate and Health.

Thematic forums and summits

- Sustainable Innovation Forum.
- Agri-Food Systems Summit.
- Hydrogen Transition Summit.

Implications of COP29 for investors



Key backdrops of COP29

Macroeconomic influences

- Persistent concerns about energy supply security and a trend toward near-shoring.
- Ongoing inflation concerns.
- Geopolitical instability, including several changes in government, with the US election being the most significant.

Uncertain progress from COP28 commitments

- Commitments on upscaling the energy transition and renewable energy made at COP28 were not affirmed at COP29, creating uncertainty around these initiatives.



Emerging investment opportunities

Key areas for capital deployment

- While the scale of investment opportunities remains unclear, new pathways for deploying capital are likely to emerge in food and water security solutions; mitigation of methane emissions; and the development of critical minerals.

Regional opportunities

- Increased opportunities in the UK and Brazil due to more ambitious NDCs.
- Potential for greater investment in emerging market countries, including adaptation initiatives.



Long term considerations

- Managing climate-related financial risks and opportunities will become increasingly crucial over the medium to long term.
- A growing gap between the policy action required to meet 1.5-2°C targets and actual progress necessitates more focussed investment strategies.
- ESG remains important but must be balanced against broader considerations.
- Climate policy continues to evolve steadily, requiring ongoing integration into investment decision-making.



Investment solutions – future prospects

Asset classes and products

- Climate-resilient infrastructure
- Adaptation bonds or debt-for-adaptation swaps
- Insurance-linked securities
- Carbon credits

Portfolio level strategies

- Identify fund managers who are adept at integrating adaptation into their investment process. This should lead to stronger resilience in the portfolio.



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