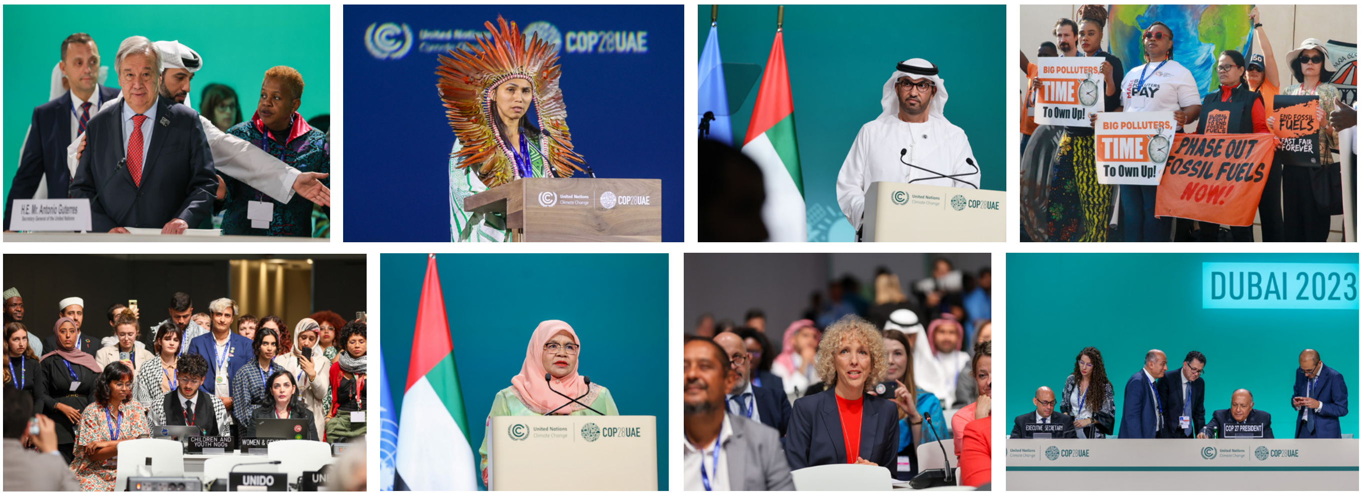
Through the Desert Towards Fresh Water – or Just a Fata Morgana?



An assessment of COP28 in Dubai

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From 30 November to 13 December 2023, the 28th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP28) was held in Dubai (United Arab Emirates). The Wuppertal Institute research team closely observed the climate change negotiations during the two-week conference and can now present their assessment of the conference outcomes. The Wuppertal Institute publishes an analytical report after each COP. All reports published since 2001 can be downloaded at: https://wupperinst.org/en/topics/climate/cop/

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1 Key messages

- At its core, combating climate change is a distributional conflict. The world has amassed a vast stock of fossil capital, and this capital will have to be massively devalued to maintain a liveable plant.
- A key function of the UN climate process in this conflict is to set standards for acceptable behavior. In this respect, especially the last three COPs have made substantial progress. After more than three decades of UN climate negotiations, the process is finally discussing what reducing emissions actually means. With its call to transition away from fossil fuels, COP28 contributed to the ongoing development of a new norm that the use of fossil fuels can no longer be tolerated. With this outcome, COP28 provides additional legitimation to all political actors to accelerate efforts, and it provides ammunition for pro-climate constituents to put respective pressure on governments and companies.
- The operationalisation of the loss and damage fund is a clear win. The global South fought for decades to have this issue addressed, and now the fund is here. But here as well the impact will depend on actual implementation. The fund's initial capitalisation can only be the starting point.
- Adaptation was almost pulverized between the early Loss and Damage success and the tactics regarding finance and the negotiations on Global Stocktake. The adoption of the framework for the Global Goal on Adaptation was a last minute decision, but this framework appears not sufficient to provide the guidance needed and to trigger an increase in adaptation finance.
- Developing countries were generally disappointed by the lack of new financial commitments from wealthy countries. The lack of financial backing was a key reason why many developing countries were long hesitant to support the call to phase-out fossil fuels. To make sure the "UAE compromise" is not just a fata morgana, COP29, which is already billed as the "finance COP", will need to engineer a massive scale-up of financial support for mitigation, adaptation and loss and damage.
- The negotiations on market-based cooperation under Article 6 led to an impasse in Dubai. Parties were neither able to agree on the details to further guide bilateral cooperation under Article 6.2 nor on the operationalisation of the Article 6.4 mechanism. In light of the flaws included in the last negotiation texts and the risks to transparency and environmental integrity that their adoption would have meant, the non-approval of the texts must be considered the lesser evil.
- COP28 brought another wave of action pledges by governments and companies. However, many of them lack substance, transparency and accountability. Actual follow-up on these pledges will have to be massively strengthened if they are supposed to have stronger impact than creating some good vibes in the first week of the conference.

2 Introduction

The year 2023 saw another series of devastating extreme weather events around the globe and is on track to be the hottest year on record, marking yet another stark reminder of the escalating climate crisis. Yet, the world is still off-track in its fight against climate change. The UNFCCC's Synthesis Report, published just before the start of the conference, noted that under current Nationally Determined Contributions (NDCs), global GHG emissions are set to increase 9 per cent by 2030 compared to 2010 levels.

COP28 was heralded as the key opportunity to change course, in particular with the conclusion of the first Global Stocktake (GST) under the Paris Agreement. This two-year process has assessed progress and potential ways forward across all pillars of climate action, from mitigation to adaptation and loss and damage. The conclusion of the GST was supposed to chart a clear course forward, in particular by informing the next round of Nationally Determined Contributions, which are due in 2025. Other key issues at the conference included supporting developing countries with climate-related loss and damage, adaptation, and overall financial support.

The COP presidency managed to get the conference agenda agreed without an agenda fight and secured early adoption of the decision on the loss and damage fund. This early success opened up space for the conference to focus on the fossil fuel phase-out question. On the downside, issues such as adaptation and finance fell by the wayside.

3 Mitigation

After more than three decades of UN climate negotiations, the UNFCCC is now finally discussing what mitigating climate change actually means. A key issue at the conference was whether it would send a signal on the need for a fundamental energy transition, phasing out the use of fossil fuels by enhancing energy efficiency and scaling up renewable energy. In this contest, the fossil fuel industry was leading from a position of strength with the COP being hosted by a major oil producing country and a petro-CEO at the helm of the negotiations. Nonetheless, fossil interests were not able to keep the issue out of the final decision, with at least 127 countries supporting language to call for a fossil phase-out.

The final decision "calls on all countries" to contribute to" a list of goals, including "transitioning away from fossil fuels in energy systems in a just, orderly and equitable manner so as to achieve net zero by 2050 in keeping with the science". The target date is a clear asset, an explicit phase-out decision without timetable would have been meaningless. On the other hand, the decision also highlights that "transitional fuels" such as gas may play a role. In essence, the fossil fuel industry managed to create some loopholes for non-energy uses, e.g. feedstocks for chemicals and fertilizers, and ramp up short term production under the disguise of "transitional fuels".

More positively, the call to transition away from fossil fuels is accompanied by a call to scale up the alternatives, namely to triple renewable energy capacity and double the rate of energy efficiency improvements by 2030. The decision thereby ticks many of the boxes the International Energy Agency had laid out as key for keeping the

1.5°C limit within reach and thereby does send a strong signal for the global energy transition.

Other items of note are:

- The decision repeats the language from COP26 on phasing down unabated coal power, but still does not define what "unabated" means.
- By contrast, on fossil fuel subsidies, the decision does provide some more detail, by calling for the phase-out of "inefficient" subsidies, which still is not defined, "that do not address energy poverty or just transitions".
- The decision recognises the IPCC finding that limiting global warming to 1.5 °C with no or limited overshoot requires emission reductions in the order of 43 per cent by 2030 and 60 per cent by 2035 relative to the 2019 level and reaching net zero carbon dioxide emissions by 2050. The decision thereby lays down the benchmark for what overall level of ambition the NDCs that are submitted in 2025 should have. Future analysis of NDCs, in particular the official UNFCCC NDC synthesis report, will therefore be able to measure them against this benchmark.
- Otherwise, follow-up requirements are weak. The decision merely reiterates language from Paris according to which parties shall provide information on how the preparation of their NDCs has been informed by the outcomes of the GST. It would have been beneficial to require parties to detail in their NDCs how they will contribute to the new global goals on fossil fuels, efficiency and renewables. However, adopting such further guidance was not possible due to pushback that this would violate the nationally determined nature of NDCs. Nonetheless, the requirement to take the GST outcome into account in the development of the next round of NDCs does provide a basis for domestic constituents to demand implementation of the new global goals.

4 Loss and damage

In an unprecedented move, the decision on the loss and damage Fund was adopted on the opening day of COP28 and a first capitalization of the fund was immediately announced by the United Arab Emirates and Germany (100 million USD each) with other countries following.

A COP starting with applause on the adoption of an issue that had been a taboo for decades became possible after a year of preparatory work with high concerns on success or failure and because of a new, surprising conference tactic of the COP Presidency.

COP27 made history by deciding to establish a fund for loss and damage that should take off within one year. To prepare a decision at COP28, a Transitional Committee was established to elaborate on the details of the new funding arrangements. In four regular meetings the modalities were discussed. As no consensus was reached, there were fears that COP28 would fail to operationalize the fund. With that in mind, at an extraordinary fifth meeting a few weeks before COP28 a draft decision text was produced.

This draft included the following institutional settings and rules: The loss and damage fund should have a secretariat (location not determined) and be initially managed by the World Bank (first four-year period) at the same time being an independent entity under the UNFCCC's financial mechanism. The Supervisory Board should have 26 members with a majority of 14 seats for developing countries. The funds structure should be reviewed every four years by the COP. Regarding resources, all developing countries should have access to the fund, and a minimum amount should be granted to least developed countries (LDCs) and small island states whereas access of other countries would be limited and depend on their own capacities.

Developed countries should provide the fund's initial resources and are "urged" to pledge further amounts. "Other parties" are "encouraged" to provide support on a voluntary basis. The proposed affiliation to the World Bank was heavily debated. Another concern was access for all developing countries instead of a focus on least developed and most vulnerable countries. However, with the draft decision text a general consensus was achieved.

The new Presidency tactic was to officially propose a decision text based on the draft prepared by the Transitional Committee on the evening before the COP opening. In the opening plenary, the Presidency asked whether there were objections to the text, and as none was raised, it was adopted. With this move, a re-opening of potentially very controversial negotiations over the details of the Fund was avoided. A specific detail points to this, as the name of the fund will be negotiated in the advisory board. As the US historically does not accept the concept of loss and damage, the US consistently referred to a "climate impact response fund" instead of a loss and damage fund.

Other results were:

- By the end of COP28, developed countries pledged a total of 770.6 million USD for the fund. However this can only be a start, since for example the UN Conference on Trade and Development estimates a need for 580 billion USD for loss and damage in 2030.
- Apart from the loss and damage fund, a decision was adopted that the Secretariat of the Santiago Network will be located at the UN Office for Disaster Risk Reduction (UNDRR) and the UN Office for Project Services (UNOPS). The network's mission ist to enable exchange on technical know-how to deal with loss and damage.

5 Adaptation

After tactically delayed and highly controversial negotiations, a framework for the Global Goal on Adaptation (GGA) was adopted, but this framework appears not sufficient to provide the guidance needed and to trigger an increase in adaptation finance.

As a counterpart to the 1.5°Celsius temperature goal, the GGA was introduced by the Paris Agreement at COP21 in 2015 in order to anchor the equal importance of mitigation and adaptation in the Agreement and make adaptation more visible.

However, as phrased in the Paris Agreement, the global goal on adaptation essentially is - to adapt . Pushed by African Parties, the two-year Glasgow-Sharm el Sheik Work Programme (GlaSS) was launched at COP26 to develop a more specific framework for the GGA. Its mission was to work on adaptation themes, targets and indicators as well as methodological issues. Greater transparency should enable governments and relevant organizations to track and measure adaptation progress in a more focused manner and with better comparability.

At COP28, the GGA framework became hostage to and bargaining chip of the negotiations. On the one hand, G77 and China aimed at including a finance target in the framework whereas developed countries were generally open for progress on the framework but refused to focus on adaptation finance. Their position was that adaptation finance should be negotiated generally under the new collective quantitative goal (NCQG) at next year's COP. On the other hand, the developing countries' demand to acknowledge the principle of common but differentiated responsibilities and respective capabilities (CBDR-RC) was opposed by developed countries. Insisting on CBRD-RC in particular by the Arab Group was also seen as a tactical move to block progress and keep up the divide of developing and developed country Parties in order to prevent their alignment on the global stocktake outcome.

As a result, a draft decision text was provided only two days before the end of COP 28. In two rounds of negotiations, the decision text became even weaker than the disputed draft with only general mention of the principles of the UNFCCC and the Paris Agreement and adaptation finance needs and gaps.

More specifically, the results were:

- A framework for the GGA was adopted: Parties agreed that the issues water, food, health, ecosystems, infrastructure, poverty eradication and cultural heritage are covered. The decision includes some general targets and a launch of a two-year work programme on indicators for measuring progress achieved towards these targets. There were no sub-targets included in the final document.
- The decisions on adaptation remained largely on a vague level also due to the political blockade. Questions about financing adaptation were shifted to the future.
- The widening adaptation finance gap was noted with concern. Developed countries should prepare a report on how to double adaptation finance by 2025 (from 2019 levels).
- Re-filling of the Adaptation Fund missed the target of USD 300 million - only just over half (USD 187.7 million) were raised this year.
- The GST outcome states that USD 215-387 billion are required annually until 2030 for adaptation in developing countries. UNEPs Adaptation GAP report specifies adaptation finance needs of developing countries as 10 to 18 times higher than current flows of public finance from developed countries. In 2021 adaptation finance decreased by 14 percent compared to 2020 (latest figure in UNEP report).

6 Climate Finance

Discussions around means of implementation also played a big role at COP28. The Global Stocktake distinguishes between 3 major aspects of implementation: “Finance”, “Technology development and transfer” as well as “Capacity Building2.

Especially the provision of finance is a key aspect of contestation at each COP with several lines of conflict. First, the UNFCCC process is in large part still a reflection of the economic realities of the 1990s. It distinguishes clearly between developed countries as providers of climate finance on one side and emerging and developing countries; which are either not obliged to pay or receive climate finance. Since economic realities and emissions have shifted over the last 30 years, emerging countries such as China are defending their position of not being obliged to pay, whereas developed countries are demanding that they should pay as well. However, the “firewall” between the traditional “developed” and “developing” countries was breached by the UEA contribution of USD 100 million for the new loss and damage fund. It is expected that this sets a precedent for further financial contributions from traditional “developing” countries.

Second, the amount of climate finance which is provided is not nearly enough for developing countries to meet the needs of mitigation, adaptation as well as loss and damage. At the same time, not even the Collective Quantified Goal on climate finance, where developed countries pledged to provide USD 100 billion per year from 2020-2025, has been met until now. At COP28, the negotiations for a New Collective Quantified Goal on climate finance continued and it is planned that they will finish at COP29 next year.

Third, the climate finance that is provided often comes in the form of loans which have to be repaid at a certain point with interest. This puts additional pressure on the tight fiscal space of many developing countries. As such, developing countries demand climate finance to be paid largely in the form of grants (no repayment) or concessions (loans at below market rates) as well as debt cuts.

Fourth, developing countries and namely the Bridgetown initiative have called for a reform of financial institutions in order to unlock more climate finance. Reform proposals for the World Bank included a lowering of the equity ratio, a new “Portfolio Guarantee Mechanism” where developed countries can give guarantees which lowers the burden on fiscal budgets as well as a “Climate Resilient Debt Clause” where Least Developed Countries can pause loan repayments in case of climate related loss and damage.

Overall, developed countries blocked off all calls by developing countries to provide enhanced support. This complicated the discussions on the fossil fuel phase-out since most developing countries will not be able to implement such a phase-out without strong support. But given that the negotiations on the New Collective Quantified Goal are set to conclude only next year, it was always unlikely that developed countries would frontload new commitments. In this regard, the GST mentions several key aspects but stays rather vague when it comes to the concrete provision of climate finance:

- Concrete numbers of climate finance needs: USD 5.8 - 5.9 trillion until 2030 for NDC implementation in developing countries; USD 4.3 trillion per year in clean energy until 2030; USD 5 trillion per year until 2050 to reach net zero emissions;
- Scaling up non-debt finance (grants, concessional loans) for developing countries which should be provided by developed countries and other parties that are able to provide voluntarily;
- Reform of multilateral financial architecture, namely the World Bank and scaling up climate finance, especially through grants and concessional instruments;
- Urges developed countries to fulfill the USD 100 billion pledge;
- Calls on financial actors to decrease the risk of climate finance investments in developing countries and make it accessible to all regions of the world.

7 Article 6

The negotiations on market-based cooperation under Article 6 took place at the end of a year in which carbon markets were heavily criticized for their lack of integrity and for being misused for greenwashing. Two years after having made a huge step towards implementation with the adoption of the Article 6 Rulebook in Glasgow, delegates at COP28 were tasked to further specify selected outstanding questions. These seemingly technical aspects proved highly political in the course of the negotiations. Under Article 6.2, for example, discussions revolved around the very nature of the cooperation and the question of how to ensure their environmental integrity. In the negotiations on the Article 6.4 mechanism, Parties mainly debated the recommendations by the Article 6.4 Supervisory Body with regard to principles for methodologies and the inclusion of removals in the mechanisms.

Starting off with optimism among delegates and convergence in some areas, around half-way through the conference a divide on key issues became evident on both, Article 6.2 and Article 6.4, ultimately preventing the adoption of respective decisions.

- The Article 6.2 negotiations were in particular torn between two opposing positions: The US and others promoted an open system that builds on the infrastructure established by the voluntary carbon market. The EU and its partners, by contrast, advocated for a more centralized system with an international transaction registry at its core and high minimum standards for mitigation activities.
- The confidentiality of participation in cooperative approaches once again proved a key sticking point of the negotiations: The last text proposed by the co-chairs did not include any limitations for Parties to designate information as confidential. The adoption of this would have allowed Parties to designate specific information as confidential without providing any justification for this, potentially seriously undermining overall transparency.
- Regarding Article 6.4, Parties faced the task of taking final decisions that would make the Article 6.4 mechanism operational. This mainly entails a

decision on guiding principles for developing methodologies to calculate emission reductions and to ensure additionality of the Article 6.4 activities.

- The recommendations on methodologies tabled by the Supervisory Body of the mechanism shortly before the COP provided an acceptable basis for many Parties; however, many Parties regard these and decisions on the inclusion of removals as an unbreakable package. And including both nature-based as well as technology-based removal activities proved once again a task of such complexity with its crunch issues permanence, reversals, and leakage that a consensus was impossible to achieve.

Final compromise texts were published on the evening of the 12th of December but also with discussions through the night, ultimately parties were not able to find common ground. The intense negotiations could not bridge the divide between countries that were aiming for a system with a maximum of flexibility and countries that demanded a more centralized approach to increase transparency, environmental integrity and measurable contributions to the ambition raising character of the Paris Agreement.

In light of the loopholes and flaws included in the text proposals for Article 6.2 and 6.4, their non-adoption has prevented further damage. But what are the consequences of this no-deal for carbon markets? After a year of bad press and strong reputational damage, the adoption of a robust Article 6.4 framework would have provided orientation also for the voluntary carbon market, while a decision on cooperative approaches in turn would have shown a way forward how countries and private actors can make use of Article 6.2. With these signals from the international level now being absent, initiatives and collaborations outside the UNFCCC will become even more relevant and also national governments will have to play a key role in providing guidance to the market. This could, however, increase the fragmentation of the market.

More generally, the negotiations have again revealed the contentious nature of carbon markets. The failure of finding consensus on the role of carbon markets may also strengthen the voices of those who call for an increased role for alternative ways to finance climate action that do not involve the transfer of carbon credits. In contrast to the negotiations on Art. 6.2 and 6.4, delegates in Dubai were able to make some progress under Article 6.8 and agreed on the next steps for non-market approaches. In light of this progress, one can hope that this spirit shines on to the next Article 6 negotiations in Bonn where the issues will be picked up again.

8 Conclusions and Outlook

After spending three decades discussing mitigation mainly in abstract terms of emissions accounting, the UNFCCC process is now finally focusing on how emission reductions can actually be achieved and named the elephant in the room. COP26 started this discussion process when then UK prime minister Boris Johnson defined as his objective to “consign coal to history”. The actual COP26 outcome marked the first time a COP decision directly addressed fossil fuels (“phase-down of coal power”) and in addition called for enhancing energy efficiency and scaling up renewable energy. Last year in Sharm el Sheikh, India proposed "to phase down all fossil fuels". This was hotly debated but never made it into the negotiation text. In Dubai, the question of phasing out fossil fuels was at the center of political contestation.

At its core, combating climate change is a massive distributional conflict. Every company and nation state that has based its business model on fossil fuel use will either have to fundamentally change, or, in the case of companies, disappear. The majority of proven fossil fuel reserves will have to stay underground. The UNFCCC process has its merits in terms of providing significance and legitimation, but it is due to its consensual nature unable to provide for an equitable distribution of scarce resources. This has to be done in other fora, existing and yet to be developed.

However, it is exactly one of the key functions of the UNFCCC process to provide ammunition for pro-climate actors in this distributional conflict. The process sets the benchmark for expected behavior by governments and other actors. Building on the Paris Agreement, COP28 has sent a surprisingly clear signal that fossil fuels are on the way out. The strength of the language is a matter of interpretation. While “transitioning away from fossil fuels” was apparently more acceptable than “phase-out”, some observers opined that this is clear phase-out language. While it probably will not entice major oil countries to desert their lucrative business model, it will certainly have an impact on private investments. And it gives pro-climate constituents a new hook to confront fossil fuel developments in countries that are less dependent on fossil rents.

The Paris Agreement was designed with a ratchet mechanism in mind; a mechanism that would help to gradually increase ambition levels over time and avoid slipping back behind previous ambitions. The GST is in a sense the pawl that prohibits sliding back. It does so, not only in technical policy terms, but also in capturing and institutionalizing evolving norms in the global context. After two weeks of very public fights about any fossil fuel phase-out language, it will be very hard if not impossible to go back to a world in which fossil fuel investments are the norm and not an exception.

The COP also reminded Parties that they will have to submit new NDCs “at least 9-12 months before” COP30 in November 2025. This will be the ultimate test whether the mechanism will work or not, whether those new pledges are considerably more ambitious than the current ones (as they must be if the world is to stay within the temperature range inhabitable by humans).

However, even then, this new norm will require massive means of implementation to actually become effective. In addition to the pillars on fossil phase-out, efficiency and renewables, the IEA’s fourth central pillar was to massively increase clean energy investments in emerging economy countries. NGOs similarly called for a “fully funded” fossil phase-out. On this pillar, COP28 did not deliver, developed countries blocked all calls for underpinning the fossil phase-out call with adequate support. In terms of negotiation dynamics, this was to be expected, since the New Collective Quantified Goal on climate finance is set to be adopted only next year. But now financing the global energy transition will have to be placed firmly in the spotlight. COP29 needs to be the COP where the “UAE consensus” is underpinned with adequate resources. Otherwise, the prospect of reaching fresh water after having crossed the Arab desert will turn out to be just a fata morgana.

This holds not only for mitigation, but also for adaptation and loss and damage. The operationalisation of the Loss and Damage Fund was a clear win, but it now also needs to be filled with adequate resources. To make sure the “UAE compromise” is not just a fata morgana, COP29, which is already billed as the “finance COP”, will need to engineer a massive scale-up of financial support for mitigation, adaptation and loss and damage. This will provide the basis for a successful COP30, November 2025 in Belem, Brazil. The host of COP30 was present in Dubai with more than 3,000 delegates. It will make every attempt to lead the climate negotiations out of the desert.