

Our top 5 implications of COP28 for corporates and investors

The most important announcements of COP28 are to triple renewable power capacity by 2030 and transition away from fossil fuels. These unprecedented ambitions need to feed into the transition plans of corporates and investors. Only in this way can we expect a disruptive change towards lower emissions and clean energy



COP meetings often end with high-level declarations of action which, if fully implemented, would benefit the climate. But what these declarations mean for companies and investors is often less clear. We highlight the top five outcomes of COP28 that will show up in the boardrooms of corporates and investors.

1 Tripling renewable capacity by 2030 requires grid-wide reforms

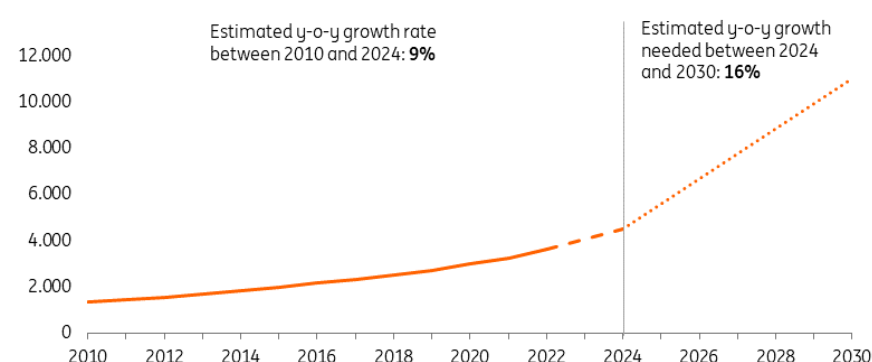
Countries at COP28 have agreed to triple global renewable power capacity by 2030. This means that renewable capacity worldwide needs to increase from 3,600 GW in 2022 to over 11,000 GW in 2030. Tripling renewable power capacity by 2030 is one of the pillars of the International Energy

Agency's (IEA's) Net-Zero Emissions scenario, as it would contribute to roughly a third of the emissions reduction needed to keep global warming within the 1.5 degree Celsius increase compared to pre-industrial levels.

The IEA estimates that the world is likely to have 4,500 GW of renewable capacity by the end of 2024, up from about 3,600 GW in 2022. Under this estimate, global renewable capacity would need to increase annually by 16% between 2024 and 2030 to achieve the target, up from the 9% annual increase estimated between 2010 and 2024.

Renewable capacity needs to accelerate to a growth rate of 16% year on year

Global renewable power capacity in gigawatt



Source: International Energy Agency

That is a substantial uptake, though not unachievable. To reach the target, there needs to be a disruptive reform of the power system. This includes upgrading transmission lines, fast-tracking permitting processes, enhancing storage capacity, and addressing the problem of labour shortages through re-training programmes.

These are not easy problems to solve, but governments are beginning to pay more attention to them. For instance, governments in both the [US](#) and EU have allocated funding to upgrade transmission lines and are also making initial efforts to reform the project permitting processes.

What does this mean for corporates and investors?

- Maximise company efforts to green energy use with renewables.
- Work actively with local authorities to overcome bottlenecks such as permitting and allocating scarce grid capacity among companies.
- Implement measures to alleviate grid congestion, for example by reducing peak demand, installing battery systems, and coordinating power supply and demand with nearby companies, for example through the creation of local energy hubs aimed at lowering aggregate power demand and minimising the feed in of renewables to the grid.

2 Historic deal on fossil fuels poses significant challenges to corporates and investors

Governments at COP28 reached an agreement, for the first time in the COP's history, to transition away from fossil fuels. It sends a strong signal that countries now acknowledge the need for a low fossil-use economy to combat climate change.

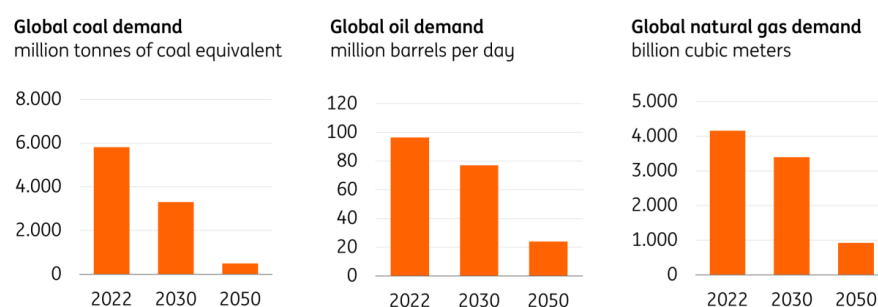
To realise this target, governments need to incorporate the reduction of fossil fuel use into their nationally determined commitments (NDCs) and establish relevant policies to support an orderly transition. Currently, fossil fuels are still a profitable business that also offers energy security. Business models based on clean solutions in energy-intensive sectors are often far from competitive. In [aviation](#) and [shipping](#), they can be up to 10 times more expensive, in [steel making](#) twice as costly and in [plastic](#) production, 50% more expensive.

So, for radical changes to happen, policy and capital should be directed towards enhancing the economics of clean energy. This includes price incentives for clean energy, the reduction of 'fossil fuel subsidies', and carbon pricing mechanisms. Meanwhile, more attention needs to be paid towards a just transition. Fossil fuel exporting countries may need help to adapt and so does the workforce in energy-intensive sectors around the world.

Under the IEA's Net-Zero Scenario, global demand for coal, oil, and natural gas needs to be reduced to 9%, 25%, and 22% of 2022's levels, respectively, by 2050. For the remaining fossil fuel demand in 2050, the majority of the emissions from it will be offset by carbon capture and storage (CCS) technologies.

Net Zero Scenario requires massive decrease in fossil fuel demand

Trajectory of fossil fuel use in IEA's Net Zero Scenario



Source: International Energy Agency

What does this mean for corporates and investors?

- Be prepared for more policy and pressure to reduce fossil fuel use, but keep in mind that the transition might happen at different speeds across regions.
- Accelerate the deployment of green technologies such as energy efficiency, renewables, CCS, hydrogen, and recycling. Companies and investors need to invest in and learn from pilot projects to more rapidly scale them up.

- Focus on directly reducing emissions rather than overly relying on CCS. CCS is a key tool, but it is hard to scale sufficiently in time to capture most emissions from fossil fuels. CO2 storage capacity may become a scarce resource for which companies find themselves competing.

3 Increased climate finance commitment opens up more opportunities

Climate finance also took the spotlight at COP28, with about \$85bn mobilised for mitigation, adaptation, and loss and damage, among others. COP28's host country, the UAE, has committed to launching a \$30bn global finance solutions fund. Its banking sector has pledged to mobilise \$270bn by 2030 to boost green finance. The US has announced a \$3bn commitment to the global Green Climate Fund. Other countries such as France and Germany have made their pledges as well. And development banks are ramping up private finance flows; the private sector is ploughing money into funds that invest in green technologies.

For the global Loss and Damage Fund, established at COP27, country pledges have amounted to almost \$800m. Albeit a considerable amount, it only accounts for about 0.2% of the investment needed annually to address loss and damage in developing countries. Moreover, it is unclear how much of the pledged funding is one-time versus annual. So while it is a good start for the international community to collectively address loss and damage, there is still a long way to go. More precise details are also needed on the frequency and time of some funding.

Climate finance gets more attention at COP28

Announced climate finance commitments at COP28, in \$bn

Energy	\$ 6,80
Finance	\$ 61,80
Lives and livelihood	\$ 8,70
Inclusion	\$ 1,70
Green Climate Fund (GCF)	\$ 3,50
Loss & damage	\$ 0,79
Adaption Fund	\$ 0,13
Least-developed Countries Fund	\$ 0,13
Special Climate Change Fund	\$ 0,03

Source: COP28

What does this mean for corporates and investors?

- Leading corporates are focusing on managing their emissions across the supply chain and drafting transition plans in line with climate goals. The next step will be to better understand the financial implications of their climate actions and mobilise capital with support from the finance sector. Think of debt and equity financing, or monetising emissions through carbon trading.
- Multinational companies and investors can benefit from investing in green technologies in developing economies—more effectively through collaborating with local small and medium enterprises (SMEs).

- Mitigation and adaptation strategies provide companies and investors with opportunities to do good while growing their businesses. But bringing our economies back within the [planetary boundaries](#) means avoiding unnecessary demand. A so-called degrowth strategy is hard to implement and can undermine company business models. So companies need to find a careful balance between business and climate actions. They also need to ensure management buy-in on climate initiatives through enhanced communication and education.

4 The world is getting more serious about methane emissions

Methane is a powerful greenhouse gas, as it is more than 28 times as potent as carbon dioxide in contributing to global warming. Methane concentrations in the atmosphere have more than doubled over the past two centuries.

Methane emissions reduction is increasingly the focus of policymakers, companies, and investors. During COP28, the US released final methane emissions standards, following the EU's adoption of methane regulations in November. China, albeit still not a member of the Global Methane Pledge, announced for the first time plans to reduce methane emissions. And a group of 50 oil and gas companies, together accounting for 40% of global production, agreed to eliminate methane emissions and flaring by 2030. Moreover, six large dairy companies globally launched the Dairy Methane Alliance at COP28, pledging to start disclosing methane emissions.

Closely monitoring emissions and detecting leakages is key to successful methane emissions reduction. The private sector is a major enabler of it. For instance, an [emissions tool](#) developed by Al Gore's team helps to create awareness of methane emissions. It is made possible with cutting-edge technology to [monitor methane emissions from space](#).

What does this mean for corporates and investors?

- Methane emissions reduction requires relatively less investment and has huge positive potential impacts. Heavy methane emitters, such as companies in the oil and agriculture industries, need to include methane—not just carbon dioxide—in their own emission reduction plans and those of their supply chains. They also need to invest in relevant digital technologies to monitor and measure methane emissions. Investor demand for methane management can also accelerate such efforts.

5 Corporates and investors will continue to be important players at future COPs

The private sector showed its firepower at COP28, with numerous initiatives announced. In addition to the previous examples, Rocky Mountain Institute, along with several banks (including ING) and industry stakeholders, launched the Sustainable Aluminum Finance Framework to allow banks to monitor and report on their portfolios' aluminium-related emissions. The group of 50 oil and gas

companies committed to reaching net-zero scope 1-2 emissions from operations by 2050, although the goal excludes scope 3 emissions, which contribute to 85% of fossil fuel producers' emissions. And 39 countries endorsed the idea of developing a global hydrogen certification standard.

Growing private sector involvement at COP28 has been criticised as lobbying for vested interests can prevent climate progress. But COP does provide a critical platform for companies and investors to work together towards a collective goal through pledges and partnerships. After all, neither the public nor the private sector can solve the large climate challenges independently.

What does this mean for corporates and investors?

- At future COPs, the role of the private sector will be continuously enhanced. That said, companies and investors should more carefully strategise their involvement, and use these conferences as opportunities to engage with clients and stakeholders.

Are we at the 'beginning of the end' for global energy transition?

Limiting global warming within 1.5 degrees Celsius needs disruptive reforms to our energy system. In that regard, COP28 is successful in directing the world towards a cleaner economy, and—for the first time after 27 COPs—away from fossil fuels. If we can effectively work towards these goals, then we will be at the beginning of the end of our current reliance on fossil fuels to power economic activities.

But achieving these targets needs much more effort. Now that COP has ended, policymakers should put their words into action and accelerate the hard work of realising deep emission reductions. Corporates and investors should be an active part of the process as well—to not only talk the talk, but walk the walk.

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