Everything corporate leaders should know about COP29

The UN climate conference in Baku has sparked controversy even before its commencement. Despite a serious drop in corporate leader attendance compared to last year, COP29 still holds meaningful potential for boardroom discussions. Here, we delve into the strategic advantages for executives

It's unlikely that COP29 will manage to deliver any monumental milestones in climate policy – but we do think it'll be crucial in setting the stage for more significant progress next year

COP29's not so wonderful circumstances

Climate scientists have become more pessimistic

The goal of limiting global warming to 1.5 degrees is slipping away, despite increased efforts across the globe. A recent poll among almost 400 Intergovernmental Panel on Climate Change (IPCC) climate scientists revealed that only a handful still believe this target is achievable. The discussion is now shifting to what extent global warming can be limited to 2.0 degrees, the upper boundary of the Paris Agreement signed at COP21 in 2015.

The 2024 UNEP Emissions Gap Report was published in advance of COP29 and provided a similar feel of pessimism. But we feel that the message was concealed behind many graphs and tables and, in turn, wasn't quite as bold as that provided by climate scientists when asked directly.

World leaders and policymakers take a step back

From a policy point of view, the fight against global warming and the resulting damage and loss to economies can be seen as a global coordination problem. Climate calculus requires a solution where governments act collectively in a fast and preferably steady and orderly manner. However, progress has stalled.

Climate calculus requires fast collective action, but progress has stalled

The geopolitical landscape, including conflicts in the Middle East and a second presidential term for Donald Trump, complicates coordinated action. Trump's pro-fossil fuel stance and potential trade tensions could further delay the transition to a net zero global economy. We've also seen some intense debate – especially among government officials from Western nations – about potential conflicts of interest presented by Azerbaijan's significant involvement in the oil and gas industry, which some suggested could undermine the credibility of the summit and its outcomes.

1 When governments step back, some corporates – but not all – take responsibility

So, what do you do as a corporate leader in such a challenging environment? Some feel responsible and take a step forward, trying to turn this vicious circle around. Responsibility can come from sincere concerns about the state of the climate and the many planetary boundaries that have been crossed. But it could also be a form of self-interest, as the risks and costs of doing business increase with global warming.

Whatever the motivation, there are some good examples of how corporate leaders step forward:

- More than 100 CEOs and senior executives from the 'Alliance of CEO Climate Leaders stepped forward in the run-up to COP29 by calling upon governments and fellow business leaders to commit strategically and financially to net zero.
- Others are not calling upon governments but built a coalition of those willing within their industry to move forward. For example, more than 50 leaders across the spectrum of the shipping value chain – e-fuel producers, vessel and cargo owners, ports, and equipment manufacturers – signed a Call to Action at the opening day to accelerate the adoption of zero-emission fuels. This is important as energy efficiency gains are currently undone by increased geopolitical tensions that have already disrupted trade patterns and resulted in longer shipping routes (detouring around the Cape), causing the sector's emissions to hit record highs.
- And there are leaders that use their voices in the media. By nature of being hosting in a major oil and gas-producing country, COP29 sparked controversy before it had even begun. Some leaders saw this as an opportunity to include these countries in the transition, especially leaders from companies that are accustomed to working in fossil fuel-rich regions. Similarly, firms focusing on green technologies see the summit as a platform for introducing sustainable solutions to a region that could greatly benefit from them.

COP29 attendance levels were always going to be hard to beat – but we cannot ignore this year's pitiful turnout

But we realise that these frontrunners are still a minority. A fair share are likely to take a wait-and-see approach at best – or at worst, prove complacent towards delay in the transition. We knew it would be difficult to beat the levels of attendance seen at Dubai's COP28 – the best-attended COP in history – but we cannot ignore this year's pitiful turnout. There are some valid reasons for this – many CEOs and CFOs have noted a lack of strategic alignment between the main negotiation topics of UN member states and the areas where they can meaningfully contribute. The notable absence of key world leaders, like US President Joe Biden, President of the European Commission Ursula von der Leyen, French President Emmanuel Macron and German Chancellor Olaf Scholtz, has also reduced the opportunities for business leaders to engage with top policymakers.

We believe it is important that corporate leaders leverage their influence and lobbying power towards a more sustainable world, especially in times when governments step back. Sure, in the short term this step back benefits existing practices, but in the long run it's in their own interest. Many leaders have committed to net zero production by 2050. A timespan of 25 years is, in terms of societal transitions, just around the corner. Many leaders only have one or two major investment cycles to get there, so they have to act soon. And radical transformation, for example in areas like green steel, green plastics and sustainable fuels is far from easy. Often these business cases are not competitive, requiring strong governments to lower the risk return profile of investments by targeted policies.

So, corporate leaders need governments to support this radical transformation. And the government needs businesses that invest in the transition towards a net zero economy. Without this healthy symbiosis, we fear that corporate leaders will focus on 'business as usual' and put incremental change over radical change. Think of solar and wind power over novel nuclear power (small modular reactors), energy efficiency over renewable natural gas, carbon capture and storage over direct air capture, and grey or blue hydrogen over green hydrogen.

2 The importance of climate adaptation grows if climate mitigation falters

In our view, climate adaptation is becoming a major topic in boardrooms, alongside climate mitigation. These two areas are interconnected; if temperatures rise faster than the 1.5-degree baseline many corporations use, the importance of climate adaptation increases. In such a scenario, corporate leaders must focus on adapting their businesses to rising temperatures and the damage caused by extreme weather events such as droughts, floods, forest fires, hurricanes, and hailstorms. The increased flooding risks for the textile industry in Bangladesh (and the global fashion supply chain), the threats from droughts and desertification to agriculture in Mediterranean countries, and the damage and losses for the housing and real estate sectors from more frequent and severe hurricanes in the US all underscore this point.

If efforts to reduce global carbon emissions falter, the importance of climate adaptation grows

Here are two key ways we believe climate adaptation will become a priority in boardrooms:

Strategy and risk management

Corporate leaders increasingly need to integrate climate adaptation into their business strategies to ensure that their organisations are prepared to handle the impact of climate change. Focus will differ according to role. CEOs will prioritise climate adaptation alongside business growth and decarbonisation, incorporating it into their overall business strategies. CFOs will concentrate on safeguarding the financial health of their companies and their production assets against climate events. CROs will play a crucial role in assessing climate-related risks across regions and production locations. COOs and heads of business units will identify and implement business opportunities that arise from climate adaptation. Finally, leaders of HR departments will focus on ways to improve employee well-being and safety, such as adjusting working hours during excessive heat.

Supply chain management

A significant lesson from the Covid-19 crisis is that external events can profoundly impact your business. The same applies to climate events, where a crop failure in one place can have serious implications for food producers across the globe. Therefore, climate adaptation requires a supply chain and trade perspective to ensure your business remains resilient.

3 Systems change: from greening activities to changing the rules of the game

Finally, we believe that the topic of systems change will enter the boardroom prominently as the private sector must think systemically about decarbonisation. If the current system produces unsustainable outcomes, leaders must change the rules of the game – not just the players (their companies).

Below, we've outlined our top three expectations on how systemic change thinking enters the boardroom:

Collaborative action and advocacy

Frontrunners in sustainability increasingly realise they can't meet their net zero targets in isolation. Achieving goals like green steel, plastic, cement or transportation requires a thriving market for green hydrogen, effective carbon capture and storage (CCS), and robust electricity grids for renewable power. These goals can only be achieved effectively and efficiently through collaborative and coordinated action from companies, governments, industries, financiers, NGOs, and knowledge institutions.

We believe that corporate leaders will increasingly need to leverage their influence beyond their own operations. They should actively advocate for systemic change needed from all players, including governments and financial sectors. If the rules of the game become more sustainable, the desired outcomes will naturally follow.

Nature-based solutions

Beyond carbon emissions, companies are starting to address issues like biodiversity loss, plastic pollution, and water pollution. It was interesting to see that attendance of corporate leaders at the recently held UN Biodiversity Summit in Colombia was higher compared to last year, contrary to this years emissions summit in Baku.

Adopting nature-based solutions can align with CO_2 reduction goals, creating a holistic approach to sustainability. Think, for example, of increasing ground water levels in peatland or agriculture land that lowers CO_2 emissions from land use and generally increases biodiversity. Addressing these complex societal problems will yield the best results when corporate decision-makers adopt a systemic perspective rather than thinking within the confines of their own companies.

Carbon pricing

As economists, we support carbon pricing as an effective and efficient tool to enhance the financial viability of cleantech solutions and reduce emissions. COP29 is expected to solidify the framework for international voluntary carbon markets, addressing a persistent stumbling block in COP history by working out the details for accurate reporting and double counting of emissions. This development enables corporate leaders to incorporate carbon offsetting strategies into their carbon reduction plans. For example, CORSIA, a global market-based carbon scheme developed by the International Civil Aviation Organisation (ICAO), addresses CO_2 emissions from international aviation through carbon credit trading. Similarly, the International Maritime Organisation (IMO) framework allows shippers to purchase carbon credits to offset emissions in long-haul shipping. While these are examples of sector initiatives, any organisation in any sector can use carbon offsetting to ‘lower’ its carbon emissions.

> *Mandatory carbon markets or strict internal carbon pricing provide corporate leaders stronger incentives to reduce emissions*

However, we favour mandatory carbon markets, like the EU ETS, or companies calculating with a fictive internal carbon price of comparable size when making investment decisions over voluntary carbon markets, as prices in voluntary markets are generally too low to reflect the true cost of carbon reduction.

That said, COP29 is crucial for strengthening the credibility of voluntary carbon markets, offering corporate leaders a tool to offset emissions that cannot be reduced through other means. We believe the priority should be to reduce one’s own emissions as much as possible, with offsetting reserved for the most challenging reductions.

Truth be told, we're not convinced that COP29 will deliver any monumental milestones in climate policy – but we do think it'll set the stage for more significant progress at COP30.

However, corporate leaders should not underestimate its implications or delay action. COP29 continues to shape the management agenda, particularly in areas like corporate responsibility, climate adaptation and systems change.

Despite the challenging environment, we think that corporate leaders that are sustainability pioneers should be able to channel the outcome from Baku into strategic discussions and concrete actions.

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