SLAUGHTER AND MAY/

COP29: DID THE 'FINANCE COP' FIND ITS FEET, AND WHAT PROGRESS WAS MADE ON CARBON MARKETS?

GOVERNANCE & SUSTAINABILITY
Part of the Horizon Scanning series

The 29th Conference of the Parties to the UN's Framework Convention on Climate Change ("COP29") drew to a late close in Baku at the end of November, following protracted negotiations. The main areas of interest to companies and financial institutions will be the progress around agreeing more finance for fighting climate change and operationalising international carbon markets. A number of pledges were also made, including in relation to methane, deforestation, water and clean energy.

Finance for fighting climate change: The New Collective Quantified Goal on Climate Finance ("NCQG")

The NCQG is a key element of the 2015 Paris Agreement and was adopted to strengthen the global response to the threat of climate change. It aims to set a new financial target for developed countries to support developing countries in their climate actions post-2025. This goal builds on the previous commitment made at the Copenhagen Climate Summit in 2009, where developed countries pledged to mobilise $100 billion per year by 2020 to address the needs of developing countries.

The COP29 Presidency's top priority was a fair and ambitious NCQG to fight climate change. After concerns that the talks regarding the NCQG could collapse, a finance deal described by COP29 President Mukhtar Babayev as "the best possible deal we could reach" was agreed in the early hours of 24 November.

However, it has been met with dismay by many developing countries and NGOs. Many commentators have argued that the goal has not gone far enough to supply the funding that developing countries require. Plenty of questions are still outstanding regarding how the NCQG will look in practice, but progress towards any goal will require joint involvement from both the public and private sectors.

Promise to deliver $300 billion annually

The agreement sets a goal for developed countries to deliver at least $300 billion annually by 2035, tripling the previous goal of $100 billion. This figure, having been increased from the initial proposal of $250 billion during the negotiations, sits in stark contrast to the previous proposals from developing countries, which asked for wealthier countries to commit $1.3 trillion in public funds.

However, a path to providing more climate finance has been laid out. The COP decision calls on "all actors" to work toward scaling up financing to developing countries to at least $1.3 trillion, a stance which aims to strengthen the role of multilateral development banks ("MDBs") and maximise the leverage and impact of public funds by drawing in, and mobilising, significant private finance.

Such efforts will be part of a "Baku to Belém Roadmap to $1.3 trillion", which will discuss how to mobilise "additional resources" for low-carbon, climate-resilient development, as well as support developed country plans for cutting emissions and adapting to climate change. While details remain limited at this stage, Parties will aim to develop this Roadmap over the next year, in the lead up to COP30 in Belém, Brazil during November 2025.

We envision that the roadmap's ultimate contents may include provisions relating to improving private finance mobilisation and ongoing reforms to MDBs, potential affirmation for new taxes and levies on shipping, aviation, fossil fuels or financial transactions, as well as voluntary additional contributions from developed countries' public budgets.

Which countries should pay?

Some developed countries argued during the COP29 negotiations for expanding the NCQG's contributor base. Those countries take the view that some emerging economies, such as China and the Gulf States (which remain as developing countries under the UN's self-classification regime) contribute substantially to the overall global emissions levels and, therefore, should also assume obligations for climate finance.

The compromise reached at COP29 was that, in the final text, developing countries are "encouraged" to contribute to the $300 billion on a "voluntary basis", with developed countries taking the lead in making contributions.

Forms of finance: both public and private

The decision to include the private sector in the NCQG is a significant step, as it enables the private sector to be more actively involved in climate action. However, there is a lack of clarity about who pays what, with the agreement making no formal distinction between public and private financing, or between grants and loans. If a clearer position on private sector transition planning had been achieved during the NCQG negotiations, this would have helped to signal to investors where private allocation and support is needed.

The final text of the agreement provides that financial support can come in the form of "grants, concessional and non-debt creating instruments", allowing the $300 billion goal to be achieved through a wide variety of sources, public, private, bilateral, multilateral, and alternative sources.

This does not, however, address the key challenge that most climate finance is delivered as debt, which adds to the pressures of debt sustainability and increases the indebtedness of many developing countries. Recent International Institute for Environment and Development analysis shows that the 58 countries, which are either part of the Least Developed Countries ("LDC") Group or the Small Island Developing States ("SIDS") group, spent $59 billion repaying debts in 2022, compared with the $28 billion they received in climate finance.

Funding for mitigation, adaptation, and loss and damage

Many parties and stakeholders in the NCQG discussions prior to COP29 suggested using thematic sub-goals for allocating funding to mitigation, adaptation, and loss and damage ("L&D") to bring more nuance to how the goal is applied in practice.

However, the final NCQG decision does not include these sub-goals, or minimum allocations for specific regions, LDCs or SIDS. The key provision which contains the $300 billion goal does mention mitigation and adaptation but relegates L&D to later in the text.

The final NCQG decision nevertheless affirms the "need for urgent and enhanced action and support for averting, minimizing and addressing L&D associated with climate change impacts". It also "decides" that a significant increase of public resources should be provided, including through the Loss and Damage Fund.

Carbon markets: progress toward Article 6 operationalisation

COP29 represented a significant milestone for the future of carbon markets. In its prelude, expectations around negotiations concerning Article 6 of the Paris Agreement (which relates to the development of carbon markets for countries and companies) remained decidedly muted, having been the focus of much anticipation and frustration at COP28 in Dubai.

Following almost a decade of negotiations, the rules governing both country-to-country trading under Article 6.2, and the new Paris Agreement Crediting Mechanism ("PACM") under Article 6.4, are now essentially complete. The COP29 Presidency hailed consensus on these workstreams as a "breakthrough" in operationalising Article 6 carbon markets.

Overall, these outcomes could significantly enhance private sector engagement by facilitating transparency, and minimising regulatory risk, for carbon market participants.

Creating a new crediting mechanism

Despite a history of delays, COP29's opening day witnessed negotiators swiftly approving methodological guidance for setting emissions baselines, assessing additionality, and adopting greenhouse gas removal standards applicable to PACM projects. These rules intend to ensure environmental integrity and mitigate oversupply risks in carbon markets.

Under the new guidance, PACM projects must set baselines below business-as-usual ("BAU") emissions levels, with regular downward adjustments over time. In addition, PACM projects must comply with strict "financial additionality" criteria—demonstrating reliance on PACM revenues—alongside "regulatory additionality"—exceeding host country regulatory requirements—and avoid any lock-in of higher-emissions technologies. Renewable energy projects remain eligible under PACM, provided they satisfy these conditions. COP29 further clarified the transition rules for clean development mechanism ("CDM") afforestation and reforestation projects—registered under the Kyoto Protocol—to be transferred into the PACM. Eligible CDM projects must undertake a simplified re-validation process to ensure compliance with the new criteria before a 31 December 2025 deadline.

In another significant development, the COP adopted a mechanism to contribute to the overall mitigation of global emissions ("OMGE"), under which the cancellation of 5% of carbon credits—labelled as Sustainable Development Units ("SDUs")—issued from every PACM project will occur.

Negotiators also endorsed the PACM's "sustainable development tool", which imposes mandatory human rights and environmental safeguards. Measures to prevent or mitigate risks include comprehensive risk assessments, ongoing monitoring of potential adverse impacts, stakeholder engagement, and indigenous peoples' free, prior, and informed consent.

While the PACM Supervisory Body continues its work on approving specific methodologies, we may expect the operationalisation of the first PACM projects by late 2025.

Clarity on country-to-country carbon rules

A separate COP29 decision further clarifies the Article 6.2 mechanism's rules. A major development is increased transparency and consistency of Internationally Transferred Mitigation Option ("ITMO") trading between countries. Negotiators agreed on detailed elements, covering information on the origin, uses, units of measurement, sectors, activities, and vintages of ITMOs covered by a given authorisation.

The decision also establishes that both participating parties must agree to any changes to ITMO authorisations once the "first transfer" of those ITMOs has occurred. Furthermore, the COP29 decision outlines participating parties' annual reporting requirements. It subjects those parties to a technical expert review process, which will assess the alignment of reported information with Article 6.2 rules.

In addition, a number of countries agreed new carbon trading deals, including Zambia which signed bilateral agreements with Singapore, Sweden and Norway.

Measures to combat carbon leakage

Aside from these decisions, countries agreed on measures to minimise the risks of carbon leakage—focusing on sectors at high risk of losing competitiveness due to climate measures—and other environmental integrity concerns. Developing countries also secured a COP decision to begin a work plan on the "cross-border impacts" of "measures taken to combat" climate change, which most observers predict will be primarily directed to considering the effects of carbon border adjustment mechanisms on developing countries.

A plethora of pledges

Nationally Determined Contributions. Several countries used COP29 to strengthen their Nationally Determined Contributions ("NDCs"). The UK government announced an ambitious target to reduce emissions by at least 81% by 2035 from 1990 levels, demonstrating leadership ahead of the February 2025 deadline for revised NDC submissions. Brazil's government also unveiled a bold 2035 NDC committing to a 59-67% emissions reduction from 2005 levels, reflecting its leadership intent ahead of hosting COP30. We expect to observe further explicit integration of carbon capture and storage ("CCS") activities in those revised NDCs. The United Arab Emirates pledged to reduce emissions by 47% from 2019 levels by 2035, while a coalition of other parties—including Canada, the EU, Mexico, Norway, and Switzerland—reaffirmed commitments to submitting NDCs reflecting trajectories consistent with the Intergovernmental Panel on Climate Change's ("IPCC's") 1.5 degree C pathways.

Fossil fuels. Unlike previous conferences, COP29 featured a notable absence of high-profile pledges to phase out fossil fuels. However, in a reaffirmation of efforts to transition away from coal-fired electricity generation without carbon capture and storage, 25 jurisdictions—including the UK and EU—committed to incorporating a "no new unabated coal power" pledge in their NDC updates. In addition, the UK joined a 15-country alliance to phase out fossil fuel subsidies.

Nuclear. Six additional countries endorsed the Declaration to Triple Nuclear Energy (which initially launched at COP28). This brings the declaration's signatories to 31 and includes both established nuclear producers (such as the UK, US, Japan and many EU countries) as well as countries aspiring to develop nuclear capabilities (including Kenya, Mongolia, Morocco and Nigeria). The UK also signed bilateral civil nuclear collaboration agreements with both the US and Finland. These agreements aim to accelerate advanced nuclear technology deployment through measures such as pooling financial resources for R&D, expediting integration of new nuclear technologies into existing energy grids, diversifying nuclear fuel supplies, regulatory cooperation, and knowledge-sharing.

Clean energy. COP29 also demonstrated significant progress in clean energy through the announcement of three major initiatives:

- The Global Energy Storage and Grids Pledge aims to deploy 1,500 GW of energy storage by 2030, along with 25 million kilometres of grid infrastructure.

- The Green Energy Zones and Corridors Pledge promotes efficient long-distance renewable energy transmission between generation sites and population centres.

- The COP29 Hydrogen Declaration commits to scaling up renewable, zero-emissions, and low-carbon hydrogen production, while decarbonising existing hydrogen production that relies on unabated fossil fuels.

During the concurrent G20 meeting in Rio de Janeiro, the UK led a 13-country Global Clean Power Alliance to triple renewable energy capacity by 2030.

Methane. Over 30 countries signed a new declaration to target methane emissions from organic waste, complementing the Global Methane Pledge—launched at COP26—to reduce emissions by 30% by 2030. The US also finalised details on a methane fee for high-emitting oil and gas producers, marking a potentially significant regulatory step despite expected challenges under the incoming administration.

Deforestation. The UK has pledged £239 million, including blended finance, in funding to help forest-rich nations tackle climate change. This forms part of the £11.6 billion already committed by the previous government on international climate financing, including £3 billion on nature, to which the new government pledges its commitment.

Water. The Azerbaijani presidency-led Baku Declaration on Water for Climate Action—which calls for the integration of water-related mitigation and adaptation measures in national climate policies—will ensure that the water sector remains a focal point for future COPs.

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