

Vinson&Elkins

COP28

Outcomes & Next Steps



The 2023 United Nations Climate Change Conference (“COP28”) reached a significant development in international climate policy, ending with the “first Global Stocktake” calling for a “transition away from fossil fuels in energy systems.” In addition, COP28 resulted in an agreement to create a loss and damage fund for countries vulnerable to the impacts of climate change, further negotiations to adopt a new climate finance goal, and the establishment of a framework for a Global Goal on Adaptation. While the Global Stocktake has been hailed as “historic” and represents a large step toward climate action since the Paris Agreement—the outcome of COP21 which aims to limit temperature increases to 1.5 degrees Celsius above pre-industrial levels—it remains to be seen whether it will be able to achieve its intended impact, particularly in light of the role of carbon markets and growing gaps in financing climate adaptation that will be central to COP29 negotiations. The following is a snapshot of the most important outcomes and next steps.

COP28 | What Matters for Business

- The Global Stocktake marks the first explicit reference to fossil fuels linked to the climate crisis in the history of the United Nations Framework Convention on Climate Change.
 - Notably, the agreement calls for a “transition away from fossil fuels in energy systems, in a just, orderly and equitable manner” rather than the more aggressive “phase out” or “phase down” of fossil fuels advocated for by some countries.
 - In particular, the text highlights the need for a substantial reduction of methane emissions by 2030.
 - Transitional fuels (with explicit recognition of natural gas (including LNG) recognized as a transition fuel) are recognized as playing a role in facilitating the energy transition while ensuring energy security.
 - Carbon capture and utilization and storage is recognized among other low- and zero-emission technologies as part of the path to limiting global warming to 1.5°C.
 - The agreement tasks governments with tripling renewable energy capacity and doubling energy efficiency improvements by 2030.
- The Global Goal on Adaptation (“GGA”) builds on the Paris Agreement’s commitment to enhance adaptive capacity, strengthen resilience and reduce vulnerability to climate change.
 - The GGA framework calls for countries to double their climate finance for adaptation by 2025.
 - By 2030, countries are expected to conduct impact, vulnerability and risks assessments and put in place national adaptation plans, implementation strategies and monitoring systems for national adaptation efforts.
 - Countries agreed to develop a loss and damage fund through the World Bank, with initial commitments totaling \$700 million.
- The conference set a process for determining a new climate finance goal (the “New Collective Qualitative Goal” or “NCQG”) but stopped short of negotiating key details such as timeframes and funding.
- The US-EU led Global Methane Pledge saw five more nations join, bringing the total number to 155 nations.
- Leaders from nations comprising approximately 80% of the world’s landmass signed a declaration to integrate food into climate plans by 2025.
- Leaders from nations representing over 85% of the world’s forests committed to scale up financing, ensure participation of Indigenous peoples and local communities and improve data collection to reverse forest loss and land degradation.

COP28 | What to Watch for

- How will a “just transition” play out in practice? The Global Stocktake considers the role of transitional fuels and mitigating technologies an important part of ensuring energy security during the move from fossil fuels to renewable energy sources.
- What role will carbon markets play in international emissions offsets and trading programs?
 - Countries failed to reach a compromise on the establishment of a centralized carbon offset and trading market, setting the stage for new discussions at COP29.
 - The failure to reach a compromise further underscores the differing approaches to carbon markets among countries, with the United States emphasizing the role of the private sector in conflict with the European Union’s desire to hold carbon offsets in line with the robust standards of its own existing emissions trading system.
- How will countries tackle the climate financing shortfall to achieve ambitious adaptation goals?
 - Current climate financing commitments to provide \$100 billion in annual aid to developing nations appear to fall short, with some estimates predicting as much as \$5.9 trillion will be required to meet the needs of developing nations through 2030.
 - Climate finance goals continue to be a point of contention, as countries pushed the adoption of the NCQG to COP29.
- How will the actions of nation states affect private enterprises? Beyond the actions of the sovereign nations themselves, the signatories to the various agreements made at COP28 (and other COPs) will likely push corporate entities by offering incentives and penalties—through credits, regulations, taxes, etc.—to attempt to meet the goals set, which could directly impact the private sector in significant ways.

COP28 | What to Do Now

- Have in place an internal review mechanism through a stakeholder committee and a board of directors reporting agreement on climate data and disclosures.
- Determine how and where you will invest the money and resources needed to meet the “just transition” away from fossil fuels, particularly with respect to methane emissions.
- Get smart about carbon offsets that integrate operational and financial objectives.

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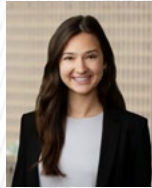
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