

Weekly Summary

# Economics of Climate Change

December 15, 2023

## COP28: Real gains if fully implemented, but transformative action is still needed

If fully implemented, the better-than-expected outcome of COP28 should represent not negligible progress towards the Paris Agreement goal. However, much more is needed to achieve them.

- **What was the climate situation before COP28? Need for decisive actions.** GHG emissions are at record high, and their intensity decline is too slow, policies are slowing down and the Global Stocktake shows that challenges persist in closing both ambition and implementation gaps.<sup>1</sup>
- **What were the expectations at the beginning of the COP28? Ambitious COP proposals with a lack of detail due to different country goals.** Geopolitics favors that the EU, the US, and China focus on emissions neutrality, but at different rhythms, tools and against the opposition of oil producers such as Saudi Arabia.
- **What has been the final outcome? Positive advances beyond the first call to "transition away from fossil fuels".** The trade-off between consensus and binding decisions favors reaching agreements, even if implementation details remain pending.
- **Reading list:** worth references on COP28 and the state of climate.

Table 1. **QUICK ASSESSMENT ON COP28 OUTCOMES**

Emissions mitigation	✓ Call to transition away from fossil fuels (x3 renewables, x2 efficiency) to be on the road towards 1.5°C
	✗ But loopholes are permitted
Adaptation	✓ Call to enhance adaptive capacity and resilience
	✓ Call to end subsidies for inefficient fossil fuel subsidies
Finance	✓ Loss and damage fund operationalization
	✗ Clearer plans are needed to lure private investors
Geopolitics	✓ European ambition and US and China collaboration

Source: BBVA Research

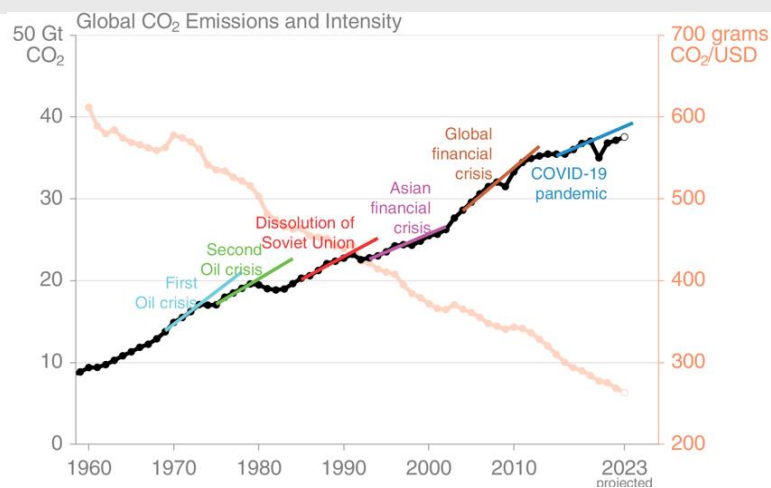
1: see Box 2: COP28 initiatives will only reduce emissions if followed through, a real time analysis by Climate Action Tracker

## What was the climate situation before COP28? Need for decisive actions.

GHG emissions are at a record high, and their intensity decline is too slow, policies are slowing down and the Global Stocktake shows that challenges persist in closing the ambition and implementation gaps.

**Emissions: Fossil CO<sub>2</sub> emissions are at a record high in 2023.**<sup>2</sup> Global fossil fuel emissions are projected to rise by 1.1% in 2023, reaching a new record high. Emission intensity has steadily declined but not sufficiently to offset economic growth (Figure 1). Emissions are declining in some economies (26 countries representing 28% of global emissions), but these efforts are insufficient to reverse the overall trend. **If current emission levels persist, there is a 50% chance global warming will consistently exceed the 1.5°C goal in about 7 years,** according to the Global Carbon Budget's estimates.

Figure 1. **GLOBAL CO<sub>2</sub> EMISSIONS AND INTENSITY**



Source: [Friedlingstein et al 2023 Global Carbon Project 2023](#)

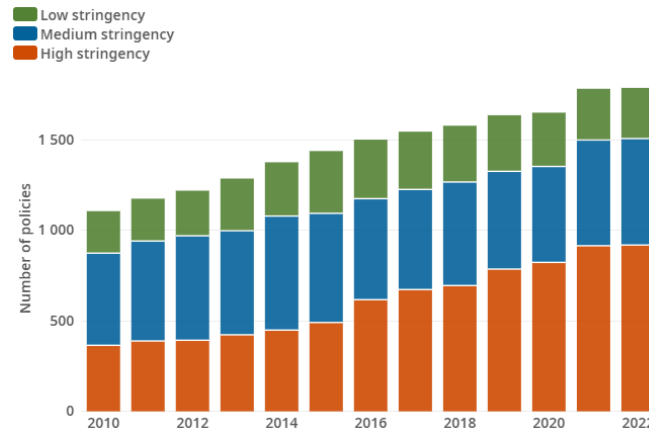
**Climate Policies: Overall national-level climate action slowed in 2022.**<sup>3</sup> As of September 2023, 105 countries pledged net-zero targets, but only 26 and the EU legally enshrined them. Net-zero goals cover 83% of global emissions, yet they are not binding for most. IPCC estimates indicate a 43% global GHG reduction by 2030 is necessary to meet the 1.5°C target. However, OECD countries committed to only a 28% reduction, requiring a 30% increase to bridge the ambition gap.

**In 2022, the number of national adopted climate policies saw a mere 1% growth, slowing from a 10% average between 2000 and 2021** (Figure 2). While policy coverage and stringency don't always indicate effectiveness, the 2022 slowdown poses risks to implementation. Divergence in climate action is evident, with 22 OECD countries and 8 partner countries intensifying efforts, driven by net-zero pledges and regulatory measures. Geopolitical and economic shocks led to backtracking, delaying climate actions while fossil fuel support reached USD 1 trillion.

2: Reference: [Global Carbon Budget | Fossil CO<sub>2</sub> emissions at record high in 2023](#). 4 December 2023

3: Reference: [The Climate Action Monitor 2023](#). OECD. November 2023

Figure 2. **NUMBER OF ADOPTED CLIMATE POLICIES**



Data covers all OECD and OECD partner countries except the United States.  
Source: OECD (2023), [Climate Actions and Policies Measurement Framework](#) (CAPMF)

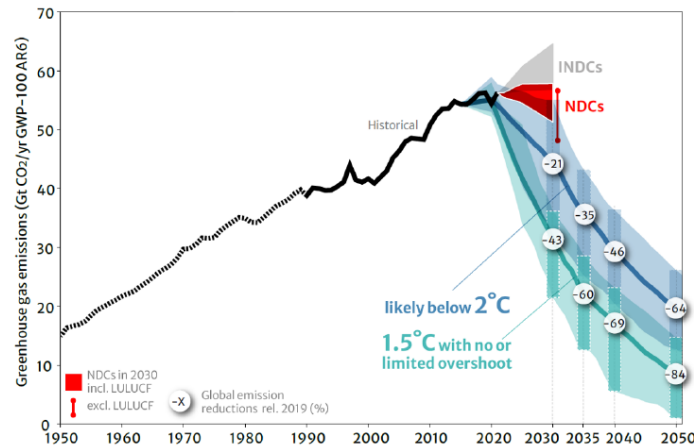
**Climate action disparities highlight the need for international coordination.** The expansion of market-based instruments lagged, emphasizing a decreasing role in policy mixes. The path to net-zero demands ambitious targets, inclusive policies, and addressing social and economic impacts.<sup>4</sup>

**The Global Stocktake, the basis for COP28 discussions.** The first Global Stocktake (GST) serves as a 5-yearly checkpoint, assessing collective progress towards Paris Climate Agreement goals, focusing in three areas: mitigation, adaptation and means of implementation - i.e. how to finance climate action-. The technical report,<sup>5</sup> published in September, stated that it is crucial to act urgently and has served as a basis for discussion of concrete measures to close these gaps at COP28, including progress towards more ambitious Nationally Determined Contributions (NDCs). Still, challenges persist in closing the ambition and the implementation gap (Figure 3 and Box 1).

4: The [OECD's Net Zero+](#) project explores climate and economic resilience, addressing challenges like skills shortages and mineral supply bottleneck.

5: Reference: [Technical dialogue of the first global stocktake United Nations](#), September 2023.

Figure 3. **GHG EMISSIONS, HISTORICAL AND PROJECTED BASED ON NDC AND REDUCTION REQUIRED TO MEET TEMPERATURE TARGETS**



Source: [Technical dialogue of the first global stocktake United Nations](#), September 2023.

**Box 1. KEY FINDINGS OF TECHNICAL DIALOGUE OF THE FIRST GLOBAL STOCKTAKE**

- **Global emissions.** To limit warming to 1.5 °C, there's a call for more ambitious targets, aiming for a 43% reduction in global greenhouse gas emissions by 2030 and a 60% reduction by 2035 compared to 2019 levels. Achieving net zero emissions by 2050 requires system transformation across sectors. In this regard, renewable energy presents a promising avenue due to efficiency gains and technological breakthroughs, but also fossil fuel phase-out, *just transitions*<sup>6</sup>, deforestation cessation and enhanced transparency.
- **Adaptation.** On the adaptation front, it stresses the efforts to strengthen resilience and reduce vulnerabilities, especially in developing countries. Since efforts remain fragmented and unevenly distributed, urgent comprehensive action and scaled-up funding arrangements are deemed essential to manage risks, avert loss and damage, and support affected communities. The operationalization of the loss and damage fund plays an essential role in significantly increasing the capacity and resources to overcome the adaptation financing gap.
- **Sustainable finance.** Aligning finance flows – international and domestic, public and private – with low greenhouse gas emissions and climate-resilient development might unlock the trillions of dollars needed for shifting global investments, which has to be channeled into cleaner technology deployment, innovation, technology transfer and capacity building. Key findings underscore the need for scaled-up support in developing countries, emphasizing the strategic deployment of international public finance. Enhancing access to climate finance, simplifying processes, and involving multilateral banks are crucial.

6: [What is just transition? And why is it important?](#)

## What were the expectations at the beginning of the COP28?<sup>7</sup> Ambitious COP proposals with lack of detail due to different country goals.

Geopolitics favored that the EU, the US and China focus on emissions neutrality, but at different rhythms, tools and against the opposition of oil producers such as Saudi Arabia.

**What were the initial proposals of the COP28? Ambitious, but lacking details on contentious issues, such as the transition to move away from fossil fuels.** The main proposals were organized into three paradigms shifts:

- **Fast-tracking the energy transition and slashing emissions before 2030.** The mitigation outcome should align with the Paris Agreement, operationalize carbon market approaches, and launch the Just Energy Transition package. The COP28 Presidency aimed to triple renewable energy capacity, halve oil and gas industry emissions, transform sectors, and accelerate coal phase-out.
- **Deliver old promises and set the framework for a new deal on finance.** COP28 urged developed countries to fulfill commitments, replenish the Green Climate Fund, and double adaptation finance by 2025.
- **Put nature, people, lives and livelihoods at the heart of climate action.** Operationalizing the new fund for loss and damage is a priority; initiatives promoting biodiversity protection and frontline conservation efforts, including women and Indigenous Peoples, will be platformed; COP28 targets transforming food systems and a climate-health ministerial with initial financing packages.

**The EU hoped to increase global ambition towards climate neutrality at COP28.**<sup>8</sup> It encouraged all parties to agree to global energy goals to phase out fossil fuels, to strive for a decarbonised global power system and to triple installed renewable energy capacity and double the rate of energy efficiency improvements by 2030. In terms of financing, the EU remained firmly committed to delivering the \$100 billion goal set by the Paris Agreement and to double adaptation finance. In 2022, it contributed €28.5 billion from public sources and mobilized €11.9 billion of private finance to support developing countries to reduce emissions and adapt to climate change impacts. In this context, the EU looked forward to agreeing at COP28 the operationalisation of the global fund on loss and damage to support vulnerable countries in overcoming the destruction caused by climate change launched at COP27.

**Before the start of the COP28, China and the US were largely on the same page.** They met to enhance their collaboration on climate change, affirming their commitment to jointly address the climate crisis and inviting countries to a Methane and Non-CO2 Greenhouse Gases Summit. They emphasized the importance of the Paris Agreement goals, cooperation, and establishing a Working Group for climate action. Both countries' 2035 NDCs align with temperature targets. The Global Stocktake decision, following a meeting in Bali and subsequent discussions, underscored progress, equity, ambition, adaptation, financial goals, and international cooperation.<sup>9</sup>

**Oil-producing countries, such as Saudi Arabia, were not interested in phasing out fossil fuels.** Its opposition to fossil fuel phase-out language for global climate action was consistent, with projecting a substantial rise in emissions by 2030 and to increase oil output, conflicting with global decarbonization goals. Despite

7: Reference: [Letter To Parties - COP28 UAE](#)

8: The [EU position for COP28](#) was agreed upon at the October Environment Council.

9: for reference: [US and China Agree to Enhance Cooperation on Climate Change | News | SDG Knowledge Hub | IISD](#)

ambitious renewable energy targets, tangible progress remains elusive and promotion of carbon capture and storage (CCS) was viewed skeptically as an alternative from fossil fuel reliance.

## What has been the final outcome? Positive advances beyond the first call to "transition away from fossil fuels".

The trade-off between consensus and binding favors reaching agreements, even if implementation details remain pending.

COP28 deal calls for global transition away from fossil fuels for the first time. It covers how far we have come in reducing emissions, preparing for climate change and financing these changes.

**For the first time, it calls on countries to accelerate a global shift away from fossil fuels.**<sup>10</sup> Many countries, including those in the EU and the Alliance of Small Island States, pushed during the summit for a commitment to “phase out” fossil fuels. That term has not been included in the text but instead calls on nations to contribute to transitioning away from fossil fuels in energy systems, in a “just, orderly and equitable manner”, accelerating action in this critical decade, so as to achieve net zero by 2050 in keeping with the science.

### But there are also loopholes:

- The language agreed at COP26 on “accelerating efforts towards the phase-down of unabated coal power” survives unchanged, despite efforts here to strengthen wording around the most polluting fossil fuel.
- A controversial clause is the one that states that “transition fuels can play a role in facilitating the energy transition while ensuring energy security.” This is an apparent reference to fossil gas.
- Regarding energy systems, the text notes that countries can take into account “their different national circumstances, pathways and approaches”, which they could use to encourage flexibility around their obligations.

**Developed countries have far to go on climate finance.** The global stocktake warns of the “growing gap” between the finance that developing countries need to fund their climate-related obligations and the support they have so far secured. Their adaptation finance needs are estimated at \$215-387bn a year this decade. However, as it acknowledges that adaptation finance “will have to be significantly scaled up” beyond the doubling (from 2019 levels, by 2025) that has already been agreed, the text is short on detail of how it will be achieved. Similarly, while the deal welcomes the first funding provided for the new climate loss and damage fund, these commitments amount to “an initial down payment”, as Simon Stiell, executive secretary of the UN Framework Convention on Climate Change, said.

**A massive increase in funding for low-carbon energy is also needed.** The deal calls on nations to triple the amount of renewable energy, like wind and solar power, installed around the world by 2030 and to slash emissions of methane, a greenhouse gas that is more potent than carbon dioxide in the short term. The text made clear that climate finance, both to restrain climate change and to respond to its impacts, will “need to increase manyfold”. The capital is there to close the investment gap, but there are “barriers to redirecting capital to climate action”. For this end, **taxation is one of the “new and innovative sources of finance”** for governments to explore.

10: for reference: [Saudi Arabia | Climate Action Tracker](#). Dec-23

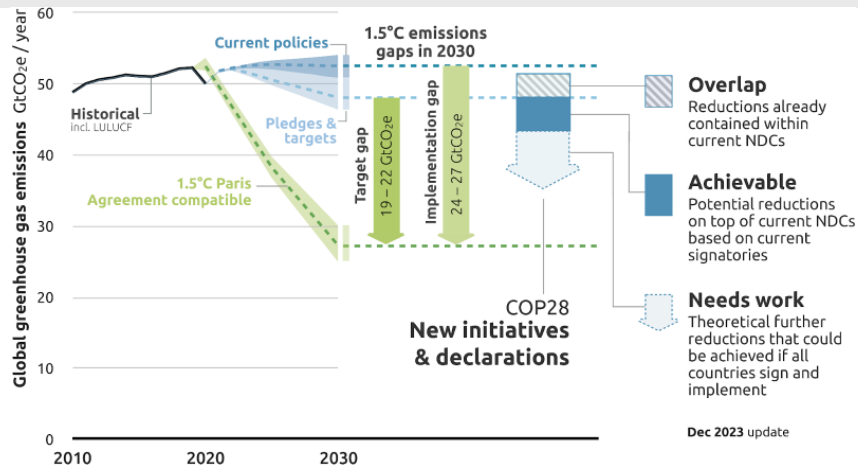
**The agreements reached at COP28 are not legally binding.** However, the text does point out that the abandonment of fossil fuels is the path that will be followed in the coming years. In addition, each country must present a detailed plan in two years on how it intends to curb greenhouse gas emissions and this agreement will serve to guide them.

**Box 2. COP28 INITIATIVES WILL ONLY REDUCE EMISSIONS IF FOLLOWED THROUGH, A REAL TIME ANALYSIS BY CLIMATE ACTION TRACKER<sup>11</sup>**

- Many of the sectoral initiatives unveiled at COP28 lack the necessary ambition, clarity, coverage, or accountability to significantly narrow the emissions gap.
- Approximately 25% of the emissions reductions promised in the pledges are already accounted for in government NDCs, another 25% is feasible but requires additional efforts, and the remaining 50% faces significant challenges without further enhancements to the initiatives.
- The Renewable Energy and Energy Efficiency Pledge stands out as a key commitment, with the potential to bridge approximately one-third of the gap between existing policies and the 1.5°C target in 2030 if fully executed.
- The "Oil and Gas Decarbonisation Accelerator" initiative is criticized as a form of greenwashing by oil and gas companies, as it narrowly addresses upstream emissions without addressing the fundamental need to phase out fossil fuels, where emissions are significantly higher.
- The commitment to scale carbon capture to a gigatonne by 2030 is deemed unrealistic, requiring a more than doubling of the announced project pipeline, with a historical success rate of around 20% for CCS projects.
- The agriculture and food initiative is criticized for its vagueness, it may end up being more of a forum for discussions than a concrete action plan.
- All in all, while the initiatives' impact is acknowledged, negotiations at COP28 must go beyond them, emphasizing a clear direction in conference texts (Figure B2). This includes committing to a fossil fuel phase-out, tripling renewables, doubling energy efficiency, and providing the necessary financial support for these measures.

11: for reference: [COP28 initiatives will only reduce emissions if followed through](#). Climate Action Tracker, December 12, 2023.

Figure B2. **ESTIMATING THE IMPACT OF COP28 INITIATIVES. WHAT IS OVERLAP, WHAT IS ACHIEVABLE AND WHAT NEEDS WORK?**



Source: [Climate Action Tracker](#)

## Reading list

### ■ COP28

- [Letter To Parties - COP28 UAE](#)
- The Global Stocktake
  - In a few words: [The Global Stocktake at COP28](#). Nature.
  - Full technical document for political discussion at COP28: [Technical dialogue of the first global stocktake United Nations](#)
  - The outcome of the first global stocktake. [Matters relating to the global stocktake under the Paris Agreement. Draft decision -/CMA.5. Proposal by the President.](#)
- The outcomes of the COP28 analyzed by:
  - [COP28 Agreement Signals “Beginning of the End” of the Fossil Fuel Era | UNFCCC](#). United Nations Climate Change.
  - [What to make of the deal struck at COP28. For the first time the world has agreed to move away from fossil fuels](#). The Economist.
  - CarbonBrief. [COP28: Key outcomes agreed at the UN climate talks in Dubai - Carbon Brief](#).
  - [COP28: Wrap-up](#). McKinsey Sustainability.



■ Think tanks analysis

- [Interactive: Tracking negotiating texts at COP28 climate summit.](#) CarbonBrief.
- [COP28 initiatives will only reduce emissions if followed through.](#) Climate Action Tracker, December 12, 2023.

■ The state of climate as of 2023:

- [Global Carbon Budget | Fossil CO2 emissions at record high in 2023](#)
- [The Climate Action Monitor 2023.](#) OECD
- [Is the Paris Agreement Working? A Stocktake of Global Climate Mitigation.](#) IMF

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