COP29: The message from Baku*

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When Azerbaijan as the Presidency of this year's Conference of Parties (COP29) held at Baku, in Azerbaijan, informed delegates working on extended time that participating countries had arrived at an agreement, there were many who disagreed. India, using an odd metaphor, declared that the document was nothing more than an optical illusion. Others had been less diplomatic and called it out as a joke. And the most affected and vulnerable set of small island states and less developed countries had a couple of days earlier symbolically walked out of a meeting stating that their voice had been completely ignored.

The main bone of contention was the core issue that COP29 was supposed to address: climate finance. The rich countries who were the main contributors to cumulative carbon emissions and largely responsible for ongoing warming had committed, in Copenhagen in 2009, to provide the less developed countries a sum of $100 billion a year by 2020. That goal according to the OECD was realised with some delay, but many other assessments argue that it is still to be achieved. Be that as it may, the Paris Agreement of 2015, required the Annexe 2 countries to raise the $100 billion commitment by 2025. So Baku was the last call.

This is not the only reason that COP29 was identified as a 'Finance COP'. Research relating to the causes of global warming, the pace of that warming, the maximum temperature rise that humanity can tolerate, and what needs to be done to keep within that ceiling has seen considerable advance. The problem today is not knowing what needs to be done, but how is to finance the needed initiatives, and how to share that burden.

There is clear evidence that it was the developed countries, in the course of their wealth accumulation, that had contributed a lion's share of carbon emissions and exhausted a huge and disproportionate share of the carbon budget available if warming had to be below the 1.5-2°C ceiling. They, therefore, had to take responsibility to slow down emissions globally, ensure that the world approached net-zero emissions soon, and the world's population learnt to adapt to the climate change that was anyway occurring. These developed (or Annexe 2 countries in UNFCC language) had to provide much of the finance for investments that (in most required areas) promise no, or extremely low, returns. Hence the money had to largely be in the form of grants or low-cost finance. It was this reality that was captured in the idea of "common but differentiated responsibilities, and respective capacities" included in the Paris Agreement.

While recognising this, the Paris Agreement (PA) did not point to any approximate figure, did not clearly specify the sources of the funding, and failed to clearly identifying the composition of the intended transfer in terms of the share of grants, concessional loans, commercial public debt, and private financial flows. In fact, it was vague on these issues, merely stating that "developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels", while "noting the significant role of public funds". While declaring that the developed countries "shall provide financial resources to assist developing country Parties", it also stated that "Other Parties are encouraged to provide or continue to provide such support voluntarily." On the magnitude of support the PA merely said that "mobilization of climate finance should represent a progression beyond previous efforts".

It was in 2021 that the international community decided to launch a work programme to arrive by 2025 at a 'New Collective Quantified Goal' or a new figure for the finance that needs to be developed by the developed countries. That was what made climate finance the lead issue at this year's COP. In the years since 2021 there have been many efforts to arrive at figures on the total finance needed globally to keep warming below the desired ceiling of 1.5-2°C, to invest in adaptation to adjust to the consequences of the climate change that is ongoing, and to compensate countries for the Loss and Damage they would suffer because of the extreme weather events precipitated by ongoing climate change. There were three sub-themes to that effort. The share of that spending that must occur in the less developed countries, which bear little responsibility for ongoing climate change. The share that must be contributed by the developed to meet spending needs in the less developed. And the share of that flow which must be from public sources and consist of grants and concessional loans.

Global numbers run into many trillions of dollars. And some placed the number of the required amounts in the less developed countries at $5-7 trillion a year. But of those flows from the developed to the less developed, countries represented by the Group of 77 and allies argued, at least $1.3 trillion a year must be from public sources and in the form of grants or concessional loans with a high grant-equivalent value.

Right from the start it was clear that the developed countries were unwilling to accept the jump from $100 billion to $1.3 trillion in grant-based or concessional flows from public sources. Discussions started from a doubling of the "previous effort" or $200 billion and moved to a 'compromise" $250 billion. That's when the poorest countries chose to stage a walk out. But all that could elicit as response was a hike to $300 billion a year, and that too by 2035.

To cover up that hypocrisy involved, the 'deal' was dressed up as a $1.3 trillion "layered" offer, with $300 billion of public grants and loans being the "inner core", to be topped up with a second layer of financing based on taxes on fossil fuels and high-carbon activities, carbon trading, and other innovative forms of finance, and a final layer consisting of private sector investment and financial flows. As many have pointed out, while innovative finance and private capital have a role to play, giving them the dominant responsibility, and even promising to leverage public capital to draw in private finance, is nothing but a cop out. To add to that, there is a parallel effort to divert attention from the principal responsibility of the developed countries, by calling on other countries who are currently significant emitters (such as China) to "voluntarily" contribute to the mitigation and adaptation effort.

The measly sum on offer from the Annexe 2 countries is obvious. Allowing even for a low average 4 per cent rate of inflation, $100 billion in 2020 amounts to $180 billion in 2035. Hike that average inflation rate to 6 per cent and the figure jumps to $240 billion. These are by no means exaggerated possible rates of "average" inflation across the Annexe 2 countries. So, what we are talking of is not even a euphemistic "three-fold" increase in contribution, but increases amounting to 0.6 to 1.2 per cent in real terms. Relative to the magnitude of the ask this is indeed a joke, and not just an “optical illusion”. Given the fact that the binding constraint to progress towards mitigating climate change is finance, and responsibility for mobilising those finances is largely that of the developed countries, the message is clear. The developed countries are walking out of the climate effort, after having spent years screaming about the danger from fossil fuels and the need to commit to “net zero”. In the new context that looks like a sham.

Surprisingly, there is now less concern among the developed moving out of about fossil fuels, possibly given the US role as producer and exporter and the need for cheaper alternative sources to Russian energy in Europe. There was concern that at Baku, oil exporters like Saudi Arabi and Azerbaijan were walking back on the agreement on the need to “phase down” even if not “phase out” fossil fuels. There is no explicit commitment to move out of fossil fuels in the Baku “agreement”. That raises a suspicion. Did the developed countries go along with that dilution in return for a weak requirement on climate finance in the final document? The Azerbaijan Presidency has been accused by India of gavelling agreement on the climate finance target and wording, ignoring its request to speak before a decision was voted on. If that reflects a new alliance between fossil fuel producers and the developed countries, the international community’s efforts to address ongoing climate change and the impending climate catastrophe are clearly on hold. And with a new administration poi sed to take office in the United States, that hold may not be temporary.

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