

Climate Investment Update

The rocky road from Bonn to Dubai

Free to View
Climate Change - Global

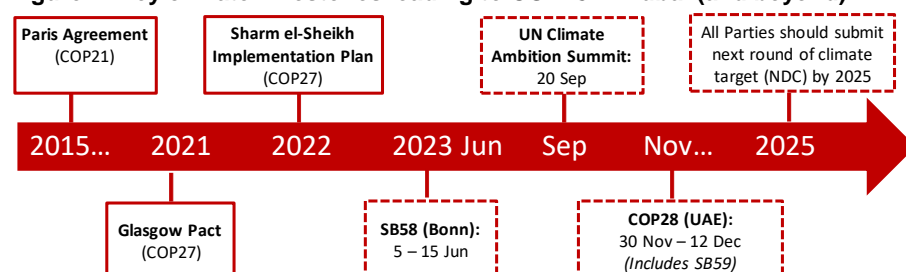
- ◆ Bonn session shows many gaps to be bridged at COP28 as the 1st global stocktake to assess Paris Agreement progress unfolds
- ◆ Sticking points include stocktake outcomes, more clarity on adaptation goals, and the funding of the loss & damage fund
- ◆ Ambition levels will vary as politics determines the signalling; controversies will continue in the months ahead, in our view

Bonn delay: Climate negotiators met at the inter-sessional climate talks, known as SB58 (the 58th meeting of the Subsidiary Bodies), held in Bonn, Germany, on 5-15 June. The discussions are supposed to lay the foundation for progress to be made at COP28 in Dubai; however, they also highlight where the major sticking points could be. The wrangling over the agenda (which delayed the start of COP27 last year) repeated itself at SB58; although discussions continued regardless, it affects what is considered *official* and what is labelled as *informal* – all with an effect on the speed of progress. The global stocktake will determine how ambitious the road ahead is.

Rough road: Parties and groupings stuck mostly to their familiar negotiating positions across most issues – normal for the inter-sessional as heels are dug in for the year-end meeting. Some focused on all-inclusive mitigation (across all sectors, all greenhouse gases), some on finance (who provides what when), and others on rethinking how adaptation is considered. These could quickly become sticking points, in our view. Some rough outlines were established on key issues (loss & damage, Article 6, just transition), forming a basis for discussions at COP28.

Direction Dubai: Workshops and dialogues to bridge the gaps across some climate issues will continue in the run-up to November in Dubai. Various organisations will release report updates (Emissions Gap, climate pledge synthesis, Finance delivery, etc). The UN Secretary General will host a Climate Ambition Summit in September to (re)galvanise more ambition for the global climate process as extreme events continue to showcase the urgency. COP28 will start on 30 November in the UAE.

Figure 1: Key climate milestones leading to COP28 in Dubai (and beyond)



Source: HSBC (based on UNFCCC)

This is a Free to View version of a report with the same title published on 16-Jun-23. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Wai-Shin Chan, CFA

Head, Climate Change Centre; Head, ESG Research
The Hongkong and Shanghai Banking Corporation Limited

James Rydge

Head, ESG Research, EMEA
HSBC Bank plc

Polo Heung

Associate, ESG Research
The Hongkong and Shanghai Banking Corporation Limited

Disclosures & Disclaimer

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

Issuer of report: The Hongkong and Shanghai Banking Corporation Limited

View HSBC Global Research at:
<https://www.research.hsbc.com>

The GST, a key part of COP28, will assess progress towards achieving the Paris Agreement

Global stocktake (GST): SB58 marks the end of the second phase of the GST, the *Technical assessment*. This consisted of a focused exchange of views on over 170,000 pages of information (such as the science). Discussions covered the format of outputs and the signals to be given, the assessment of progress and the required follow-ups (and support required), as well as the key messages – all determining future ambition levels. SB58 settled on a draft structure of five sections (preamble, context, collective progress, enhancing cooperation, and guidance). The final phase of the GST, the *Consideration of the outputs*, now begins and will conclude after ministers deliberate at COP28.

The GGA should enhance adaptive capacity, strengthen resilience and reduce vulnerability – but it is quite broad and remains unclear

Global goal on adaptation (GGA): There continues to be little consensus on the GGA, despite the two-year work programme's scheduled end at COP28. (Progress was also slow at COP27.) Parties discussed and differed over targets and indicators, as well as the format and layout of the GGA. There are currently three options in play with varying degrees of detail – with developing countries in favour of more detail, whereas developed countries prefer a much slimmer framework. The GGA will be a major focus of discussion and debate at COP28.

Article 6 discussions have moved on to the technicalities of how mitigation outcomes (credits) will work in practice

Article 6 covers how Parties may use mitigation outcomes in other countries to count towards their own pledges. SB58 discussions continued to work on the operationalisation of Article 6.2 (Cooperative approaches) and Article 6.4 (The Mechanism). **On Art 6.2:** it was mostly technical – how the authorisation process should work, how transfers will be tracked (e.g., electronic), and whether there should be consistent nomenclature across various countries. **On Art 6.4:** debates covered the inclusion of emissions avoidance, how to make the registry for credits operational, and whether/how the registries of Art 6.2 and Art 6.4 should be connected.

The NCQG, designed to replace the persistently missed USD100bn per year, is to be set for or after 2025

New collective quantified goal on climate finance (NCQG): A decision is not expected until 2024 (COP29), so deliberations moved forward slowly as part of a new work plan. Discussions covered the responsibility for funding the NCQG, how this could be more predictable over specific timeframes, what accountability frameworks could be put in place, and the structure of the NCQG, as well as how the funding might be spent, who has access to the financing, mechanisms for how finance could be tracked and, importantly, how to avoid greenwashing. One key overhang, however, is that there is no official or agreed definition for *climate finance* as this determines what may actually be counted towards financing goals.

The L&D fund was the major success of COP27, but progress has slowed as discussions to operationalise it trip over different views

Loss & Damage (L&D) fund: COP27 intended for the L&D fund to be made operational at COP28; however, there are some concerns that it is being overshadowed by the focus on the GST. Discussions mainly reiterated known questions/operational issues, in our opinion, such as sources of finance for the fund, who has access to the fund, the trigger mechanisms, and how quickly can access be attained after an event. There is an interesting split, however, between some Parties that believe funds should be made available to *all developing countries* and those that believe priority should be given to the *most vulnerable countries*. SB58 also reiterated the concept of concessional financing (grants, guarantees, etc). Conversations are also veering towards slow-onset events (versus extreme events) and long-term rehabilitation.

The structure of the Santiago Network was decided at COP27, but implementing this is proving challenging

Santiago Network is designed to provide relevant tools and technical assistance to developing countries. Whilst there was good progress on this matter at COP27, divisions over the nitty gritty came to the surface at SB58. We think these were less critical and more functional. For example, they concerned the privileges of the advisory board, the immunities they carry, as well as where the secretariat to the Network might be hosted, and the small pool of candidates.

The just transition is an important concept – but its broadness may affect the ability to implement it

Just transition: The growing (official) recognition of this matter continues, evidenced by its inclusion in future stocktakes. However, the concept means different things to different Parties and each sought to have their views included at SB58 – such as references to human rights, disability and age – this has a bearing on how/where to collect information for the upcoming synthesis report. There is also concern over the lack of adaptation in just transition approaches.

The global climate calendar: upcoming events

2023	Location	Event
28 August-1 September	Incheon City, Republic of Korea	Adaptation Futures Conference 2023
4-8 September	Nairobi, Kenya	Africa Climate Week (ACW 2023)
9-10 September	New Delhi, India	G20 Leaders' Summit
17-24 September	New York, USA	New York Climate Week
20 September	New York, USA	UN Secretary General's Climate Ambition Summit
21-23 September	Valencia, Spain	2nd Edition of Euro-Global Climate Change Conference
2-6 October	Montreal, Canada	Adaptation Futures Conference 2023
9-12 October	Riyadh, Saudi Arabia	Middle East and North Africa Climate Week (MENACW 2023)
11-12 October	Bangkok, Thailand	Global Plastics Summit
30 November-12 December	Dubai, UAE	UNFCCC COP 28

Source: HSBC

Disclosure appendix

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Wai-Shin Chan, CFA, James Rydge and Polo Heung

This document has been issued by the Research Department of HSBC.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

Additional disclosures

- 1 This report is dated as at 16 June 2023.
- 2 All market data included in this report are dated as at close 15 June 2023, unless a different date and/or a specific time of day is indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

Disclaimer

Issuer of report
The Hongkong and Shanghai Banking Corporation
Limited

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited, which has based this document on information obtained from sources it believes to be reliable but which it has not independently verified. Neither The Hongkong and Shanghai Banking Corporation Limited nor any member of its group companies ("HSBC") make any guarantee, representation or warranty nor accept any responsibility or liability as to the accuracy or completeness of this document and is not responsible for errors of transmission of factual or analytical data, nor is HSBC liable for damages arising out of any person's reliance on this information. The information and opinions contained within the report are based upon publicly available information at the time of publication, represent the present judgment of HSBC and are subject to change without notice.

This document is not and should not be construed as an offer to sell or solicitation of an offer to purchase or subscribe for any investment or other investment products mentioned in it and/or to participate in any trading strategy. It does not constitute a prospectus or other offering document. Information in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on it, consider the appropriateness of the information, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

The decision and responsibility on whether or not to purchase, subscribe or sell (as applicable) must be taken by the investor. In no event will any member of the HSBC group be liable to the recipient for any direct or indirect or any other damages of any kind arising from or in connection with reliance on any information and materials herein.

Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors.

This document is for information purposes only and may not be redistributed or passed on, directly or indirectly, to any other person, in whole or in part, for any purpose. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. By accepting this report, you agree to be bound by the foregoing instructions. If this report is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. The document is intended to be distributed in its entirety. Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document.

HSBC and/or its officers, directors and employees may have positions in any securities in companies mentioned in this document. HSBC may act as market maker or may have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell or buy securities and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented on the supervisory board or any other committee of those companies.

From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.

The Hongkong and Shanghai Banking Corporation Limited is regulated by the Hong Kong Monetary Authority.

© Copyright 2023, The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of insert issuing entity name. MCI (P) 017/01/2023, MCI (P) 027/10/2022

[1215379]