



The 28th United Nations (U.N.) Climate Change Conference of the Parties (COP28) wrapped up in Dubai in mid-December 2023. This Article summarizes key takeaways and describes the potential implications for businesses and investors.

### **Transitioning From Fossil Fuels**

Nearly 200 countries came together at COP28 and called for "transitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner ... so as to achieve net zero by 2050 in keeping with the science." This agreement, announced in COP28's [Outcome Document](#), came on the heels of the first-ever [Global Stocktake](#), a U.N.-coordinated process that was codified in the [Paris Agreement](#) to determine each country's progress towards meeting its carbon reductions pledges. The Global Stocktake at COP28 was also aimed at

assessing whether the global community is on track to meet the goals of the Paris Agreement.

## **Advances in Methane Reductions**

The [Global Methane Pledge](#) to reduce methane emissions, first launched by the United States and the European Union at COP26 in November 2021, gained both members and momentum during COP28. Policymakers have focused on methane because it accounts for about 18% of all greenhouse gas emissions and is more than 80 times more potent for global warming than an equivalent amount of carbon dioxide. Methane is a primary component of natural gas.

Over 150 countries have now signed the Global Methane Pledge, and China recently committed to include methane reduction within its own national plan. Perhaps most significantly for U.S. companies, the U.S. Environmental Protection Agency (EPA) used COP28 to announce a highly anticipated final rule articulating new standards aimed at reducing methane emissions. Specifically, the [final rule](#) includes a "comprehensive suite of pollution reduction standards" addressing the largest sources of methane and other pollutants at oil and gas facilities. Those standards include, but are not limited to: (1) eliminating routine flaring of natural gas that is produced by new oil wells; (2) comprehensive monitoring for leaks of methane from well sites and compressor stations, while giving oil and gas companies flexibility to use low-cost, innovative methane monitoring technologies; and (3) standards that require reductions in emissions from high-emitting equipment like controllers, pumps, and storage tanks. The final rule also includes a Super Emitter Program, an effort designed to identify and stop "super emitters" of methane, by harnessing third-party expertise in remote sensing to detect large instances of methane releases or leaks.

## **Sustainability and Climate-Related Reporting**

COP28 saw several advancements in the field of sustainability and climate-related reporting. The first advancement was through the [Science Based Targets Initiative](#) (SBTI), which is designed to encourage companies to adopt and report science-based climate targets and to apply these criteria throughout their supply chains. In addition to the U.N., a number of large companies with extensive supply chains have indicated support for SBTI. The SBTI launched a call to action at COP28 asking companies to engage their supply chains for science-based targets and announced the development of science-based targets for cities at a COP28 presidency event.

In addition to support for SBTI, almost 400 large companies, investors, and institutions from 64 jurisdictions committed to adopting the [International Sustainability Standards Board's](#) (ISSB) climate standards as a universal benchmark for measuring and reporting climate-related effects. In addition to support for using ISSB climate standards, the EU [announced](#) that it will create sustainability disclosure standards for small- and medium-sized enterprises (SMEs), complementing the EU's [Corporate Sustainability Reporting Directive](#) (CSRD) that applies to large companies (phase-in begins in 2024, with first reporting on January 1, 2025). The CSRD and development of reporting standards for SMEs signals the expansion of climate-related disclosures beyond the world's biggest companies, and that greenhouse gas (GHG) and climate impact reporting is here to stay. California's [adoption of climate reporting requirements](#) for companies doing business in California similarly applies broadly to both public and private companies with revenues over \$500 million (SB 261) and \$1 billion (SB 253).

## **Carbon Markets and Centralized Carbon Trading**

It has long been a goal of many developing countries and nongovernmental organizations to create a centralized, U.N.-run carbon trading marketplace. At COP28, negotiations for setting key rules for approving such a system

continued to flounder due to disagreements about what standards would apply. The lack of a global agreement has not stopped the proliferation of both voluntary and compliance markets, but it has led to a lack of uniformity, variable pricing, and uncertainty, among other consequences. Without a global standard, more local jurisdictions are developing regulatory emissions markets. In 2021, Washington state adopted the Climate Commitment Act, and in December 2023, New York state issued new proposed standards for a cap-and-invest regime. These regulatory markets join those already well established in California and Quebec. Voluntary markets likewise continue to be active, despite critiques of registries, offsets duration, and credit verification. As market participants move through these initial growing pains, purchasers are seeking high-quality credits that would satisfy any eventual global standard for offsetting value chain emissions.

## **Loss and Damage and Climate Financing**

On the first day of COP28, the historic loss and damage fund, which was announced at COP27, [was launched](#) by the World Bank. Initial commitments to the fund already reached \$700 million, and while the proof will be in the pudding when it comes to countries making those contributions, the issue of loss and damage is not going away. It is likely there will be a continued push for industrial countries to help finance emission reductions and climate mitigation in developing countries, with the probable result being the continued influx of additional public and private funding.

## **Implications for Business**

The biggest headline from COP28 was the adoption of explicit language about "transitioning away" from fossil fuels. While there may be a tendency to discount this statement as political theater, it has the potential to result in real world effects. The collective call to move away from fossil fuels not only shines a continued spotlight on GHG emissions and climate impacts, but also provides political support for the continued adoption of climate-related policies and legislation. The EPA's announcement of the adoption of a final rule on methane, and the EU's phasing of compliance requirements under the CSRD are two such examples.

This year will also be important in terms of understanding and preparing for future sustainability and climate reporting. California's new climate legislation, New York's proposals for a cap-and-invest system, and the anticipated adoption of a final climate disclosure rule by the SEC all point toward the need for increased data collection regarding emissions and climate impacts throughout supply chains. The CSRD likewise has reporting requirements beginning in 2025.

Carbon markets continue to transition, with improvements in calculating carbon reductions and a push towards quality. While hope for standardization remains elusive and volatility remains, the necessity and benefits associated with carbon offsetting and carbon sequestration will continue to support the development of new carbon credit projects and investments in 2024. The growing relevance of both historical and new regulatory markets will likewise continue to spur active carbon trading. Finally, the loss and damage fund, along with both public and private support for international climate financing, will provide opportunities for those poised to provide energy transition, emission reduction, and climate mitigation solutions.

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