COP27*

*What it means for corporates and the financial sector

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The 27th Annual Conference on Climate Change (COP27) in Sharm El-Sheikh, Egypt, concluded in November 2022 against the backdrop of 29 extreme weather events in the first nine months of the year alone, each causing catastrophe and billions of dollars in damage. These included severe floods in Pakistan that submerged a third of the country, and the worst drought in Europe in almost 500 years. 2022 also saw a global energy crisis exacerbated by Russia's invasion of Ukraine, with Europe in particular - heavily reliant on Russian fossil fuel - scrambling to find new energy sources. It was a year which served to highlight the urgent need for countries to invest in secure, sustainable energy sources.

In this light, COP27, which was attended by over 50,000 delegates, delivered decidedly mixed results. Only 24 countries lived up to their commitment to return from COP26 with enhanced pledges[1], with limited international progress made on climate targets. A few positives did emerge; the outcome text of COP27 did at least however emphasise the importance of not backsliding on existing agreements, countries such as the United Kingdom and Australia demonstrated a new level of ambition with their pledges, and a breakthrough was made on 'loss and damage' payments for climate-vulnerable developing countries.

As we start 2023 and look ahead to the COP28 summit in the United Arab Emirates later this year, here are some of the key takeaways from COP27:

1) Loss and Damage

The concept of loss and damage is not new. The idea of a climate fund has been brought forward at many conferences prior to COP27, going as far back as the drafting of the UNFCCC thirty years ago. In 1991-92, the Alliance of Small Island States (AOSIS) sought an insurance pool for loss and damage due to sea level rise[2]. Whilst loss and damage was not included in the UNFCCC draft, the concept was brought up repeatedly during COP21 in Paris, and again more recently during COP26 in Glasgow.

In Sharm El-Sheikh, however, the historic decision was finally made to establish a fund on loss and damage, a major milestone. The question now turns to how the fund will be set up. Consensus on how the finance should be provided, where will it come from, or which countries will benefit is yet to be decided. But with its aim of supporting nations most vulnerable to climate-induced disasters, the commitment to create the Loss and Damage fund was a standout achievement of COP27.

2) Climate Finance

The Loss and Damage fund addresses just one part of the finance actually needed for climate adaptation and mitigation. For instance, adaptation needs are estimated to cost USD 160 to 340 billion annually by 2030[3]. With these estimates, COP27 saw regional governments, states, and development agencies pledge a total of only USD 230 million to the Adaptation Fund.

The amount was even lower than USD 356 million pledged during COP26. Additionally, the 2009 commitment of USD 100 billion a year in climate finance from wealthy countries is yet to be met. At COP27, developed countries were once again urged to 'address the shortfall' and 'meet their goal'.

3) Energy transition

‘Phase down of unabated coal power’ was one of the key talking points of COP26 in Glasgow[4]. This was reiterated again at COP27, as the discussion focused on increasing the proportion of renewables in the energy mix, together with the call to ‘accelerate the transition towards low emission energy systems’.

However, with a global temperature rise of 2.8°C by 2100 increasingly likely based on current pledges[5], greater urgency will be needed at COP28 to facilitate the move away from all forms of fossil fuels.

Aside from these key COP27 takeaways, certain outcomes were specifically relevant to the private sector and particularly the financial sector. The First Movers Coalition, first launched at COP26, was expanded to over 60 companies at COP27, with a commitment of USD 12 billion to decarbonise the cement and concrete sector. Other ‘hard-to-abate’ sectors in the coalition include aluminium, steel, aviation, shipping, and trucking.

OTHER INITIATIVES INCLUDE:

Accessible climate data

In the Race to Net Zero since the Paris Agreement, numberous associations and alliances were formed worldwide with a common goal: climate action. NGFS’s 2022 report[6] highlights the gaps in data availability and reliability of climate-change data. GRI[7] , ISSB[8] (establishment announced in COP26) and TCFD[9] along with many more disclosure standards and frameworks have been responsible in bringing great progress towards data availability over the last few years. At COP27, CDP[10] announced incorporation of the ISSB Climate-related Disclosures Standard into its global disclosure platform which is a step forward in attaining consistent climate disclosures. However, we still have work to do if we are to ensure comparability across reported data and gaining complete transparency with existing data can help us chart our path towards a climate neutral future.

Glasgow Financial Alliance for Net Zero (GFANZ) assisted commitment of over $130 trillion from the financial sector during COP26. Launched in April 2021, GFANZ has been seeking climate action and among other actions are calling upon the governments of G20 nations to align themselves with 1.5 degrees target by 2050 and push companies to follow suit . GFANZ and its seven sector-specific alliance members along with the climate data steering committee (CDSC) are helping to build together a Net-Zero Data Public Utility (NZDPU)[11] which would serve as an open access central repository of the private sectors’ climate related data. At Sharm El-Sheikh, next steps for the utility’s already proposed recommendations were outlined. Once this utility is ready, it would serve as a game changer in the field of climate change data transparency and related analytics.

Just Energy Transition Partnership, a way out?

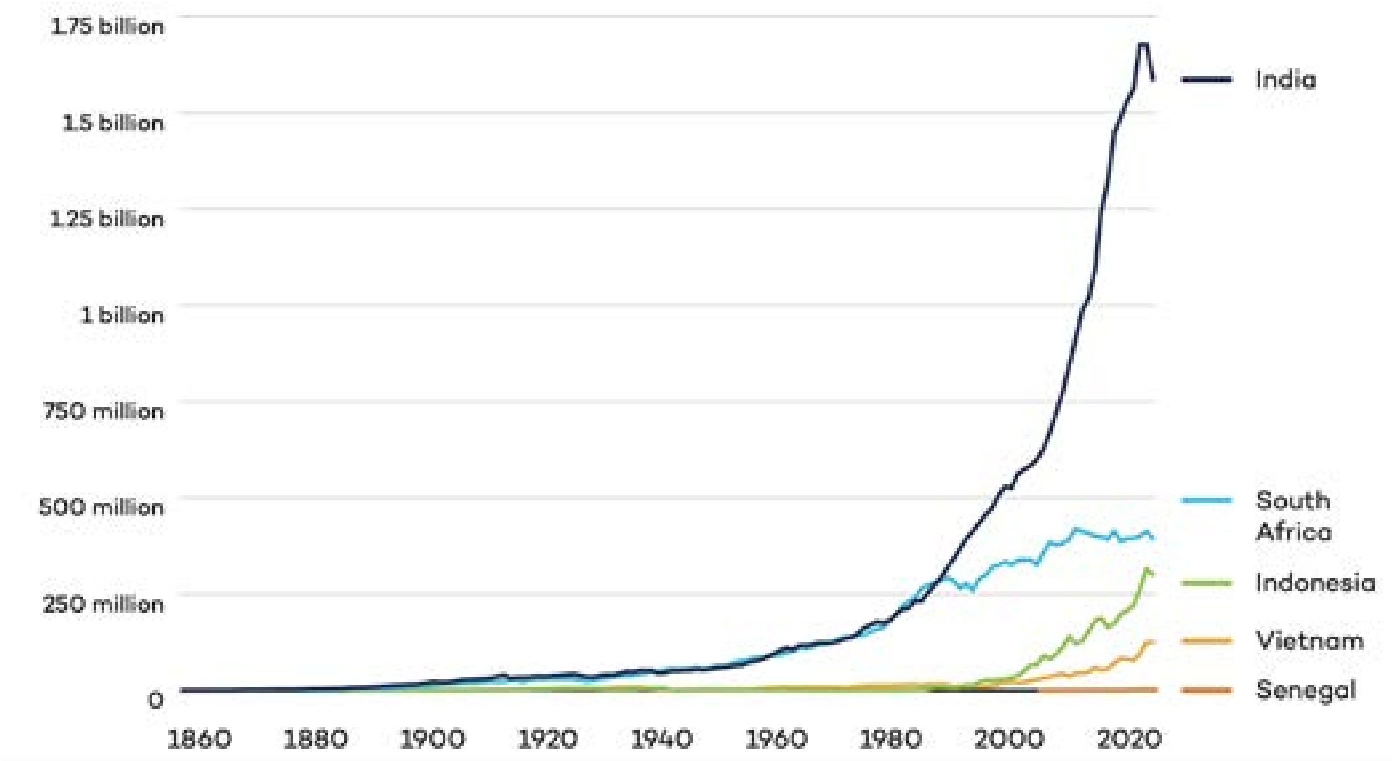
The recent energy crisis has expedited the movement of countries transitioning to more renewable forms of energy. However, for the transition to succeed, there needs to be enough time for the necessary infrastructure to be built. Greater awareness is also required that moving away from coal does not necessarily pave the way to adopting other fossil fuels simply because they are less polluting.

The Just Energy Transition Partnership (JETP), aimed at helping heavily coal-dependent economies transition to a renewable energy future, first announced $8.5 billion to South Africa during COP26.

Recently, four more countries were added to the list including India, Indonesia (announced during the G20 Summit in November 2022) Vietnam, and Senegal. South Africa came up with an implementation strategy for JETP in November 2022, which estimated that USD 98 Billion would be required to finance Africa's energy transition.

The difference in the proposed amount of funding and the actual funding required shows that we still have some way to go if we are to move from energy transition planning to execution stages. Contribution from both the public and private sector will be crucial.

Figure 1: Annual CO^2 emissions from coal in the five JETP countries (in tonnes)



Source: Andrew et al., 2021; Our World in Data, 2021a.

Carbon trading

The mechanism under article 6.4 of the Paris Agreement allows companies to reduce emissions in one country and sell them to a company in another country which can then use these 'credits' to meet its own emissions targets. The concept may not be new, but at COP27 discussions were held on setting up carbon markets and introducing the framework for an Energy Transition Accelerator (ETA) focused on businesses [12].

While it might still take several years before we reach a stage where countries are able to offset their emissions based on an emission reduction project in another country, offsets do form a noteworthy part of multiple corporates' net zero plans – also indicated by the exploding carbon offset markets.

It will be difficult for companies to reach net-zero without eventually looking at measures for carbon removal and voluntary credits offer a potential solution[13]. However, it is clear that for the successful running of carbon markets, we will need mechanisms to combat greenwashing and double accounting. With the right measures in place, payment for offsetting emissions could be a way to provide much-needed climate finance to developing economies in addition to existing funding.

Similar to the outcomes of its predecessor in Glasgow, COP27 ended with some positives, such as the landmark agreement to commit to the Loss and Damage fund. However, similarly to COP26, the focus now turns to how pledges and words are converted into action. As always, implementation is key. Owing to the increased intensity of extreme weather events seen over the past few years, it is now crucial to focus on the interdependence of climate change, food systems, and natural ecosystems.

Some progress was also demonstrated at Sharm El-Sheikh towards the protection of ecosystems, ensuring food security, and supporting local livelihood through initiatives like the Mangrove Breakthrough and more concrete plans in the form of the Biodiversity Agreement were put in place during the UN Biodiversity Conference held in Montreal in December 2022

It is important to note that there was no backsliding this year from commitments made in previous conferences, and that countries have agreed to continue working towards peaking global temperature rise between 1.5 - 2°C. Furthermore, recommendations from the United Nations[13] provide guidance on the considerations required by financial institutions and the private sector to align capital with their net-zero commitments. The path ahead is clear. It is now time to focus on who walks the talk, and takes action.

References

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