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CLIENT BRIEFING

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COP27:

SUMMARY OF KEY ANNOUNCEMENTS

*The Sharm el-Sheikh Climate Change Conference ("**COP27**") officially came to a close on Friday 18 November.*

The last two weeks have been marked by frenzied publicity, speculation and a dose of doom-mongering, as nations with often opposing negotiating positions lined up in Sharm el-Sheikh. Tired negotiators trudged on long into the weekend, conducting fraught negotiations over the wording of the closing text.

A breakthrough emerged on Sunday morning, with the announcement that almost 200 countries had agreed to set up a fund to cover the "loss and damage" that vulnerable nations are suffering due to climate change - a particularly contentious topic. However, many were disappointed that the parties did not go further, as negotiators failed to agree on greater cuts to greenhouse gas emissions, and a "phase out" of all fossil fuel use.

We have summarised the key announcements from COP27 here.

What did key figures have to say?

UN Secretary General Antonio Guterres told world leaders to "cooperate or perish" in his opening speech to the COP27 plenary, and has continued to use emotive language throughout in an effort to encourages countries to strengthen their climate pledges and to reach agreement on the various sticking points at COP27.

Specifically, Guterres emphasised the US and China's "particular responsibility" to show action on climate change. Presidents Xi and Biden pledged to restart climate negotiations at the G20 summit in Bali in a thawing of diplomatic relations welcomed by delegates at COP27. The G20's reaffirmation of their commitment to limit warming to 1.5°C was also lauded, particularly given that some campaigners had feared this target would be dropped at the summit.

Other positive political noises included Australia's move away from its position as a climate pariah by joining the Global Offshore Wind Alliance, and, following his crucial victory for global climate in Brazil's recent election, President-elect Lula da Silva declared "Brazil is back" in the fight against climate change and promised a crackdown on illegal deforestation.

However, much politicking at COP27 caused frustration. The US steadfastly refused to consider the concept of climate "reparations" and, along with China (which is still designated as a "developing nation" under the UN system), initially objected to the European Union's historic loss and damage fund proposal on Friday (see below). Despite Australia's wind commitments, it refused to sign an agreement created at COP26 focused on ending international fossil fuel subsidies, and reportedly a few countries had resisted mentioning the 1.5°C goal in the closing text.

No clear deals on major sticking points during the two weeks, including loss and damage, major climate finance and strengthened Nationally Determined Contributions (COP lingo for climate targets) led to Guterres, on COP27's last official day of talks, to bemoan "*a breakdown in trust between north and south, and [...] developed and emerging economies*", with Bloomberg labelling the talks "chaotic".

Is the 1.5°C goal alive?

Positive news emerged from the G20 summit in Bali, as the group of major economies pledged to strive to limit global warming to 1.5°C above pre-industrial levels, in keeping with the Paris Agreement. This communique was welcomed by delegates at COP27, given that one of the key objectives from COP26 in Glasgow was to "keep 1.5 alive". However, while world leaders remain determined to keep this target on life support (including it in the latest draft COP27 closing text released on Sunday), attaining it is now almost totally implausible. Efforts to retain the 1.5°C wording were frustrated by a thoroughly lukewarm agreement on fossil fuels, as the draft closing text failed to include a reference to the phasing out of all fossil fuels.

The world has already warmed by 1.1°C. To keep the 1.5°C target alive, global emissions must be reduced by 30-45% by 2030. Since COP26 in Glasgow last year, they have reduced by just 1%. The UN Environment Programme's Emissions Gap Report (the "**UNEP Report**"), published in October, states that current policies put the world on track for 2.8°C of warming by 2100, and that "*no credible pathway to 1.5C*" remains.

Despite this, some countries resisted the restatement of the 1.5°C target in the COP27 text, which activists argue demonstrates a lack of ambition and seriousness. However, it could be argued that facing up to the fact that 1.5°C will be exceeded might encourage more urgency in decarbonisation efforts. The Economist, echoing the UNEP Report, argues that pathways to meeting the target "*are now firmly in the realm of the incredible*", and that rhetoric around temperature targets should be recalibrated to advocate the importance of every fraction of a degree's warming over 1.5°C that can be prevented. While this may be less catchy than "keep 1.5 alive", it would better reflect the harsh reality of the climate crisis and not allow governments and corporations any room to hide.

Loss and damage

The concept of "loss and damage" featured prominently on global newsfeeds both in the run up to COP27 and during the event.

The term refers to the negative consequences of climate change on people and the planet. Developing nations made calls ahead of COP27 for developed nations to provide financial support for loss and damage that they have suffered, which they argue is caused by the historic emissions of industrialised nations. Developed countries have been hesitant to assume liability for historic emissions, however.

Several leaders of developing nations made impassioned speeches during the first week of COP27. Pakistan stated that they would seek compensation for climate damage from the recent devastating floods, and Barbados prime minister Mia Mottley was quoted as saying "*We were the ones whose blood, sweat and tears financed the industrial revolution […] Are we now to face double jeopardy by having to pay the cost as a result of those greenhouse gases from the industrial revolution? That is fundamentally unfair.*" Meanwhile, China pledged its support for the creation of a mechanism to compensate poorer countries for loss and damage, but clarified that they would not contribute funds to such a mechanism.

Momentum appeared to build over the two weeks, with various countries promising funding, including Scotland, who announced a £5 million funding pot to tackle loss and damage in developing countries. Reports of a breakthrough came on Friday, with a proposal from the European Union to establish a loss and damage fund which would aim to support the most vulnerable, with a broad contributor base. However, "clear conditions" would be attached to any fund. Payments made must be matched by overall global reductions in greenhouse gas emissions.

Against all apparent odds, the parties announced on Sunday that an agreement to provide loss and damage funding (including the creation of a dedicated fund) had been reached. Importantly, the US moved from opposition to supporting the deal, in part due to the fact that the proposed wording does not include language regarding legal liability for loss and damage. The parties also agreed to establish a 'transitional committee' to make recommendations on how to operationalise the funding.

The agreement was widely hailed as a "historic moment" and is considered to be the most ambitious and positive outcome from COP27. The BBC described it as "*the most important climate advance since the Paris Agreement*".

Climate finance

Separate, but closely linked, to the topic of loss and damage is the question of climate finance. Back in 2009, developed countries committed to a collective goal of mobilising USD 100 billion per year by 2020 for climate action in developing countries, which was later extended to 2025. Whilst the numbers have been slowly creeping up (reaching USD 83.3 billion in 2020), the target has still yet to be met. Several EU member countries vowed to increase their commitments to the USD 100 billion pledge at COP27, including Germany, Italy, the Netherlands and France. The latest draft closing text expresses "serious concern" that the USD 100 billion goal has yet to be met, and "urges" developed countries to meet the goal.

COP27 also saw an increased emphasis on adaptation finance, helped in part by the launch of the Sharm-El-Sheik Adaptation Agenda. Adaptation finance broadly refers to finance for actions that help countries reduce the risks they face and harm they might suffer from climate-related events, as opposed to finance used to remediate climate-related damage.

On the second Monday of COP27, the G7 countries (led by Germany) launched the development of a "Global Shield against Climate Risks" in close cooperation with the V20 (an association of particularly climate-vulnerable nations). The Global Shield is an initiative for providing climate risk insurance and pre-arranged financial support, designed to be quickly deployed in times of climate disasters. Some sceptics criticised the initiative as a "distraction". ActionAid International stated that "*An initiative that involves Northern countries subsidising Northern-owned insurance corporations should not be* *mistaken for loss and damage finance that supports communities on the front lines of the climate crisis.*"

In the private sector, several net-zero finance coalitions announced updates and confirmed additional members. For example, the Net-Zero Asset Managers Initiative confirmed that it now represents 291 organisations, collectively responsible for USD 55.3 trillion of assets under management. However, concerns have been raised around greenwashing, and greater clarity around target-setting and net-zero guidance is required. To this end, the Glasgow Financial Alliance for Net Zero, launched at COP26, has provided guidance to members on producing net-zero transition plans.

In the lending space, the UK unveiled an initiative to facilitate the use of Climate Resilient Debt Clauses in private sector lending, which will allow borrowers affected by climate disasters to defer debt payments.

New carbon markets initiatives

With many describing COP27 as 'The African COP' (due in part to it being the first time since 2016 that the talks have taken place in Africa, and the multiple challenges posed by climate change to the continent of Africa), it seems fitting that COP27 saw the launch of the African Carbon Markets Initiative ("**ACMI**"). The ACMI aims "*to drive a dramatic increase in the production of African carbon credits while ensuring that carbon credit revenues are transparent, equitable, and create good jobs.*" Targets include seeing 300 million high-quality carbon credits produced annually by 2030, which would generate USD 6 billion in income and support 30 million jobs. Unlocking finance on this scale would be a major step in realising energy transition in Africa.

Separately, John Kerry (the US Special Presidential Envoy for Climate) announced the launch of a new Energy Transition Accelerator ("**ETA**"), which is a public-private initiative to fund renewable energy projects through carbon offsets, with the aim of accelerating energy transition in developing countries. In his announcement, Kerry foreshadowed that corporate participation in the ETA could be dependent on demonstrating science-based net zero targets (aligning with SBTi guidance). Yet, at present, SBTi guidance provides very little opportunity for corporate buyers to use offsetting to meet those targets. Some green groups were also critical of the ETA, stating that certain important details are missing, such as carbon credit prices, and that what developing countries really require is a dedicated loss and damage funding facility.

More broadly, negotiations also took place regarding Article 6 of the Paris Agreement, which sets out rules on carbon markets. Countries debated further rules around accounting, registry mechanisms, and procedures around authorising credits (including when authorisation must occur and whether it may be amended). Some countries also reportedly asked for a non-standardised reporting mechanism for emissions trading, which could decrease transparency and accountability. However, the draft decision on 'Matters relating to cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement' suggests that many concrete outcomes to these discussions were deferred to COP28. Similarly, much work remains for countries to agree governing guidelines for the Article 6.4 Sustainable Development Mechanism to begin functioning by the end of 2023.

Fossil fuels - phase down, phase out or neither?

"*If you want to address malaria, you don't invite the mosquitoes*". So said Phillip Jakpor, of advocacy and campaigning organisation Corporate Accountability & Public Participation Africa, in response to a 25% increase in fossil fuel industry delegates attending COP27.

Exploitation of African fossil fuels has been a fraught topic at COP27: a "dash for gas" from European nations seeking to wean themselves off Russian energy supply has dovetailed with several African nations' wish to exploit their reserves. Dr Omar Ibrahim, head of the African Petroleum Producers Organisation, rejected the idea that Africa should forgo such reserves in favour of investment from developed nations and renewable technologies, stating that Africa had been "*failed in the past*" and may well be failed again. Developed nations' consistent failure to meet climate assistance finance targets (see above) adds considerable weight to this argument.

African nations in particular have a delicate balance to strike between ambitious climate goals and providing energy to the more than 600 million Africans who still lack access to electricity. African nations such as Nigeria aim to use gas as a transition fuel while developing renewable capacity, but cannot hope to do so without increased financial support.

There has been better news for countries with fossil fuel infrastructure largely already in place. South Africa launched a multimillion dollar plan to shift away from coal, and at the G20, a coalition of countries led by the US and Japan announced a USD 20 billion investment in Indonesia to decrease its reliance on coal and assist its renewable energy transition.

However, a significant blow came on Sunday, with the announcement that a proposal led by India to agree to phase down consumption of all fossil fuels (and not just coal) was scuppered by oil and gas producing countries including Saudi Arabia and Russia. The latest draft closing text now includes a reference to "*low-emission and renewable energy*". This risks encouraging the development of further gas resources, as gas produces fewer emissions than other fossil fuel alternatives, such as coal. No reference is made to phase down of fossil fuels, nor to phase out of fossil fuels.

For the reported 636 attendees connected to the oil and gas industry, the inclusion of this wording was perhaps a triumph. For many, this makes COP27 a failure, and limiting warming to 1.5°C almost certainly impossible. Funding for loss and damage is not enough if the root cause of such loss and damage is not adequately addressed.

Agriculture

COP27 had the first agriculture-themed day, during which the Egyptian presidency launched a new initiative, Food and Agriculture for Sustainable Transformation ("**FAST**"). FAST aims "*to implement concrete actions that would result in improving the quantity and quality of climate finance contributions to transform agriculture and food systems by 2030, to support adaptation and maintain a 1.5-degree pathway whilst supporting food and economic security.*" Nations were encouraged to sign-up and the UK gave its backing to the initiative.

Other agriculture-related announcements included a doubling of the funding commitment of the Agriculture Innovation Mission for Climate ("**AIM for Climate**") from USD 4 billion to USD 8 billion. AIM for Climate is a joint initiative by the United States and the United Arab Emirates that seeks to increase investment in climate-smart agriculture and food systems innovation.

Having an agriculture-themed day at COP27 gave important recognition to the role played by farmers in feeding the world, and the vulnerability of the world's food systems to climate change.

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