

# DEBRIEF ON THE 27TH CONFERENCE OF THE PARTIES (COP27)

NOVEMBER 2022



The 27th Conference of the Parties (COP 27) kicked off on November 6th, 2022 in Sharm el-Sheikh, Egypt. The Summit officially closed on November 18th, while final negotiations extended until November 20th. The UN's annual climate conference, the COP Summit is widely recognized as the biggest and most important annual event for the global governance of climate change.

Last year's COP26 Summit in Glasgow focused on ambitious new and updated pledges for emissions reduction, encapsulated in the Glasgow Climate Pact. The discussions this year pressed forward with planning for implementation, identifying areas of stagnation, creating catalysts for change, mobilizing capital for developing economies, increasing efforts to ensure an orderly and just transition, and increasing international, national and regional coordination. The outcomes from COP27 will pave the way for the first Global Stocktake at COP28 in 2023, which will assess the global collective progress on mitigation, adaptation, and the means for implementation set forth in the 2015 Paris Agreement.

Government representatives from the 197 Parties to the UNFCCC treaty were organized into "blocs," negotiating together on organized and pre-determined topics. These talks also included official observers empowered to make interventions and uphold transparency. Observers included UN agencies, intergovernmental organizations, NGOs, faith-based groups and media representatives. Private sector and civil society participants without a prescribed role as negotiators or observers participated in a variety of conference rooms, pavilions, and events, with days organized around subject themes. The set daily themes this year were Finance, Science, Youth & Future Generations, Decarbonization, Adaptation & Agriculture, Gender, Water, ACE (Adaptability, Connection, and Equity) & Civil Society, Energy, and Biodiversity and Solutions. The most prominent topics for discussion were agriculture

and biodiversity, forest management, climate finance, and international climate risk sharing dubbed "Loss and Damage."

## OVERVIEW OF KEY TOPICS

### *Agriculture & Biodiversity*

In its role as holder of the COP27 presidency, Egypt launched a new initiative called Food and Agriculture for Sustainable Transformation (FAST), aimed at improving the quantity and quality of climate finance contributions to transform agriculture and food systems by 2030. Agriculture has a major role to play in efforts to improve climate mitigation and adaptation. Agrarian activity is the source of ~1/3 of global GHG emissions<sup>1</sup>, while temperature increases and changes to weather patterns impact crop yields in many regions. The UN's Food and Agriculture Organisation (FAO) will act as the facilitator for FAST, and, in an effort to achieve scalable financing to support the transition, nations will be asked to collect and share up-to-date information on current levels of climate finance for farmers and investments in sustainable food systems. A roadmap will be developed to increase financing. FAST will also aim to facilitate the flow of information, with a digital knowledge-sharing platform in development. The final pillar of FAST relates to science-based policy making with close coordination at the national and international levels.

### *Forest Management*

World leaders announced the new Forest and Climate Leaders' Partnership (FCLP), a voluntary collaboration between 27 countries and jurisdictions (representing over 60% of global GDP and 33% of the world's forests<sup>2</sup>) committed to scaling up action to protect, conserve and restore the world's forests and to halt and reverse deforestation by 2030. The partnership aims to unite action among governments, businesses and community

leaders. To ensure accountability, the FCLP will hold annual meetings and publish an annual Global Progress Report that includes independent assessments of global progress toward the 2030 goal, and progress made by the FCLP itself. A separate program, called the Finance Sector Deforestation Action initiative (FSDA), is composed of leading financial institutions across the globe, and is dedicated to working towards eliminating commodity-driven deforestation from portfolios.

### *Climate Finance*

The Summit included developments and discussions of the Glasgow Financial Alliance for Net Zero (GFANZ), carbon markets, green private finance, benchmarking, and the National Determined Contributions (NDCs) underpinning policy conditions for the financial sector, among other issues.

**Update on GFANZ:** GFANZ was originally comprised of six founding members, including the Bank of America, Citi Group, Deutsche Bank, HSBC, Standard Chartered and the Commercial International Bank of Egypt. Following its launch, Mark Carney led GFANZ to a member count of over 160 firms, together responsible for assets valued over \$70 trillion.<sup>3</sup> The mission of the GFANZ is to mobilize massive funding dollars to accelerate the transition to a global net-zero emissions economy by providing a forum for strategic coordination among the leadership of financial institutions and requiring science-based guidelines to establish interim and long-term goals.

Over the past year, GFANZ members have been criticized on several fronts, including for their participation in climate negative investment activities. For example, participants are investing \$8.5 billion in companies at-risk of causing deforestation, according to a report launched at COP27 by Global Witness, a UK-based NGO. Following on escalating pressures, it was announced just before COP27 that the group's members would no longer be required to follow a U.N. initiative to phase out fossil fuels. This move responded to concerns from specific group members about exposures under anti-trust law resulting from global decarbonization pacts.

**Carbon Markets:** One of the key outcomes of COP26 in Glasgow was the approval of Article 6 – the Paris Agreement's rulebook governing carbon markets. A technical body was identified and tasked with drafting rules for the operation of the Sustainable Development Mechanism, a proposed international carbon trading market. Its first task was to propose recommendations for "removals," denoting carbon dioxide extracted from the atmosphere, which would form the basis for the credits traded in a global carbon market system. The technical body set forth the proposal at COP27. The document has been criticized by advocacy groups for failing to establish baseline human rights safeguards for carbon offset projects involving removals, and for giving national governments considerable leeway to establish their own rules. It has also been criticized for failing to guarantee that credits traded in the market represent carbon permanently removed from the atmosphere. Despite the criticisms, delegates reached an agreement on a draft recommendation to create guidance for the crediting of carbon removals. However, it lacked an ultimate settlement on a global carbon market methodology, a shortfall which the International Emissions Trading Association described as predominantly due to disagreement over how to operationalize the requirements agreed on at COP26 in a way that aligns with the Paris Agreement objectives. The negotiations will continue at COP28 next year. From the perspective of the financial sector, there remains a high level of awareness about the need to establish "carbon credits which are robust, tradeable and insurable, and as a result generate reliable sources of revenue that can be redeployed into the financing of mitigation and adaptation efforts."<sup>4</sup>

### **Benchmarking available to the investment industry:**

Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Launched last year, the index includes 700 investors, US\$68 trillion in assets and 166 companies, and is estimated to cover firms accounting for over 80% of global industrial emissions. The benchmark assesses company alignment with a selection of indicators, including emissions and net-zero targets, climate lobbying and a just transition. At COP27, the energy firm, Enel, was recognized as being the first company fully aligned with the benchmark.

**Update on NDCs:** Countries were expected to arrive at COP27 with updated NDCs to align with a 1.5°C warming scenario. However, many fell short of this goal, with only 24 states having submitted updated NDCs, and marginally increased commitments. Greater incentives and policy alignment have been identified as imperatives if the finance sector is to achieve net-zero by 2050.

### *Loss and Damage*

While talks over its terms extended past the scheduled end of the conference, delegates at COP27 eventually reached a deal to provide for a new “Loss and Damage” Fund. Per its terms, wealthy states agreed in principle to help cover the costs of climate damage in developing countries.<sup>5</sup> The initiative could be traced back to the 2009 COP15 Summit in Copenhagen and the failure to raise resiliency financing for vulnerable states in the Global South. Developed countries had committed to collectively mobilize USD\$100 billion per-year by 2020 to support climate action in their developing peers, with the goal of achieving meaningful mitigation actions and transparency on implementation. The new agreement for a Loss and Damage Fund could be interpreted as an extension to the commitments made in Copenhagen, based on the same underlying principle that the countries most responsible for accumulated greenhouse gas emissions should help those that contributed little to the problem but are highly exposed to its consequences.

## **OTHER DEVELOPMENTS & INITIATIVES**

In addition to the key focus areas outlined above, COP27 produced a series of other developments and initiatives of key interest to the Canadian financial sector. Included were the following:

### *The Breakthrough Agenda*

The Breakthrough Agenda was launched by 45 world leaders at COP26 as an international effort (of which Canada is a participant) to accelerate innovation and deployment of clean technologies, making them accessible and affordable for all countries this decade. The agenda involves three commitments. The first is agreement to recognize and leverage identified tipping points when clean technologies and sustainable solutions become the preferred options in national and global markets.

The second is a commitment to continually strengthen international collaboration, by critically reviewing and evaluating ongoing initiatives. The third is a commitment to establish a regular reporting process that serves as a base of independent evidence and expert recommendations, along with identification of areas that warrant strong international collaboration. The 2022 Breakthrough Agenda Report represents the first in a continuous annual cycle of reporting, to which the International Energy Agency (IEA), International Renewable Energy Agency (IRENA) and the UN Climate Change High Level Champions all contribute.

### *Progress on Climate Risk Mapping*

According to the Intergovernmental Panel on Climate Change’s (IPCC) Sixth Assessment Report, approximately 3.3 to 3.6 billion people live in a highly vulnerable situation due to climate change. Natural disasters are estimated to have caused USD\$280 billion in global losses in 2021.<sup>6</sup> With the alarming rise in climate-related asset damage, collaborative efforts between the financial sector, policymakers, entrepreneurs and scientists are noticeably increasing. Climate risk mapping and assessments came to the forefront at Sharm el-Sheikh, with new tools and resources emerging for use in risk assessment, mitigation and adaptation. Several examples are the OECD’s new IPAC dashboard, with climate-related hazard indicators, and Israel’s municipal-level climate risk mapping, both showcased at one of the Summit pavilions.

### *Inevitable Policy Response*

The UN Principle for Responsible Investor’s (PRI) Inevitable Policy Response (IPR) set forth a new Policy Gap Analysis, assessing progress to-date against various policy scenarios. IPR announced in April 2022 that it will be issuing Quarterly Forecast Trackers (QFTs) assessing climate policy, technology and land use developments and acceleration or deceleration in policy ambition against 2021 IPR scenarios. This commitment to quarterly assessments is viewed by many to be a significant advancement in supporting the investment industry as they begin to dive deeper into the climate details impacting investments. The tracker enables investors to benchmark climate progress, assess the pace of climate policy and real economy acceleration, and in turn, adjust their climate alignment, transition investment, risk and net-zero strategies accordingly.

IPR reported in November that non-OECD international climate policies and action are falling well short of the 1.5°C Required Policy Scenario (RPS). However, IPR believes that delivery on a scenario of well below 2°C warming remains politically feasible.

### *High-Level Expert Group (HLEG) on Net Zero Emissions Commitments*

COP27 marked the release of a new report by the High-Level Expert Group (HLEG) on Net Zero Emissions Commitments of Non-State Entities called Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions. The HLEG is currently chaired by Catherine McKenna, Canada's former Minister of Environment and Climate Change, and Minister of Infrastructure and Communities. The report provides a needed roadmap to bring integrity to net-zero commitments from industry, financial institutions, cities and regions to support a global, equitable transition to a sustainable future. Potentially in response to the fallout of GFANZ efforts noted above, the UN's HLEG on net-zero targets stated that financial institutions should not be able to claim to be net-zero while continuing to invest in new fossil fuel supply.

### *US Inflation Reduction Act*

The recently passed Inflation Reduction Act garnered recognition as a prominent example of meaningful fiscal and industrial policy for the net-zero transition. However, with the U.S. mid-term elections securing Republican control of the House of Representatives, new Democrat-led initiatives on climate policy are unlikely to succeed over the near-term.

### *Nature-Based Solutions Roadmap*

New at COP27, the Biden-Harris Administration released the Nature-Based Solutions Roadmap, an outline of strategic recommendations to set the U.S. on a path to unlock the full potential of nature-based solutions for climate change, nature loss, and inequity.

### *Carbon Credit Sales as a Federal Revenue Generator*

The U.S. Special Presidential Climate Envoy, John Kerry, announced a controversial proposal at Sharm el-Sheikh to raise funds for climate action in the developing world (where Chile and Nigeria have expressed interest) by selling carbon credits to companies looking to offset their emissions. Kerry noted that the initiative should be up and running within the next year and will entail partnerships with the Rockefeller Foundation and the Bezos Earth Fund. Other private sector actors have also shown interest, such as the Bank of America, Microsoft, Standard Chartered Bank and PepsiCo. While fossil fuel companies are not involved, the initiative is controversial because of its carbon credits, which allow companies to continue emitting for a fee rather than definitively cutting their emissions.

### *Least Developed Countries Fund (LDCF)*

New this year is the commitment from select European countries to provide US\$70.6 million to the Least Developed Countries Fund (LDCF) and US\$35 million to the Special Climate Change Fund (SCCF), hosted by the Global Environment Facility (GEF). Additional countries, including Canada and the US, expressed their strong political support, but have not made their own commitments.

### **Next to Dubai**

The next session of the Conference of the Parties (COP 28) to the UNFCCC will convene from 30 November to 12 December 2023. It will take place in the United Arab Emirates.

## Endnotes

- 1 <https://www.nature.com/articles/nature.2012.11708>
- 2 <https://unfccc.int/news/cop27-leaders-boost-sustainable-forest-management>
- 3 <https://unfccc.int/news/new-financial-alliance-for-net-zero-emissions-launches>
- 4 <https://www.ft.com/content/45268087-06cd-4af3-8fc6-fb02a162a218>
- 5 For more, see Fiona Harvey, Nina Lakhani, Oliver Milman and Adam Morton, “Cop27 Agrees Historic ‘Loss and Damage’ Fund for Climate Impact in Developing Countries,” The Guardian, November 20, 2022.
- 6 <https://corporatesolutions.swissre.com/insights/knowledge/global-flood-losses-warning.html>