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Monthly Analysis

COP27: Lessons learned and the Challenges Ahead

Introduction

Undoubtedly one of the major events in the global environmental and energy scene in 2022 was the COP 27 conference which took place in Sharm El-Sheikh in Egypt between November 6-18. This was the 27th session of the UN backed Conference of the Parties (COP 27) and was hosted by the government of the Arab Republic of Egypt. World leaders, ministers, and negotiators came together to announce an agreement on how to jointly address climate change and its impacts. Civil society, businesses, international organizations, and the media observed proceedings to bring transparency, as well as broader perspectives, to the process.

With the strapline "Together for implementation", COP27 was an African COP, and the first of two COPS in the Middle East and North Africa (MENA) region. COP26 in 2021 was jointly hosted in Glasgow, Scotland by the UK and Italy, who continued to hold the COP presidency until COP27 begins. COP28 will be held in the United Arab Emirates (UAE) in 2023.

In this Monthly Analysis, we assess how these issues were addressed at the conference, as well as others that emerged during the two weeks of negotiations (which actually spilled over to the 20th November due to the contentious nature of some of the debate) and review the progress, or lack of it, which was made on each.

What Were the Key Issues Under Discussion?

Since 2015, under the legally-binding Paris Agreement treaty, almost all countries in the world have committed to:

- Keep the rise in global average temperature to well below 2°C, and ideally 1.5°C, above pre-industrial levels.
- Strengthen the ability to adapt to climate change and build resilience.
- Align finance flows with "a pathway towards low greenhouse gas emissions and climate-resilient development".

The Paris Agreement has a "bottom-up" approach where individual countries decide what action they will take. For mitigation (limiting the extent to which the climate changes), countries communicate their emissions reductions targets, and how these will be achieved, in Nationally Determined Contributions (NDCs). Current NDCs cover action to 2030, and ambition should be raised every five years under the Paris "ratchet mechanism"[1]. **(1)**

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[1] A "ratchet mechanism" is an informal term used to describe the requirement that countries will revise and communicate their emission targets - known as NDCs - every five years as part of the Paris Climate Agreement.

For adaptation (adjusting to current and future climate change impacts), the equivalent of the mitigation "NDC" is the National Adaptation Plan (NAP), detailing approaches to reduce vulnerability, build capacity to adapt and resilience, and to integrate climate adaptation into policies and planning at a national level. Under the Paris Agreement, NAPs are to be submitted and updated periodically. There is no formal five year "ratchet mechanism" for adaptation.

What Was the Key Outcome of COP27?

The main objectives of the COP27, as announced by UN General Secretary, António Guterres, were to accelerate global climate action, to scale up the adaptation efforts of the most vulnerable states, and to stimulate financial flows to implement transformations in innovation and "clean technologies". According to current UN strategy **the two main pillars for dealing with climate change are energy and land use.** If these two systems are properly regulated, it is estimated that we will be able to hold the increase in the average temperature of the planet close to the +1.5°C set by the Paris Agreement.

As shown in the following list, there are 10 key outcomes of COP27, as summarized in a recent analysis of the Oxford Institute of Energy Studies **(2)**.

1. **The world is not on track to meet its 1.5°C target**

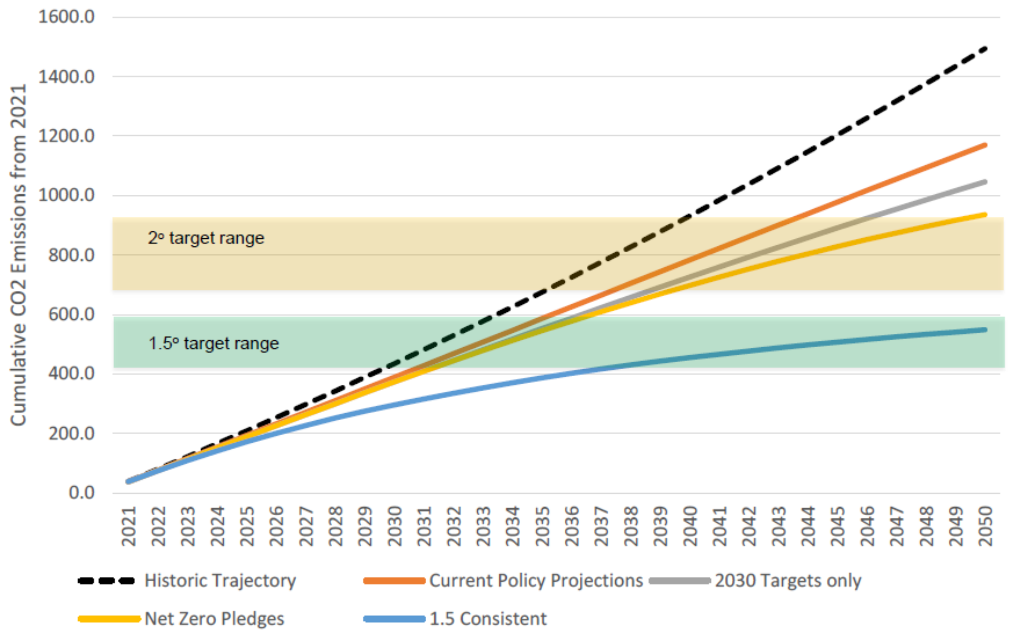
Despite the best efforts to keep up appearances, the underlying subtext of the conference was that the world is going to overshoot its temperature target. As UN Secretary General Antonio Guterres put it on the first day of the conference "we are on a highway to climate hell with our foot still on the accelerator" **(3)** and this view was reinforced by a report from the NGO Climate Action Tracker which estimated that the implementation of current policies would see the world warm by 2.7°C by the end of this century **(4)**. This underlined the fact that few countries had fulfilled the promise outlined at the conclusion of COP26 to review their NDCs during 2022 and adjust them to provide even greater ambition and more aggressive climate targets. In fact, only around 20 countries have done this, with Australia being the most notable of the major emitters, and as a result, the outlook for the environment has changed little over the past 12 months[2].

The following Figure shows an OIES calculation as to when the carbon budget to meet the 1.5°C and 2°C temperature targets could be used up under various scenarios. It seems almost certain that, barring a radical change in policy-making and implementation in the next 2-3 years, the budget for 1.5°C will be consumed by the end of this decade, and this realization caused some delegates at the COP to suggest that the 1.5°C target should be abandoned for a more realistic one. The debate on this issue raged long into many nights, with the

[2] https://climateactiontracker.org/climate-target-update-tracker-2022/

EU, US and others (in particular Alok Sharma, the UK representative and COP26 President) fighting hard to avoid any backtracking. In the end, the target was retained in the final communique, but the sense of unhappiness and disappointment on the failure of COP27 to adequately address issues of mitigation against climate change was pervasive. As New Zealand's minister for climate change James Shaw put it "[there are] still parties that are stuck in a state of denial or delusion about the state of the climate crisis". **(5)**

Figure: Timing for Consumption of the Carbon Budget Under Various Policy Scenarios



Source: OIES

2. The current energy crisis has changed short-term priorities

It perhaps goes without saying that the current crisis in global energy markets, catalysed by the impact of the Russian invasion of Ukraine, had a significant impact on negotiations at COP27. Although it was not a specific theme, it was inevitable that the short-term search for hydrocarbons, caused by the seismic shift in global energy flows caused by the Ukraine war, would increase the priority of energy security over sustainability in the short-term.

A number of delegates, especially those from the Global South and Africa, noted the apparent hypocrisy in the stance of some developed countries (in particular the EU) who were pushing for the world to transition away from hydrocarbons while themselves reverting back to coal in the short-term. In addition, it was also noted that Europe's drive to find alternative sources of hydrocarbons had also driven up the price of energy for other regions, in particular making gas unaffordable in a number of developing countries. However, this criticism was deflected in the final communique, which took a more positive line (and an argument presented by the EU) that "the unprecedented global energy crisis underlines the urgency to rapidly transform energy systems to be more secure, reliable, and resilient, including by accelerating clean and just transitions to renewable energy during this critical decade of action”[3]. Nevertheless, it seemed undeniable that in the short-term at least environmental issues have taken a lower priority in political dialogue across the world.

3. The introduction of a fund for “Loss & Damage” was viewed as a key success, but many questions were left unanswered

The establishment of a fund for “Loss & Damage” has been a core goal of many countries in the Global South for three decades, and COP27 was the conference at which their ambition was finally rewarded, although with some caveats. Importantly many countries in the developed world were prepared to vote for a final communique which included this new instrument, even though they were disappointed with a lack of progress on mitigation and climate ambition, because they wanted to show support for the developing nations who had been fighting for its adoption for so long.

This acceptance by developed countries that there is an ethical obligation to provide for “Loss & Damage” in the developing world may be the most important result of the new fund, as it helped to avert a major rift between the Global South and the Global North at the conference. However, it should be noted that the omission of any mention of liability was critical to gaining the support of many developed countries and a number of major questions remain about the operationalisation of the new fund, who will pay into it and who the beneficiaries will be.

The next 12 months will be spent establishing the fund prior to COP28, but critically it has catalysed a debate about which Parties should be categorized as developing countries. The UN definition of developing countries was established in the early 1990s and includes some states (like Singapore) that are now wealthier on a per capita basis than many developed countries and others which are now rapidly developing and contributing significantly to global emissions (such as China, the world’s largest emitter of CO2). Many developed countries were adamant that countries such as these should not only not be receiving monies from the new “Loss & Damage” Fund, but should actually be contributing to it. However, this remains to be discussed in 2023, as do the issues of what financial contributions should be made by each player, how the fund will be additional rather than just a re-distribution of existing development funds, and how the monies will be allocated in the event of loss and damage occurring.

Three other initiatives linked to the theme of “Loss & Damage” are also worth noting. Firstly, an additional mechanism to provide finance for developing countries in the event of environmental disasters was proposed by Germany, in its role as president of the G7 countries. The Global Shield concept emerged as an insurance-

[3] Sharm El Sheikh Implementation Plan, 20 November 2022, Paragraph 9 sourced at https://unfccc.int/documents/624444

style product, with developing countries paying small premia to get access to larger funds contributed by developed countries in the event of emergency. Only $170 million has been committed to date, and there was some concern that the initiative might be an attempt to distract from the "Loss & Damage" debate, but nevertheless the initiative was generally regarded as another positive step among a variety of attempts to ease the burden on the developing countries.

A second idea was promoted by the UK government, which encouraged the insertion of new climate resilient debt clauses (CRDCs) into future bonds and private sector lending arrangements in international markets to allow developing countries to defer sovereign debt repayments for up to a maximum of two years in the event of a pre-defined natural disasters. This concept has been designed to ensure that developing countries can avoid becoming overburdened with debt in the event of natural disasters and can focus their available funds on recovering from environmental issues rather than paying excessive interest bills at times of crisis.

Thirdly, the United Nations actively promoted a global Early Warning system that could provide timely alerts to all nations across the globe of impending environmental disasters in order to minimise the potential for loss and damage where possible. Fifty countries supported the proposal with just over $3 billion in funding, and the initiative was included in the final communique as one of the key achievements of the COP.

4. The issue of Mitigation was relegated, with ambition not raised and implementation of targets not highlighted – the Global Stocktake in 2023 will be critical

One of the key outcomes of COP26 was a pledge in the final communique that countries should update their climate ambitions more regularly in order to bring them more rapidly in line with the 1.5°C temperature target. As a result, all countries were requested to update their NDCs during 2022 and report their new targets at or before COP27 rather than wait for the normal 5-year cycle established under the Paris Agreement.

However, the outcome fell well short of this target and this reflected the overall lack of focus on mitigation at this COP. According to Climate Action Tracker, only 29 countries out of 193 parties to the COP process have presented updated NDCs, with only five actually offering significantly increased ambition, while the EU has subsequently promised to update its NDC once its new Climate Law, known as "Fit for 55", has been adopted.

5. The role of Multilateral Lending Banks (MLBs) is set to change as Blended Finance became a key theme

The final communique also reflected on the overall funding gap that is expanding on an annual basis, noting that $4-6 trillion per annum needs to spent on the energy transition if climate targets are to be met, that around $6 trillion needs to be spent in developing countries before 2030 but that even the modest $100 billion per annum funding target promised by developed countries from 2020 for mitigation and adaptation in the developing world has still not been met (with the OECD estimating a shortfall of $17 billion in 2021).

As a result the Finance Day at COP27 was focused on the need to increase the level of funding available for mitigation and adaptation from public and private sources via blended finance, with the essential goal of catalysing a dramatic increase in private finance initiatives supported by public institutions. This support would come in the form of risk mitigation, with institutions such as the World Bank and the IMF developing green or climate funds where the initial risks are taken largely by public institutions in order to increase the risk-weighted return for private financiers.

Indeed, the entire remit of the World Bank was called into question, catalysed by the Bridgetown Initiative from Barbados Prime Minister Mia Mottley but picked up by the US and other G7 countries. The proposal is that the World Bank and other MDBs should adopt a higher risk profile on environmental lending in the developing world, reducing their reliance on the views of credit ratings agencies and increasing their willingness to take on greater risk to promote private finance. In addition, they should also offer more concessionary loans and grants rather demanding interest rates that reflect the market risk in developing countries, with the goal of minimising the debt burden in poorer countries looking to finance work on mitigation and adaptation. More progress on this issue is expected in 2023.

6. **The Just Energy Partnership Initiative aimed at reducing coal use in producing countries made mixed progress**

One of the most interesting initiatives at COP26 was the development of the Just Energy Transition Partnership, with the US, the EU and a number of individual companies providing $8.5 billion of finance to help South Africa move away from coal in its power sector. Although there have been a number of issues around the details of the agreement, in particular on the specifics of whether the funds are provided as commercial or concessionary loans or even as grants, the overall view is that progress has been made and that this first example can provide a model for future deals. With this in mind a similar $20 billion agreement was reached with Indonesia at the G20 summit in Bali, which took place in parallel with the second week of COP27, and negotiations are also underway with Vietnam, India and Senegal as countries which also use significant amounts of domestic coal in their power sectors. **(6)**

The goal is to encourage a just transition by providing funds to develop domestic industry around renewable energy in order to avoid severe economic consequences from the phase-out of coal. Unfortunately, Vietnam failed to secure a deal that it had been hoping for at COP27, with its negotiators not happy about the terms of loans and other financing being offered, and the country has subsequently outlined plans for further coal development. Nevertheless, some hope remains that an $11 billion deal can be reached at a South-East Asia summit in December 2022, and this could provide a crucial indication of whether the JETP initiative can continue to offer another robust solution to climate finance.

7. Discussion of carbon markets did not make as much progress as hoped

A key achievement of COP26 was agreement amongst Parties on the rulebook governing Article 6 of the Paris Agreement on the establishment of carbon markets. Article 6 sets out mechanisms, namely Article 6.2 and Article 6.4, for countries, corporations and even individuals to trade and account for carbon offsets: activity on this front had increased dramatically since Glasgow. However, there was still a need for a further formalisation of how trading activity under both mechanisms would work in practice, as well as a need to set definitions regarding the quality of offsets, including adopting rigorous measurement, reporting and verification approaches.

COP27 was set to be the venue where these processes would be operationalised, but despite the presentation of a 60-page draft document in the second week of the conference, many questions were left unanswered. Key decisions were instead pushed back to COP28 in UAE, particularly on issues relating to the authorisation of credits by the host country where projects are implemented, and on the definition, quality metrics and role of carbon removal activities. Much work still needs to be done throughout 2023, raising questions about when a fully tradable global market will be available.

8. Hydrocarbon producing countries and companies played a more significant part in the conference

One marked difference between COP27 and previous COP meetings was the fact that oil and gas companies were invited to attend and hydrocarbon exporting countries played a more prominent role. Some estimates placed the number of oil and gas representatives and lobbyists at the conference at 600, and many environmental NGOs were vociferous in their complaints about the role of the industry.

However, there were clearly two sides to the argument on display at the conference. On one side oil producers such as Saudi Arabia and a number of African countries presented that the view that the conference should be about reducing emissions not targeting one specific sector. Saudi Arabia in particular continued to promote its idea of the Circular Carbon Economy, arguing carbon neutrality can be achieved through the use of technologies such as Carbon Capture, Utilisation and Storage (CCUS), combined with nature-based solutions and other forms of carbon re-cycling.

Meanwhile, other organisations, such as TotalEnergies, argued that gas should be regarded as a transition fuel, with Egypt's minister of petroleum and mineral resources, Tarek El Molla, stating that gas would "continue to play a key role in the future energy mix"30. Indeed, the final communique included a phrase about "the importance of enhancing a clean energy mix, including low-emission and renewable energy, at all levels as part of diversifying energy mixes and systems, in line with national circumstances and recognizing the need for support towards just transitions", with low-emission energy being interpreted by many as a reference to the right of African nations and others to develop their indigenous gas resources.

In reality, the presence of the hydrocarbon producers reflected the realistic, if uncomfortable, fact that oil and gas are going to be part of the energy mix for some years to come and therefore the companies and countries that produce them should be brought into the transition debate and encouraged to participate in the process of decarbonisation. Furthermore, many developing countries argue that a just transition should allow them to produce and use their domestic resources, even if they ultimately need to be phased out.

9. The focus on methane emissions continues to increase

The signing of the Global Methane Pledge at COP26 brought the world's attention to this significant greenhouse gas, which has a global warming impact 80 times greater than CO_2, although its effects wear off over a decade rather than centuries. Nevertheless, reducing methane emissions is one of the clear routes to keeping to world on track to meet its climate targets over the next two decades and as such the fact that more than 100 countries signed a pledge to reduce emissions by 30% (from 2020 levels) by 2030 was a major achievement of last year's COP.

At COP27 methane was once again in the spotlight, in particular in the second week when a ministerial meeting was held at which US Climate Envoy John Kerry announced that more than 150 countries have now joined the Global Methane Pledge (an increase of around 40 since COP26). Importantly the US was able to underline its own commitment to reduction of methane leaks thanks to commitments made in the Inflation Reduction Act (IRA) **(7)** which was passed over the summer and which now includes specific charges for each tonne of methane emitted, rising from US$900/t in 2024 to US$1500/t in 2026. In addition, the Environment Protection Agency will be funding and providing technical assistance for methane abatement, while funds will be raised by the introduction of a royalty on all methane production, including gas that is consumed or lost in venting, flaring or negligent releases. As such, the US has taken a major step forward on the methane emission issue and is now in a strong position to demand action from others.

10. The roles of US and China are critical in environmental negotiations, while the EU denies accusations of hypocrisy

At COP26 the relief that the US, under President Joe Biden, had once again re-entered the Paris Agreement was palpable. John Kerry, the leading US climate representative, was evident in all elements of the negotiations, acting as a catalyst for debate and a go-between when discussion broke down, being particularly important in the brokering of a last-minute deal to pass the final communique. At COP27, Kerry was once again highly visible, but on this occasion he had added influence thanks to the fact that the US had passed its IRA during the summer, which provides multi-billion dollars of incentives for the development of renewables and green technologies. As a result, the US delegation could argue that the country is taking concrete action to back its environmental ambitions and could urge others to do the same. It did this across multiple topics, from climate finance to methane emissions and food security.

However, one of the positive surprises of COP26 had been the agreement between the US and China to develop a bilateral dialogue on climate issues during 2022, irrespective of other issues between the two countries. However, Nancy Pelosi's visit to Taiwan during the summer had undermined this plan and brought all discussions to a halt, with the result that the world's two largest emitters did not start COP27 on speaking terms. This was a major hindrance to progress because, as UN secretary-general Guterres pointed out "there is no way in which we can address the climate challenge that we face without the co-operation of all G20 members and in particular without the co-operation of the two biggest economies, the United States and China". **(8)**

However, while it is clear that the roles of the US and China are critical to progress at any COP, the role of the EU, previously seen as a champion of the climate debate, has become somewhat more complex due to its short-term reaction to the global energy crisis. It came to COP27 facing criticism from a number of developing countries about its shifting stance on the use of coal and its search for new sources of natural gas, with the word "hypocrisy" being used on more than one occasion. Despite a robust defence from EU representative Frans Timmermans, who asserted that "[if] in the short run, we use more coal than we had anticipated, it is because we are going to go much faster with our energy transition," the EU had to fight to retain its role as a leader of the energy transition. It certainly did take a strong stance on the final communique, pushing for the phase down of fossil fuels and even threatening to walk away from any agreement that diluted the 1.5°C target, but it was clear that its influence has been undermined by its reaction to the energy crisis.

Discussion

It would be a struggle to argue that COP27 significantly enhanced the chances of the world meeting its climate targets as the issues of mitigation and climate ambition did not receive adequate attention at the conference. The fact that the approval of the final communique was rushed through in the early morning of Sunday 20th November in front of an almost silent hall suggested that the Egyptian Presidency knew that many of the delegates were unhappy with the outcome.

Even the establishment of a “Loss & Damage” Fund was a double-edged sword. The fact that it exists is an acknowledgement by the developed world that there is a need to compensate the developing world for an issue that it did little to create, and such action is positive in that sense. In two other ways, though, it is less encouraging. Firstly, it implicitly acknowledges that there will be loss and damage to be paid for, likely in large amounts, because another message from the conference is that we are not on track to meet the 1.5^{o}C target. Secondly, although there is a fund, there is as yet no money in it, and the debate about how much should be paid in and by whom is likely to reopen a number of perennial COP-related issues during 2023 and beyond.

As a result, it is easy to feel negative about this COP and indeed the COP process as a whole. In this context it is heartening to hear that Simon Stiell, the UN’s most senior climate official announced his intention of reviewing the operation of future summits to ensure greater transparency in the negotiations and a greater hope for positive action. However, even in its current form, this conference serves a useful purpose. It provides a voice for smaller nations to air their concerns and to highlight critical issues. It brings together environmental activists to share their passion for resolving the crisis of climate change and to exchange views on potential solutions. And perhaps most importantly it does catalyse positive action in the form of initiatives, such as the Global Methane Pledge, the reworking of the role of Multilateral Lending Banks, raising the profile of private finance initiatives and allowing environmental lobby groups to make their case to politicians and policymakers in a coordinated fashion.

As such, one final conclusion is that it may be necessary to temper our expectations of the COP process overall. Finding unanimity among 193 Parties is always going to be a difficult, if not impossible, process involving inevitable compromise and frustration, especially on such a complex issue that impacts the lives of individuals and the geopolitical positions of nation states. The role of COPs, then, should perhaps be seen as keeping the issue of climate change high on the political agenda, ensuring that the principle of a “just transition”, based on common but differentiated responsibility for climate change, is maintained and catalysing multilateral initiatives involving the public and private sectors to get a just energy transition to occur.

In reality, although global coordination is needed to encourage overall momentum, real change on climate issues will come from multilateral groups, regional blocs, countries, companies and individuals taking specific actions. The COP process can applaud this activity, encourage further ambition, remind the world of the urgency of concerted action and ensure that the voices of all nations and interested parties are heard but perhaps we should now accept that the likelihood of the COP process itself leading to dramatic change is limited.

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