

# Green Deals on the Red Sea: A Breakdown of COP27

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## Background

The 2022 United Nations Climate Change Conference (“COP27”) took place in Sharm El Sheikh in November. Against a unique political backdrop—including the war in Ukraine, the ensuing global energy crisis, and the U.S. midterm elections—emphasis was placed on COP27 to be a catalyst for much-needed progress in the ongoing fight to limit climate change.

The Glasgow Climate Pact, agreed at COP26, aimed to address rising global temperatures by requiring signatories to submit revised Nationally Determined Contributions (“NDCs”) and update their climate strategies towards a target of net zero by 2050. However, only 29 of 194 nations fulfilled this obligation ahead of COP27.<sup>1</sup> One week before the launch of COP27, a UN Environment Programme report<sup>2</sup> (“UNEP Report”) suggested that there was “no credible pathway” to limiting global temperature increases to 1.5°C as pledged under the Paris Agreement,<sup>3</sup> adding that mitigation efforts since COP26 had been “woefully inadequate.” Alok Sharma, President for COP26, conceded that “this could be the COP where we lose 1.5°C.”<sup>4</sup>

The pre-summit headlines were dominated by the inclusion of “loss and damage” in the official agenda, a term broadly referring to the adverse impacts of climate change on communities, particularly in developing countries.<sup>5</sup> Although it is generally recognized that efforts to avert and minimize loss and damage require significant monetary

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<sup>1</sup> UNFCCC, “COP27 in Sharm el-Sheikh to Focus on Delivering on the Promises of Paris,” 6 November 2022, <https://unfccc.int/news/cop27-in-sharm-el-sheikh-to-focus-on-delivering-on-the-promises-of-paris>.

<sup>2</sup> UN Environment Programme, “Emissions Gap Report 2022,” 27 October 2022, <https://www.unep.org/resources/emissions-gap-report-2022>.

<sup>3</sup> Paris Agreement, Article 2(1), [https://unfccc.int/sites/default/files/english\\_paris\\_agreement.pdf](https://unfccc.int/sites/default/files/english_paris_agreement.pdf).

<sup>4</sup> The Guardian, “This could be the Cop where we lose 1.5C’, warns Alok Sharma – as it happened,” 14 November 2022, <https://www.theguardian.com/environment/live/2022/nov/14/cop27-egypt-lula-brazil-rainforests-climate-conference-live>.

<sup>5</sup> This includes losses and damage related to extreme weather events but also slow onset events, such as sea level rise and increasing temperatures.

contributions, developed nations have repeatedly failed to honor their financial commitments to those countries most vulnerable to climate change. As a result, many had dubbed COP27 the “implementation COP”<sup>6</sup> in an effort to urge developed nations to address climate-financing gaps between the Global North and the Global South.

While Russian President Vladimir Putin and Chinese President Xi Jinping were notably absent, it is worth noting that the G20 Leaders’ Summit (which was held in Bali, Indonesia and overlapped with COP27) influenced the outcome of certain initiatives and provided an alternative forum for climate-related discussions, in particular between the United States and China.<sup>7</sup>

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## Loss and Damage

The significance attached to the news that loss and damage was to be on the official agenda of COP27 was warranted. In 2009, rich nations agreed to channel \$100 billion a year to developing nations by 2020 in order to help them adapt to climate change and reduce their greenhouse gas (“GHG”) emissions.<sup>8</sup> This target was not met, and there were fears before the summit began that the issue would not be confronted, with many western governments’ budgets depleted as a consequence of costly economic measures introduced to combat the effects of the conflict in Ukraine. However, certain climate-related disasters such as the floods in Pakistan, estimated to have caused \$30 billion worth of loss and damage,<sup>9</sup> seemed to have brought the gravity of the issue into focus.

The agreement between nations at COP27 to establish a loss and damage fund is groundbreaking and, although only an agreement in principle for now, could help to ensure progress is made towards achieving the goals of the Paris Agreement: mitigation (reducing emissions), adaptation (reducing vulnerability to climate change), and

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<sup>6</sup> The Business & Financial Times, “Fairer green finance,” 15 November 2022, <https://thebftonline.com/2022/11/15/fairer-green-finance/>.

<sup>7</sup> World Resources Institute, “STATEMENT: G20 Summit Sends Positive Signal for COP27; Countries Announce Major Funding Package for Indonesia’s Energy Transition,” 16 November 2022, <https://www.wri.org/news/statement-g20-summit-sends-positive-signal-cop27-countries-announce-major-funding-package>.

<sup>8</sup> OECD, “Climate Finance and the USD 100 Billion Goal,” <https://www.oecd.org/climate-change/finance-usd-100-billion-goal/>.

<sup>9</sup> World Bank, “Pakistan: Flood Damages and Economic Losses Over USD 30 billion and Reconstruction Needs Over USD 16 billion – New Assessment,” 28 October 2022, <https://www.worldbank.org/en/news/press-release/2022/10/28/pakistan-flood-damages-and-economic-losses-over-usd-30-billion-and-reconstruction-needs-over-usd-16-billion-new-assessment#:~:text=Pakistan%3A%20Flood%20Damages%20and%20Economic,USD%2016%20billion%20%2D%20New%20Assessment>.

finance.<sup>10</sup> A transitional committee will manage the fund through to COP28 and orchestrate the funding mechanism tied to it, providing recommendations both for the setup of the fund and for which countries should receive funding (note that there is currently no indication as to the level of funding to be provided). The committee's first meeting will take place by March 2023. An anticipated point of discussion is the definition of "beneficiaries," and whether this will include China—in other words, whether the definition should include the broader range of 'developing' countries as opposed to the narrower list of 'particularly vulnerable' countries. Frans Timmermans, Vice President of the European Commission, emphasized that this question must "take into account the economic situation of countries in 2022 and not in 1992."<sup>11</sup>

As regards funding, Barbadian Prime Minister Mia Mottley proposed a remodeling of certain financial institutions, including the World Bank and other DFIs, which would unlock sources of funding through higher lending capacities and higher leverage ratios. The specific text of the Sharm El Sheikh Implementation Plan<sup>12</sup> ("Implementation Plan") called on these banks to "reform (their) practices and priorities" so as to "mobilize climate finance from various sources," a need echoed by UN Secretary-General António Guterres in his opening speech. Although the three main questions concerning the operation of the fund—how much is being committed, who is paying, and who is benefitting—are all largely unanswered, this is still a landmark agreement and represents substantial progress towards achieving the adaptation and finance elements of the Paris Agreement.

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## 1.5°C Becoming 2°C

Draft decision -/CMA.4<sup>13</sup>—outlining a "[n]ew collective quantified goal on climate finance"—reiterates the Paris Agreement's goal of limiting global warming to well below 2°C, with the Implementation Plan resolving to "pursue further efforts to limit the temperature increase to 1.5°C." Encouraged by the Business Ambition for 1.5°C campaign, 70% of the global economy had committed to net zero by 2050 by year end 2021, up from 16% in 2019.<sup>14</sup> Ahead of COP27, many stakeholders expected a

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<sup>10</sup> Paris Agreement, Article 2(1), [https://unfccc.int/sites/default/files/english\\_paris\\_agreement.pdf](https://unfccc.int/sites/default/files/english_paris_agreement.pdf).

<sup>11</sup> The Economist, "Should rich countries pay for climate damage in poor ones?," 24 November 2022, <https://www.economist.com/international/2022/11/20/a-new-un-fund-for-loss-and-damage-emerges-from-cop27>.

<sup>12</sup> Sharm El Sheikh Implementation Plan, Decision -/CP.27, Article IX, s.37, [https://unfccc.int/sites/default/files/resource/cop27\\_auv\\_2\\_cover%20decision.pdf](https://unfccc.int/sites/default/files/resource/cop27_auv_2_cover%20decision.pdf).

<sup>13</sup> Sharm El Sheikh Implementation Plan, Draft decision -/CMA.4, [https://unfccc.int/sites/default/files/resource/cma4\\_auv\\_8e\\_NCOG.pdf](https://unfccc.int/sites/default/files/resource/cma4_auv_8e_NCOG.pdf).

<sup>14</sup> Science Based Targets, "Business Ambition for 1.5°C," <https://sciencebasedtargets.org/business-ambition-for-1-5c>.

strengthening of this commitment, including by making 1.5°C a binding target. However, the UNEP Report, which proposed that global carbon emissions must fall by 50% by 2030 in order to achieve 1.5°C, led to skepticism surrounding related discussions at COP27.

The composition of the global energy pool was another issue scrutinized at COP27. Perhaps influenced by rising energy prices and supply shortages caused by the conflict in Ukraine, the Implementation Plan only loosely endorsed a “clean energy mix [...] as part of diversifying energy mixes and systems,” and failed to reaffirm the “phasedown of unabated coal power” that was the target in the Glasgow Climate Pact.<sup>15</sup> Given that COP28 will be hosted by the United Arab Emirates, a country that derives much of its GDP from fossil fuels, it is unclear whether a tougher stance will be taken. Yeb Saño, Head of the Greenpeace delegation at COP27, described the Implementation Plan as an “abdication of responsibility” on the part of developed nations for not adding oil and gas to the phasedown, despite calls from India and EU Member States.<sup>16</sup>

The data is clear, according to the UN’s Intergovernmental Panel on Climate Change (“IPCC”), that GHG emissions must peak before 2025 at the latest in order to limit global warming to 1.5°C.<sup>17</sup> Furthermore, GHG emissions need to be cut by 43% by 2030 compared to 2019 levels to meet that target.

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## Developing Countries

Although the primary focus of developing nations at COP27 was securing a firm agreement on loss and damage, there were other significant developments benefitting these nations:

- **Rainforest Protection Act.** After close to a decade of negotiations, Brazil, Indonesia, and the Democratic Republic of Congo launched a trilateral strategic partnership to cooperate on forest preservation. The three countries are the largest rainforest nations in the world and collectively are home to over half of the world’s tropical rainforests. The group has committed to cooperate on initiatives supporting conservation, the restoration of key ecosystems, and the creation of sustainable

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<sup>15</sup> Glasgow Climate Pact, Article IV, s.36, [https://unfccc.int/sites/default/files/resource/cma2021\\_10\\_add1\\_adv.pdf](https://unfccc.int/sites/default/files/resource/cma2021_10_add1_adv.pdf).

<sup>16</sup> Greenpeace, “Greenpeace response to the latest Egyptian Presidencies draft COP27 Cover note,” 17 November 2022, <https://www.greenpeace.org/international/press-release/56838/greenpeace-response-latest-egyptian-presidencies-draft-cop27-cover-note/>.

<sup>17</sup> Intergovernmental Panel on Climate Change, “The evidence is clear: the time for action is now. We can halve emissions by 2030.” 4 April 2022, <https://www.ipcc.ch/2022/04/04/ipcc-ar6-wgiii-pressrelease/>.

economies. The countries pledged to establish a “funding mechanism” for forest preservation and to sustain the fragile ecosystems therein.<sup>18</sup>

- **Africa Just and Affordable Energy Transition Initiative.** Egypt announced the Africa Just and Affordable Energy Transition Initiative (“AJAETI”), a project that supports a shift to sustainable energy throughout all of Africa with a focus on the sub-Saharan region. The initiative has three pillars: (i) providing affordable energy for at least 300 million people in African nations by 2027 and for all of Africa by 2030; (ii) increasing the generation of renewable electricity by 25% by 2027 and creating a power sector centered on renewables by 2063; and (iii) transitioning 300 million people to clean cooking by 2027 and implementing universal access to clean cooking across the continent by 2030. The International Energy Agency and the International Renewable Energy Agency each committed to work closely with AJAETI to facilitate the success of its program.<sup>19</sup>
- **Sharm El Sheikh Adaptation Agenda.** Egypt launched the Sharm El Sheikh Adaptation Agenda, a program that identifies 30 global adaptation targets to reach by 2030. Achieving these goals will increase the resilience of 4 billion people highly vulnerable to the effects of climate change. The Adaptation Agenda includes a global transition to more sustainable agricultural practices, the installation of early warning systems to help exposed populations prepare for catastrophic weather events, and investment in clean cooking and protections against flooding.<sup>20</sup>

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## Miscellaneous

Some other headlines from the summit include:

- **Article 6 / Carbon Trading.** The approval of Article 6—the Paris Agreement’s rulebook governing carbon markets—was a key milestone at COP26. A report<sup>21</sup> co-authored by the International Emissions Trading Association (“IETA”) estimated

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<sup>18</sup> The New York Times, “Brazil, Indonesia and Congo Sign Rainforest Protection Pact,” 14 November 2022, <https://www.nytimes.com/2022/11/14/climate/brazil-indonesia-democratic-congo-rainforest-protection-pact.html>; Reuters, “Biggest rainforest nations form triple alliance to save jungle,” 14 November 2022, <https://www.reuters.com/business/cop/brazil-rainforest-nations-join-forces-save-jungle-2022-11-14/>.

<sup>19</sup> COP27, “COP27 Presidency Launches AJAETI Initiative for a Just and Affordable Energy Transition in Africa,” 15 November 2022, <https://cop27.eg/#/news/247/COP27%20Presidency%20Launches%20AJAE>.

<sup>20</sup> Reuters, “COP27: Hosts launch plan to help poorest adapt to climate change,” 8 November 2022, <https://www.reuters.com/business/cop/cop27-hosts-launch-plan-help-poorest-adapt-climate-change-2022-11-08/>.

<sup>21</sup> International Emissions Trading Association, “The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges,” September 2019, [https://www.ieta.org/resources/International\\_WG/Article6/CLPC\\_A6%20report\\_no%20crops.pdf](https://www.ieta.org/resources/International_WG/Article6/CLPC_A6%20report_no%20crops.pdf).

that costs related to implementing NDCs could be reduced by up to half (approximately \$250 billion per year in 2030) through trading in carbon credits. However, the draft text published fell short of a robust agreement on the parameters of the credits and trading mechanism. As drafted, the text allows for double-counting, whereby a company can buy a credit for emission reduction purposes that is already being used by a country in furtherance of its own climate goals. This leaves the current scheme susceptible to corporate greenwashing. An international policy director at the IETA recognized that the “Article 6 texts are (still) all open.”<sup>22</sup>

- **Global Renewable Hydrogen Forum.** Egypt and Belgium launched the Global Renewable Hydrogen Forum, an initiative with input from private stakeholders, public and port authorities, and intergovernmental organizations. The initiative aims to “facilitate large-scale deployment of renewable hydrogen” by identifying cost-effective incentivizing mechanisms and facilitating the development of hydrogen trade corridors.<sup>23</sup>
- **Launch of the Forest and Climate Leaders’ Partnership.** The United Kingdom announced the creation of the Forest and Climate Leaders’ Partnership, an initiative joined by 26 countries and the European Union, dedicated to halting and reversing forest loss and land degradation by 2030. Together, the partners make up 33% of the world’s forests and almost 60% of the world’s GDP. The group’s goal, if achieved, would account for 10% of the climate mitigation action required to satisfy the terms of the Paris Agreement.<sup>24</sup>

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## Epilogue

The U.S. midterm elections—held in early November—meant U.S. representatives were firmly in the spotlight during the conference.

The creation of a loss and damage fund was the overriding success of COP27. Currently, details on the funding mechanism and the specifics as to who will benefit are thin, but the transitional committee will manage the fund through to COP28, when those details should be finalized. Once in force, the fund ought to provide some degree of comfort for

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<sup>22</sup> Reuters, “U.N. carbon market talks to drag beyond COP27 as deals elusive,” 18 November 2022, <https://www.reuters.com/business/cop/un-carbon-market-talks-drag-beyond-cop27-deals-elusive-2022-11-17/>.

<sup>23</sup> SolarQuarter, “Egypt And Belgium Launches ‘Global Renewable Hydrogen Forum,’” 11 November 2022, <https://solarquarter.com/2022/11/11/egypt-and-belgium-launches-global-renewable-hydrogen-forum/>.

<sup>24</sup> UN Climate Change Conference, “World leaders launch forests and climate leaders’ partnership to accelerate momentum to halt and reverse forest loss and land degradation by 2030,” 7 November 2022, <https://ukcop26.org/world-leaders-launch-forests-and-climate-leaders-partnership-to-accelerate-momentum-to-halt-and-reverse-forest-loss-and-land-degradation-by-2030/>.

climate-vulnerable countries that developed nations are putting forward funds to help avert climate disaster.

Nevertheless, efforts to achieve 1.5°C now seem threadbare. The passive drafting of the Implementation Plan underlines this, and some corporate net-zero pledges seem increasingly uncertain. Rising “anti-ESG” sentiment and corresponding “climate hushing,” particularly in the United States, contribute to an atmosphere hostile to environmental concerns. Participating countries almost universally deserted their obligation to provide revised NDCs and long-term climate strategies, epitomizing the lack of urgency 1.5°C was met with at COP27. Article 6 of the Paris Agreement<sup>25</sup> and the carbon trading scheme may allow more countries to meet emission reduction targets, but this would only have a meaningful impact if countries endorse recommendations in the UNEP Report and from other intergovernmental bodies such as the IPCC.

UN Secretary-General António Guterres said of the summit: “Our planet is still in the emergency room [...] COP27 concludes with much homework and little time.”<sup>26</sup>

COP28 will be held in Dubai, United Arab Emirates, in late 2023.

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Please do not hesitate to contact us with any questions on how these developments may impact your business.

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<sup>25</sup> World Bank, “What You Need to Know About Article 6 of the Paris Agreement,” 17 May 2022, <https://www.worldbank.org/en/news/feature/2022/05/17/what-you-need-to-know-about-article-6-of-the-paris-agreement>.

<sup>26</sup> United Nations, “António Guterres (Secretary-General) on the Closing of COP27,” 19 November 2022, <https://media.un.org/en/asset/k12/k12p31t118#:~:text=Our%20planet%20is%20still%20in,entire%20African%20country%20to%20desert>.

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