

COP27 insights

No clear pathway – to progress, success or failure

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Climate Change - Global

- ◆ Week one at COP27 – difficult to pinpoint where progress is being made or even whether there will be a cover decision
- ◆ Blue zone: negotiations move both forwards and backwards, depending on the issue – ministers to take over next week
- ◆ Green zone: lots of voluntary carbon markets discussion, less on updated pledges or finance – biodiversity day on the 16th

Events in Egypt: COP27 is now at the halfway mark with little sign of how it is going to end. The main negotiations (Blue zone) have largely been as expected given the stage of the COP meeting, with developing and developed countries mostly taking their expected sides over key issues. The side events (Green zone) have been interesting but not pathway changing, especially given that many initiatives from last year have not been followed through. The 'cover decision' – a key document which summarises the thinking and intention of the COP process – is in a state of flux (whether there will be one or not). We think there will be, but it may be less substantive than in previous years. Coal is conspicuous by its absence this year.

Blue zone (main negotiations)

On **Article 6**, it has been very process driven and quite technical – how will registries be aligned, and how to implement transfers and cancellations. *Emissions avoidance* is likely to be pushed out to later discussions as the focus is on *Emissions removals* – what type, how to differentiate, and what about safeguards.

On **Adaptation**, although in sharp focus, discussions have focused on the lack of plans, the lack of funding, and some confusion over the *Global Goal on Adaptation* – which sub-body is responsible, what the aims of the discussion should be, and the framework for making process at these talks and the work programme.

Fickle finance: On the **USD100bn**, there were uncertainties over how to summarise the (lack of) progress but ongoing conversations on tracking methodologies – it depends on **definitions** which is a very bifurcated issue. On the *new collective quantified goal (NCQG)*, delegates are exploring elements and linkages as well as roadmaps for future work – but they cannot agree on *when* the main number should be discussed, let alone *what* the main number should be.

Loss & damage (L&D) is the standout finance issue – with deliberations over the status of the fund (which sub-body should it fall under), should it be a standalone facility (developing view) or a range of options (developed view). The point to watch here is how far negotiators will get in setting up this fund (fully agree vs vaguely agree vs agree to discuss).

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Green zone (announcement, activities, initiatives outside of the negotiating process)

Generating carbon credits: Despite ongoing deliberations over Article 6, many countries have expressed interest in *voluntary carbon markets (VCM)*. With an aim to mobilise climate finance from private sectors, developed countries (e.g. US) are promoting the purchase of carbon credits (by corporates) from developing countries, which are eager to monetarise their existing natural resources ([Energy Transition Accelerator](#)). In this regard, the [African Carbon Market Initiative \(ACMI\)](#) was launched with the aim of generating 300 million credits and USD6bn in revenue by 2030. There was more than a healthy level of scepticism from observers and NGOs who believe that VCMs are a distraction from real decarbonisation.

Dropped new climate targets: Compared to COP26, there are fewer national announcements on climate commitments this year. **Kuwait** becomes the fifth GCC state to commit to state-wide net zero by 2060 while the oil and gas sector is expected to achieve the target a decade earlier. **Mexico** remains the only G20 member not yet committed to net zero despite enhancement of its 2030 emissions reduction target to 35% (business as usual, BAU) from 22%. Vietnam, Timor-Leste, Andorra, Bahamas updated their climate pledges but global climate ambition still needs to be scaled up.

L&D commitments: While the debate over climate finance is still heating up in the blue zone, some developed countries (e.g. Germany, Belgium, Austria, and New Zealand) boosted their commitments to compensate climate-related loss and damage in developing countries. Also, the UK announced a new concessionary measure to defer debt repayment of poor nations in the event of climate disasters. However, we think the new commitments are too modest to address the needs of developing countries, with the amount 'orders of magnitude' out.

Sluggish methane curb: Launched last year, the Global Methane Pledge (signed by over 130 countries) aimed to reduce 30% of global methane emissions by 2030 from 2020 levels. Signatories were expected to turn their commitments into implementation at COP27 (*Reuters*, 4 November 2022). However, only the US, Canada, and Nigeria have made specific action plans to tackle methane emissions in the energy sector in the first week of the climate conference.

Tackling greenwashing: The growth in national climate pledges has driven corporate commitments with varying levels of transparency and clarity, resulting in greenwashing risks. In light of this, the UN working group and The International Organization of Securities Commissions (IOSCO), the global capital market regulator, respectively released reports on credible net zero targets and an action plan (from sustainability disclosure to carbon market scrutiny). We believe regulators will keep increasing scrutiny over greenwashing and environmental integrity to protect investors as well as global sustainability efforts.

What to look out for in the final week

There were few substantive decisions reached in week one, only procedural or less divisive issues. The finer details of exactly how Article 6 of the Paris Agreement will be implemented is rearing its head again. Adaptation is fighting for the spotlight alongside human rights.

Ministers will now take over discussions as COP27 enters its final week and is due to end on 18 November – however, COPs often overrun as negotiators hold out until a compromise over a key issue can be reached. The key issues this year are: the setting up of a funding facility for Loss & Damage; coming good on the promise to deliver USD100bn; and a working roadmap on discussions for the new collective quantified goal on climate finance (NCQG).

It is important that various issues make decent progress and actually move closer to the end goal, rather than stagnate or move backwards. Hosts Egypt have been quiet in week one, and now have the opportunity to lead COP27 in search of balanced progress.

The global climate calendar: upcoming events

2022	Location	Event
06-18 November	Sharm el-Sheikh, Egypt	UNFCCC COP 27
07-19 December	Montreal, Canada	UN Biodiversity Conference (COP15): Part II
2023		
09-10 February	Colombo, Sri Lanka	The 7th International Conference on Climate Change 2023
13-17 March		The Synthesis Report Approval Session, IPCC AR6
20-21 April	Vancouver, Canada	Fifteenth International conference on Climate change: Impacts and responses
19-20 May	Rome, Italy	Climate Congress 2023
23-25 May	Oslo, Norway	The Global space conference on climate change 2023
21-23 September	Valencia, Spain	2nd Edition of Euro-Global Climate Change Conference
06-17 November	Dubai, UAE	UNFCCC COP 28

Source: HSBC

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