

COP27 insights

No clear pathway – to progress, success or failure

Free to View
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 progress 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).

This is a Free to View version of a report with the same title published on 14-Nov-22. To find out more about COP27, join our [Live Insights event on Wed, 23-Nov-22 at 9:30 UK / 17:30 HK](#). Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Wai-Shin Chan, CFA

Head, Climate Change Centre; Head, ESG Research
The Hongkong and Shanghai Banking Corporation Limited

Polo Heung

Associate, ESG Research
The Hongkong and Shanghai Banking Corporation Limited

Disclosures & Disclaimer

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

Issuer of report: The Hongkong and Shanghai Banking Corporation Limited

View HSBC Global Research at:
<https://www.research.hsbc.com>

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

Disclosure appendix

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Wai-Shin Chan, CFA and Polo Heung

This document has been issued by the Research Department of HSBC.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

Additional disclosures

- 1 This report is dated as at 14 November 2022.
- 2 All market data included in this report are dated as at close 11 November 2022, unless a different date and/or a specific time of day is indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

Disclaimer

Issuer of report
The Hongkong and Shanghai Banking Corporation
Limited

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited, which has based this document on information obtained from sources it believes to be reliable but which it has not independently verified. Neither The Hongkong and Shanghai Banking Corporation Limited nor any member of its group companies ("HSBC") make any guarantee, representation or warranty nor accept any responsibility or liability as to the accuracy or completeness of this document and is not responsible for errors of transmission of factual or analytical data, nor is HSBC liable for damages arising out of any person's reliance on this information. The information and opinions contained within the report are based upon publicly available information at the time of publication, represent the present judgment of HSBC and are subject to change without notice.

This document is not and should not be construed as an offer to sell or solicitation of an offer to purchase or subscribe for any investment or other investment products mentioned in it and/or to participate in any trading strategy. It does not constitute a prospectus or other offering document. Information in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on it, consider the appropriateness of the information, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

The decision and responsibility on whether or not to purchase, subscribe or sell (as applicable) must be taken by the investor. In no event will any member of the HSBC group be liable to the recipient for any direct or indirect or any other damages of any kind arising from or in connection with reliance on any information and materials herein.

Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors.

This document is for information purposes only and may not be redistributed or passed on, directly or indirectly, to any other person, in whole or in part, for any purpose. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. By accepting this report, you agree to be bound by the foregoing instructions. If this report is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. The document is intended to be distributed in its entirety. Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document.

HSBC and/or its officers, directors and employees may have positions in any securities in companies mentioned in this document. HSBC may act as market maker or may have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell or buy securities and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented on the supervisory board or any other committee of those companies.

From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.

The Hongkong and Shanghai Banking Corporation Limited is regulated by the Hong Kong Monetary Authority.

© Copyright 2022, The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of insert issuing entity name. MCI (P) 037/01/2022, MCI (P) 027/10/2022

[1203611]