

COP27: Inconsistency

Sharm el-Sheikh Implementation Plan

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Climate Change - Global

- ◆ Slivers of progress, not balanced, were achieved at COP27 as many contentious issues were left for future climate talks
- ◆ The establishment of a fund for loss and damage came at the expense of raising ambition, with 1.5°C only “alive on paper”
- ◆ We think bifurcation is becoming trifurcation as climate issues evolve with global politics – leaving far too much to be done

Inconsistent progress: COP27 ended a day and half late with only faint outlines of progress across various climate issues after two weeks of bitter negotiations in Sharm el-Sheikh, Egypt. Various Parties were very close to walking away without a deal (Cover decision). In the end, >36 hours after the deadline, the key issue of a **Loss & Damage fund was agreed**. In our view, ambition was not raised, the **1.5°C target is alive only on paper** and other key issues such as adaptation (GGA) and finance (NCQG) saw progress by virtue of the passage of time, rather than any substantive decisions. There are many divisions within the global climate process.

Funding Loss & Damage: This was the dominant and most contentious issue at COP27 – it held up the start and finish of the talks. Vulnerable Parties fought to get *sub-item 8(f)* added to the agenda and refused to leave without a fund. It was agreed “to establish a fund for responding to loss and damage whose mandate includes a focus on addressing loss and damage” but virtually **none of the details were agreed**. The fund won't be operational before COP28 (see page 3 for more details).

Sideways ambition: There was no increase to the level of climate ambition despite the urgency (e.g. more severe extreme events, a diminishing carbon budget, rising temperatures). There was the very real possibility of 1.5°C dropping off the radar as the **sense of urgency around 1.5°C was noticeably less apparent** than in Glasgow. Wording around coal was identical to COP26 (i.e. not strengthened); the potential inclusion of fossil fuels and some form of “phase out/down” never made it into the decision (final or draft); we note more mentions of “low-emission” energy than before (most likely referring to gas). To try to increase ambition, the UN Secretary General will host another *climate ambition summit* in 2023 (before COP28).

A plan to implement: Plans that are not yet operational mean delays to climate action as funding and investment remain implementation barriers. Human rights were on show at COP27, highlighting that a *just transition* involves consideration of age, gender, indigenous communities, and many others. In our view, **COP27 did little to accelerate the speed of transition** at a political level, leaving ambition and action for future discussions. COP28 will take place in the UAE next year (30 November - 12 December), where the first global stocktake will take place and likely show just how far we are from implementing the Paris Agreement and keeping 1.5°C alive.

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Summary of the key issues agreed in Sharm el-Sheikh

The [Cover decision](#) is usually an overview of the decisions taken at a COP and include both official negotiated decisions (those that are officially on the agenda) as well as unofficial (issues that any Party can ask for to signal indications of intent of the whole COP). The COP27 Cover decision is known as the **Sharm el-Sheikh Implementation Plan**.

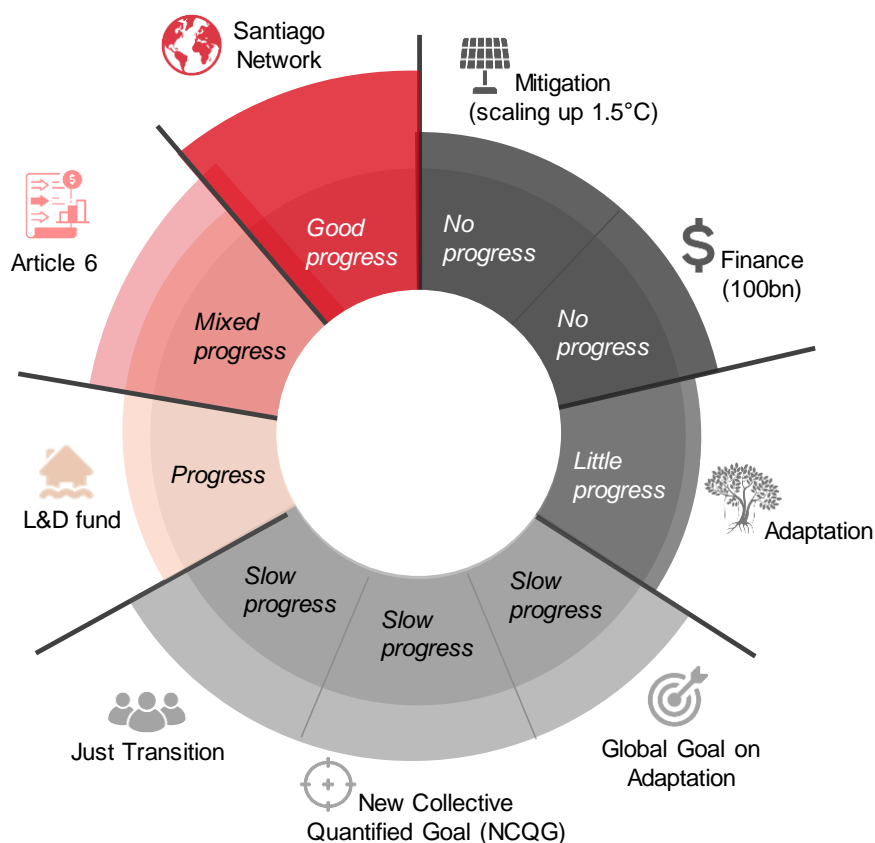
Note: there are actually two Cover decisions – one for COP27 (all Parties to the UNFCCC) and one for CMA4 (only Parties to the Paris Agreement).

Frosty relations between China and the US did not help discussions at COP27

Geopolitics played a role at COP27; previously China-US cooperation was seen as crucial to unlock negotiations as the US represents developed countries and China was seen to represent developing countries. However, they suspended climate cooperation in the summer of 2022 and only vaguely agreed to re-engage after the G20 Leaders' Summit in Bali which took place in the second week of COP27.

Overall progress: COP27 host Egypt was looking for “progress across the board” on all climate issues “in a balanced and equitable manner”. Although there was *some* progress, we do not think it was *balanced* across the board; in our opinion, it was more *inconsistent* progress.

Figure 1: Our view on the progress made across various issues at COP27



Source: HSBC (based on UNFCCC, COP27 decisions)

Bifurcation – When the UN Framework Convention on Climate Change (UNFCCC) was set up in 1992, countries were split into Annex 1 (industrialised as of 1990) and non-Annex 1 (everyone else). This led to the traditional sides of *developed* vs *developing* countries.

However, the world has changed a lot since 1990 – both in terms of emissions profile and economic development – which means that the dividing line between developed and developing becomes less clear. Some argue that the emissions of certain countries (e.g. China) are so large that they must also bear responsibility, and the relative wealth of some countries (in terms of size of the economy) means they should be able to contribute to any funding provisions.

Trifurcation and beyond – Some even unofficially split developing countries into three classes: developing but wealthy (e.g. China), developing in general (e.g. Pakistan), and most vulnerable (e.g. Haiti). However, there is no official UNFCCC dialogue on potential reclassification but it does mean climate discussions can be challenging as some want to make this distinction.

Establishing a Loss & Damage (L&D) fund

The L&D fund made it onto the agenda and was established at COP27...

This was the make or break issue at COP27. Last year, at COP26, the Glasgow Dialogue on Loss & Damage was set up as a formal discussion to look into potential funding arrangements to address L&D. The start of COP27 was held up because vulnerable countries wanted a specific agenda item to discuss L&D funding. After much wrangling, this made it onto the agenda as sub-item 8(f). It was brought up regularly through the fortnight; however, progress only began to emerge in the final few days of COP27.

A Loss & Damage fund – There was a consistent placeholder in draft Cover decisions for the outcome of this item however, in the end, the fund is not specifically mentioned in the final Cover decision, but referenced under *agenda item 8(f)*. Two main things were decided:

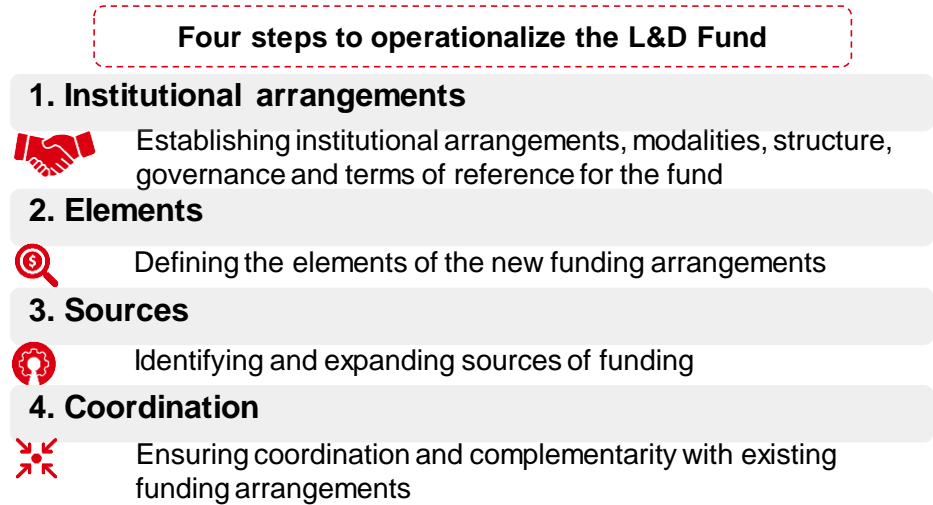
- 1) “to establish a fund for responding to loss and damage whose mandate includes a focus on addressing loss and damage” but specifically for “assisting developing countries that are particularly vulnerable to the adverse effects of climate change”;
- 2) “Establish a transitional committee on the operationalisation of the new funding arrangements for responding to loss and damage and the fund”.

...although almost all the details are still to be fleshed out

Defining vulnerable: Whilst establishing a fund is definitely progress in our view, it comes with many conditions yet to be fleshed out. For starters, it highlights “**developing countries that are particularly vulnerable**” which is not clearly defined and means it cannot be accessed broad-brush by all developing countries as classified by the UNFCCC in 1992.

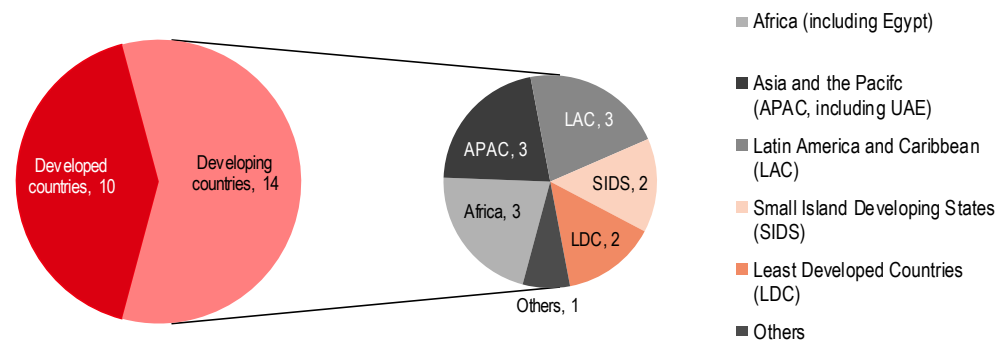
No details whatsoever were agreed regarding which countries pay into the fund, which countries can access the fund, and under what conditions this access can be triggered (i.e. what extreme events or level of devastation, so to speak).

Operational in 2023: The item 8(f) decision intends that the fund is made operational at COP28 but clearly this will involve extremely challenging negotiations. For example, the nominations for the *Transitional Committee* are to be received by the 15 December 2022.

Figure 2: Steps to operationalise the L&D fund


Source: UNFCCC, COP27 decisions

The operationalisation is to be overseen by a Transitional Committee made up of 24 members. There will be a broad representation to ensure balance but crucially, there will be more from developing countries than developed.

Figure 3: The broad representation of Transitional Committee (for the L&D fund)


Source: UNFCCC, COP27 decisions

Figure 4: The role of the Transitional Committee

The role of the Transitional Committee will be to determine:

1. Current landscapes



The current landscape of institutions that are funding activities related to addressing loss and damage, and ways in which coherence, coordination and synergies among them can be enhanced

2. Gaps & priority gaps



The gaps within that current landscape, including the types of gap, such as relating to speed, eligibility, adequacy and access to finance, which may vary depending on the climate related challenges, sea level etc., or the need for climate-resilient reconstruction and recovery

3. Effective ways



The most effective ways to address the gaps, especially for the most vulnerable populations and the ecosystems on which they depend

4. Potential sources



Potential sources of funding, recognizing the need for support from a wide variety of sources, including innovative sources

Source: UNFCCC, COP27 decisions

Keeping 1.5°C alive (mitigation)

Mitigation was not a winner at COP27

Revisit and strengthen (again): At COP26 (2021), Parties were asked to revisit and strengthen their 2030 climate targets before the end of 2022 (i.e. COP27); however, only 29 Parties did so. COP27 issued the same call to Parties “by the end of 2023”. The EU has already signalled its intention to do this.

Alive on paper: There was little else at COP27 that raised, strengthened or accelerated the ambition to limit temperature rises to 1.5°C. The *scaling up mitigation ambition* decision was broadly seen as weak. The work programme (to scale up ambition) will be implemented through “exchanges of views”, essentially workshops or discussions to hear different view but “will not impose new targets or goals”. We think this is very weak as it does not even demonstrate intention to strengthen ambition.

The mitigation work programme is only in place until 2026

To 2026 and not 2030: The implementation of the work programme will start immediately after COP27 i.e. now and actually last until 2026 (COP31/CMA8) although some were calling for this to continue to 2030 (and it was still 2030 in the penultimate draft text). This means Parties cannot give up on the 1.5°C target but have to keep trying (but what happens after 2026 is unclear). They will hold two global dialogues annually (before the inter-sessional and the COPs) and these will feed into COP decisions through a formal report.

“Low-emission energy” is a possible loophole for fossil fuel interests

Low-emission energy: In the final Cover decision, there were five mentions of low-emission energy. Interestingly, mentions of “low-emission” increased with successive draft texts. Although it was mentioned once in the Cover decision of the *Glasgow Climate Pact*, its multiple mentions in the COP27 Cover decision – next to “renewable energy” has worried some Parties. Although it is unclear what it actually means because it is not defined, it is likely to refer to natural gas (as was discussed throughout COP27) but could also include other quasi-forms such as coal with carbon capture. Some believe this is a result of the widely-reported attendance and influence of the fossil fuel industry in Sharm el-Sheikh.

Adaptation and the global goal on adaptation (GGA)

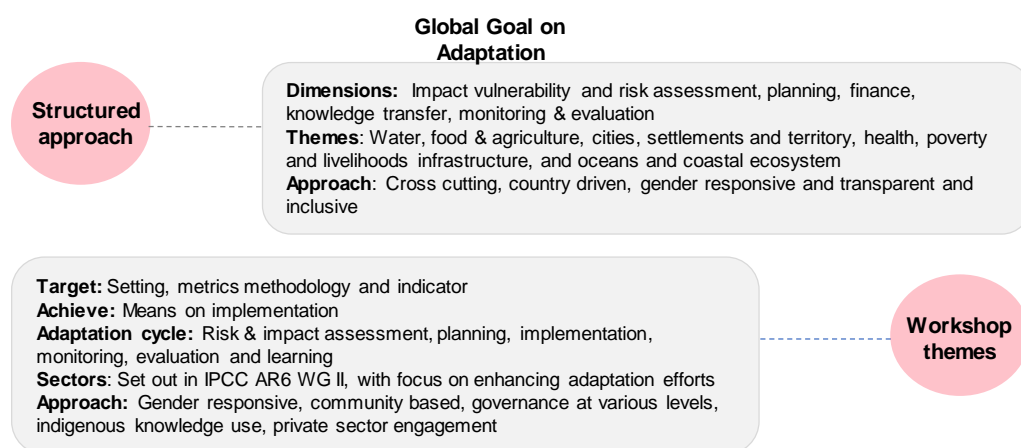
Adaptation was high on the agenda at COP27 given the event was on African soil. Discussions covered many areas including reporting, planning and funding; however, there was no progress on the (COP26) target “to at least double” adaptation funding. Its only mention in the Cover decision was to request “the Standing Committee on Finance to prepare a report on the doubling of adaptation finance”. Instead, most discussion were focused on the global goal on adaptation (GGA).

Global goal on adaptation (GGA)

The two-year work programme on the GGA began immediately after COP26 and will end next year at COP28. GGA discussions at COP27 moved slowly as delegates planned how to demonstrate progress *next year* in 2023. A framework (on issues to cover) was decided in the form of a “structured approach” as well as future themes to be covered over four targeted workshops.

GGA needs to move quickly in 2023 in order to reach a conclusion

Figure 5: The GGA framework and the four GGA workshops to take place in 2023



Source: UNFCCC, COP27 decisions

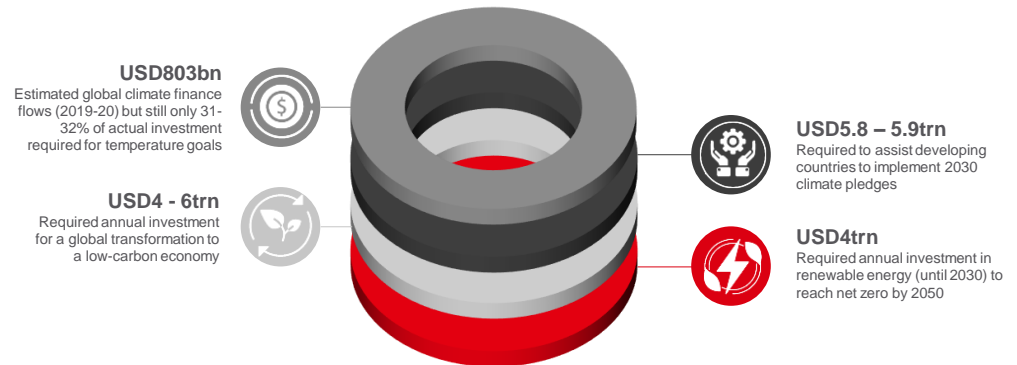
Although the framework covers a wide range of dimensions and themes, the sources of information are based on the usual adaptation reports, science reports and other synthesis reports i.e. aggregating existing or past information. The advancement of the GGA (forward looking) will be undertaken by the four workshops.

Finance – USD100bn and the NCQG

Developed countries missed on providing USSD100bn to developing countries again

Finance was featured heavily at COP27 (as usual) although overshadowed by the discussions to establish the L&D fund. Disappointment was expressed through “serious concern” that the USD100bn goal was missed yet again. COP27 did mention some general climate finance numbers in the Cover decision (Figure 6).

These numbers are estimates, taken from third party reports and used by the COP27 Cover decision as examples of the order of magnitude of climate flows required. There were also discussions on concessional finance again, especially a growing focus on climate finance consisting of more *grants* as opposed to *loans* so as not to saddle developing countries with even more debt.

Figure 6: General climate finance numbers were mentioned in the Cover decision


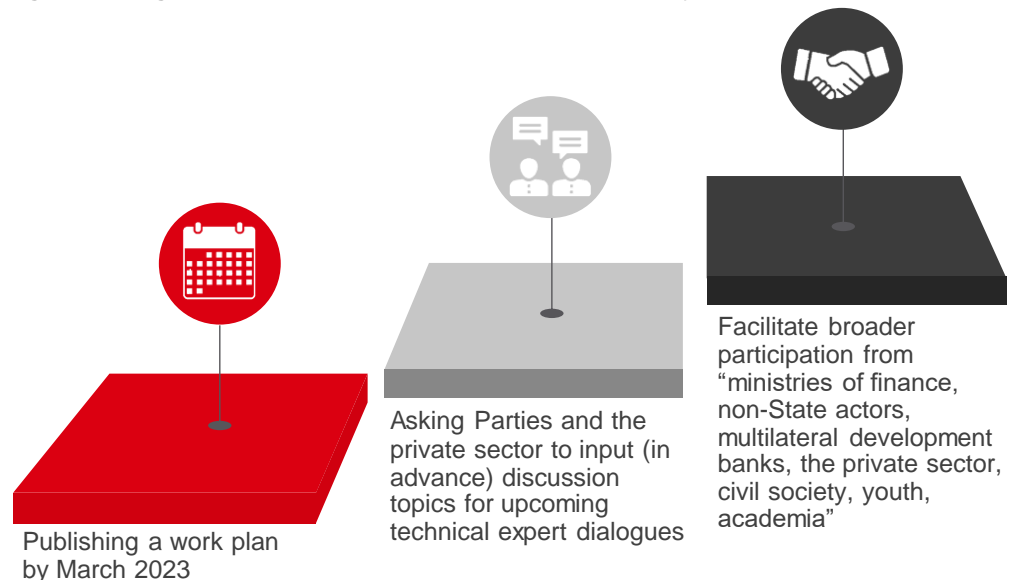
Source: UNFCCC, COP27 decisions

Discussions on the NCQG moved very slowly

The new collective quantified goal on climate finance (NCQG)

Progress on this issue was slow, so much so that even the final decision “acknowledges the need to significantly strengthen the ad hoc work programme on the new collective quantified goal on climate finance”. To be fair, a decision is not expected until 2024 (COP29) although many negotiators asked for more structure and guidance as a basis for the discussions.

There were summaries from a number of technical dialogues held throughout the year as well as a high-level ministerial dialogue. These covered issues such as timeframes for the goal, instruments and channels to be used, potential quantitative elements as well as contributors and linkages to other institutions – essentially a very wide-ranging discussion; however, they acknowledged a need to achieve “**meaningful outcomes**” at COP29 (2024).

Figure 7: Progress on the NCQG in 2023 will be advanced by various initiatives


Source: UNFCCC, COP27 decisions

Article 6 of the Paris Agreement

Article 6 discussions were very technical in nature

The Article 6 task at COP27 was to operationalise the component parts: Article 6.2 (Cooperative approaches), Article 6.4 (The Mechanism), Article 6.8 (Non-market approaches) – hence discussions were mostly very technical in nature.

Article 6.2: Discussions focused on the Article 6 database (what type of information it should record), a centralised accounting and reporting platform, the interoperability of registries (national vs UNFCCC), unique identifiers for internationally transferred mitigation outcomes (ITMOs), how to ensure consistency (through technical expert reviews).

The inclusion of *emissions avoidance* is still undecided

Article 6.4: Discussion were more fraught here than for other parts of Article 6. The crucial issue of whether *emissions avoidance* is to be an allowed activity was delayed to COP28. Other issues covered include *emissions removals*, the authorisation process, how to transition credits from the Clean Development Mechanism and the end date for these transitions.

Two main points of contention were the inclusion of safeguards (real and long-term benefits, how to minimise the risk of non-permanence, how to avoid negative environmental and social impacts), and non-authorised credits (what these are and what they can/cannot be used for).

Article 6.8: Here, negotiators discussed what non-market approaches were (should there be a formal definition), whether recording of these should be voluntary, and how to match activities (from those *providing* with those *using*).

The development of the rules, modalities and procedures of all aspects of Article 6 will continue in future COPs.

Other key issues

Just transition

There is growing official recognition of a just transition...

Human rights were widely discussed in the media surrounding COP27. In this vein, many delegates and observers were keen to shine a spotlight on the inclusion of a wide group of stakeholders as the Paris Agreement and the transition to low-carbon or net zero is implemented. Gender, indigenous communities, the most vulnerable are discussed generally across various COP workstreams.

...a work programme was set up to advance the issue further

A work programme on just transition was established at COP27; however, there were no timeframes mentioned. Work programmes usually last for a minimum of two years although we do not know when this one will formally begin. There will be “an annual high level ministerial round table on just transition” which will start next year at COP28.

The Santiago network for loss and damage

Good progress was made here in terms of operationalising the Santiago network. The structure was decided and will consist of: a secretariat, an advisory board and a network of member organisations. In another win, COP27 decided to provide the Santiago network “with funds to support technical assistance” although these funds will be provided (voluntarily) by developed countries (with others encouraged to provide support as well). Rules of procedure are to be developed by the advisory board by 2024 (COP29).

Other finance - symbiosis

COP27 decided to launch a **Sharm el-Sheikh dialogue** on finance. This obscure paragraph (paragraph 68 of the Cover decision, CMA4 version) aims to find synergies and “complementarity” between Article 2, paragraph 1(c) and Article 9 of the Paris Agreement.

Article 2, paragraph 1(c): Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Article 9 covers the provision of financial resources

We think this is important in deepening the relationship between the role of finance and the implementation of the goals of the Agreement. It could potentially elevate the importance of finance (even further) and how it is *required* (i.e. symbiotic) for implementation rather than just supportive or a “nice to have”.

The oceans, forests and biodiversity

Oceans: There was an important dialogue on oceans and climate change. COP27 decided that there will be more in the future. Parties were formally encouraged to consider the oceans in their climate strategies – this was new.

Forests – this was also highlighted separately in the cover decisions for the first time.





Biodiversity – this received a few mentions in the text but only in passing. It did not get a separate section nor was there a mention of the upcoming COP15 on the Convention on Biological Diversity (to the disappointment of many delegates).

Oceans were mentioned explicitly alongside forests, but biodiversity missed out

Green zone activities – outside the formal COP27 process

Outside of the formal COP27 negotiations (Blue zone), there was a vibrant Green zone where side events take place. There were many announcements and initiatives from the green zone. We summarise a few key initiatives below.

Figure 8: Summary of other (non-UNFCCC) announcements from COP27

 Mitigation	 Adaptation	 Finance	 Collaboration
Key outcomes and announcements			
<ul style="list-style-type: none"> Net Zero: Kuwait (oil & gas sector: 2050; country: 2060) Mexico's updated target: 30% (Unconditional) and 40% (Conditional) reduction by 2030 NDC: Bahamas, Andorra, Timor-Leste, Vietnam LT-LEDS: Argentina, Thailand, Zimbabwe, India Global Methane Pledge: Signatories reached 150 (New signatories include: Egypt, Qatar, Australia) Egypt and Norway signed an agreement to establish 100MW green hydrogen plant on Red Sea Initiatives launched: <ul style="list-style-type: none"> Low Carbon Transport for Urban Sustainability (LOTUS) initiative Global Waste Initiative 50 by 2050 Accelerating to Zero Coalition launched to speed up transition to zero emission vehicles Africa Just and Affordable Energy Transition Initiative (AJAETI) Forest and Climate Leaders' Partnership Sharm el-Sheikh Methane Reduction Roadmap and East Mediterranean Gas Forum Decarbonization 	<ul style="list-style-type: none"> Sharm el-Sheikh Adaptation Agenda was launched Egypt launched its 1st Vulnerability Assessment Map Initiatives launched: <ul style="list-style-type: none"> Sustainable Urban Resilience for the next Generation (SURGE) initiative ENACT - Enhancing Nature-based Solutions for Climate Transformation Action for Water Adaptation and Resilience (AWARE) Global Shield against Climate Risks Food and Agriculture for Sustainable Transformation (FAST) Decent Life for a Climate Resilient Africa Initiative on Climate Action and Nutrition (I-CAN) Health and Climate Change: One Health for All: One Vision and One Response Early Warnings for All Action Plan 	<ul style="list-style-type: none"> Just Energy Transition Partnership (JETP) announced USD20bn for Indonesia's energy transition The Emerging Market Climate Action Fund was launched Egypt, US announced over USD150mn to aid Africa's adaptation The report "Finance or Climate action: scaling up investment for climate and development", mandated by the COP26 and COP27 Presidencies, was issued Sharm el-Sheikh Guidebook for Just Financing was launched Reducing the Cost of Sustainable Borrowing initiative was launched African Carbon Market Initiative launched 	<ul style="list-style-type: none"> The partnership agreements for Egypt's Country Platform for the Nexus of Water, Food, and Energy (NWFE) Program and NWFE Plus, and the finance agreements for the Egypt Partnership Agreements for Climate Transition (E-PACT) were signed Initiatives launched: <ul style="list-style-type: none"> Friends of Greening National Investment Plans in Africa and Developing Countries African Women's Climate Adaptive Priorities (AWCAP) Climate Responses for Sustaining Peace (CRSP)

Source: HSBC (based on various announcements and media during COP27)

- ◆ **Global Methane Pledge (GMP)**: The Global Methane Pledge launched two new initiatives to drive methane reduction in agriculture and waste sectors. The number of signatories has reached 150, in which 50 of them already have methane action plans in place or developing one. Despite the notable absence of China in the GMP, we think the attendance of the Chinese climate envoy, Xie Zhenhua in a US-EU led methane event indicates potential collaborations between the biggest economies in the world on curbing methane.
- ◆ **Global Shield against climate risks**: The G7 launched a Global Shield (GS) against climate risks in a partnership with the Vulnerable Twenty (V20) to pre-arranged finance and political guidance to vulnerable groups against climate events. The financing structure of the GS comprises three financing vehicles which provide technical and capital support to climate disaster related financial insurance solutions. Germany has already committed to contribute EUR170 million (USD175 million) as initial funding of the GS.
- ◆ **Just Energy Transition Mechanism**: Following the deal with South Africa last year, the International Partners Group (co-led by the US, EU, Japan, Canada and the UK) launched a partnership with Indonesia with USD20 billion to shift their coal energy to renewables. The Group could potentially announce another partnership with Vietnam (according to a UK Government press release). Senegal and India are reported to be in the pipeline (*Bloomberg*, 16 November 2022).
- ◆ **Early Warnings for All initiative**: On 7 November, the World Meteorological Organization (WMO) released an executive action plan for the “Early Warnings for All” initiative for the Implementation of Climate Adaptation. The initiative calls for initial investment of USD3.1 billion between 2023 and 2027 for increasing global coverage of early warning systems against extreme weather. The initiative is welcomed by the Cover decision.
- ◆ **Sharm el-Sheikh Adaptation Agenda**: The COP27 Presidency launched the Sharm-El-Sheikh Adaptation Agenda which sets a global plan to enhance climate resilience in the most climate vulnerable communities by 2030.
- ◆ **African Carbon Market Initiative**: Led by a group of African leaders, the African Carbon Markets Initiative was launched at COP27 with aims to generate 300 million carbon credit and USD6 billion revenue annually by 2030.
- ◆ **Net Zero Commitments recommendation report**: At COP27, the UN High-Level Expert Group published a recommendation report on credible net zero targets.
- ◆ **Energy Transition Accelerator**: In a partnership with the Rockefeller Foundation and the Bezos Earth Fund, the US government announced a carbon credit plan, the Energy Transition Accelerator at COP27. The initiative is expected to be operationalised next year (before COP28). However, many climate experts are widely sceptical about the idea and also details of the plan still have not been fully released.
- ◆ **Recommendations on carbon markets**: The International Organisation for Securities Commissions (IOSCO) published two respective consultation papers on [guidance of setting a well-functioning compliance carbon markets](#) and [role of financial market regulators in voluntary carbon markets](#).
- ◆ **Bridgetown Initiative**: With an aim to make the global finance system more climate-oriented, Mia Mottley, the Barbados’ prime minister proposed the Bridgetown Initiative which resonated with the Cover decision which calls on multilateral development banks to reform their practices to mobilise climate finance and address the global climate emergency.
- ◆ **Deforestation partnership**: On 13 November, the largest three rainforest countries in the world, Brazil, Congo and Indonesia, launched a trilateral partnership to cooperate on forest preservation including negotiating a funding mechanism for reducing deforestation (*Reuters*, 14 November 2022).

What next

There are many ongoing issues to be discussed in the global climate process. Whilst some may feel they achieve little, others believe it is the only forum where the whole world comes together to try to do something.

COP28 will take place in the UAE between 30 November and 12 December 2023, where the first global stocktake will take place. We expect fossil fuels to be a focus again but perhaps for the wrong reasons (there were over 630 fossil fuel lobbyists at COP27, some even part of official Party delegations).

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