Four key things to watch out for at COP27

COP27, which takes place in Egypt from 8-16 November, will be crucial to keeping government action in check and the Paris Agreement goals alive. The key items we are watching include whether countries will strengthen climate targets and policies, increase climate funding to developing countries, and follow through on pledges to phase down fossil fuels

When COP26 concluded in November last year, over 90% of the world's GDP had been under net-zero emissions targets. This year has seen governments rolling out more concrete policies, including the US's Inflation Reduction Act and the EU's renewed Fit for 55 plans, but policies are still far away from reaching the climate targets on time. Meanwhile, extreme weather conditions such as the flooding in Pakistan, as well as the heatwaves and droughts in Europe and the US, are alarming reminders of the importance to advance climate mitigation, especially in less developed regions. Russia's invasion of Ukraine and the consequent energy crisis, meanwhile, have cast doubt over global cooperation and the global pledge, signed off at COP26, to phase down coal consumption. All of this has shaped our outlook for COP27, which is set to take place in Sharm El Sheikh, Egypt from 6-18 November. Below are the four things to look out for.

Will governments strengthen targets & back them with concrete plans?

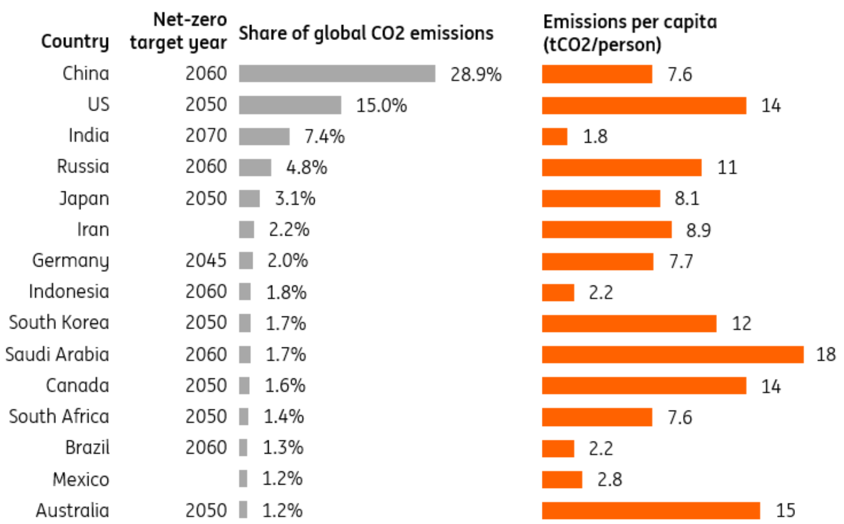
Even though 90% of global GDP is under a net-zero target, some of these targets are set for after 2050, which is when the world needs to achieve net-zero emissions to reach the 1.5-degree Paris Agreement goal and avoid catastrophic consequences. Moreover, some government targets only include cutting CO2 emissions, while omitting other potent greenhouse gases such as methane.

Because of the variation in climate targets, the United Nations Environmental Programme projected in a recent report that current nationally determined contributions (NDCs, or country pledges that cover agreed policies) will likely result in a 2.4-2.6-degree Celsius increase in global temperature by 2100, well above the Paris Agreement's goal. The International Energy Agency's estimates are a bit more optimistic, suggesting that the global temperature is likely to rise by 1.7 degrees Celsius by 2100 if all government climate ambitions are realised in full and on time. So there is a gap between ambition and current policies, with the latest plans estimated to set the world on a path to a 2.5-degree increase by the end of the century, with a 10% chance that the temperature rise will be above 3.2 degrees.

What this tells us is that not only are the climate policies set forth by governments insufficient to meet the targets, but the climate targets themselves are not timely or comprehensive enough. Whether governments strengthen their NDCs, and announce the actual rollout of policy/investment plans to combat climate change, will therefore be a key focal point at COP27.

There is not much hope for a step up in government efforts as COP27 will be a different COP from COP26 in Glasgow. COP26 was all about ambition, while COP27 will be much more focused on implementing the COP26 targets ahead of a global stock-take in 2023 when countries are expected to revisit their commitments. In the meantime, much more progress is being made at the national level instead of the global level, for example by taking forward the Fit for 55 strategy in the EU and the Inflation Reduction Act in the US.

Net-zero targets among the top 15 emitters



Source: Time, Global Carbon Atlas

Will finance for climate mitigation and adaptation finally come through?

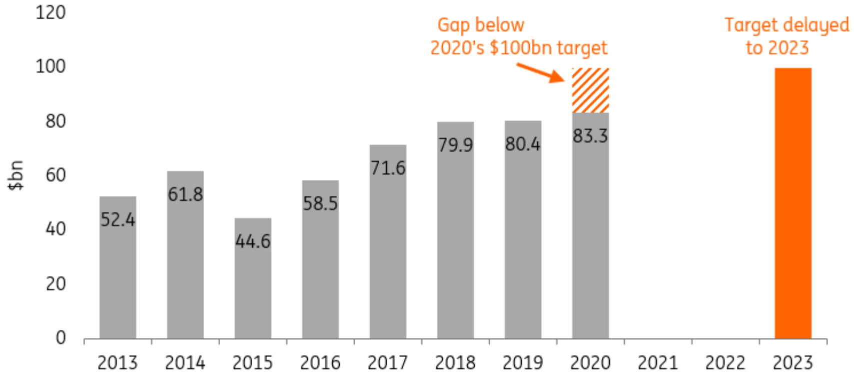
Another hot topic to be discussed at COP27 is climate financing from developed countries towards developing countries. The urgency of this discussion also stems from the more frequent and intense weather conditions we have seen this year. These severe events will have a disproportionate impact on poorer countries which will be unable to effectively mitigate the negative effects of climate change. COP27 will have a strong focus on this financing, not least because the host country Egypt has a vested interest; Africa is highly likely to suffer more from climate change and needs both the money and the know-how to mitigate its effects.

Developed countries have been falling short of their $100bn per year financing target, which was due to be achieved in 2020 (developed countries collectively only financed $83.3bn that year). What's more, COP26 failed to establish a funding mechanism, so such financial flows remain voluntary.

How developed countries choose to move forward on this issue will influence whether the $100bn target is met in 2023. One reasonable hope is that developed countries can agree on at least a mechanism, or individual targets for specific countries; failing to do so once again will delay climate adaptation processes to a substantial extent.

A formal mechanism is even more important now that high energy prices, rising interest rates and increasing building costs are making the financial business case of clean technologies more complex, most notably in developing countries where the cost increases are often most severe.

Climate finance provided and mobilised by developed countries



Source: OECD

Will Article 6 on voluntary carbon markets boost finance flows to south?

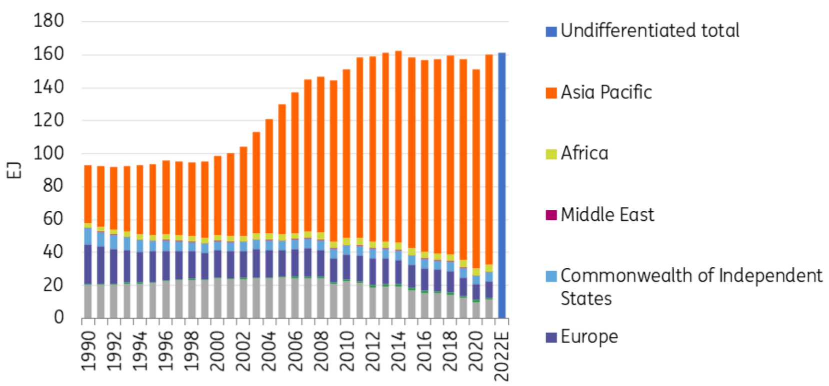
One area that is also related to climate finance and where we expect progress is on the implementation and use of Article 6 of the Paris Agreement Rulebook. Article 6, which was finally agreed upon at the COP26 Glasgow summit, addresses the functioning of international carbon markets and carbon trading and discusses how countries can collaborate across borders to meet their climate goals. One way of doing this is through emissions trading. Countries emitting less than their quota can sell emissions credits to those that are exceeding their quota. Another way is through carbon offsets thanks to emission reduction projects abroad. For all of that to work effectively, Article 6 now outlines common rules to avoid double-counting of emissions' credits and it has closed thorny loopholes such as the carryover of formerly earned credits under the Kyoto Protocol.

Article 6 has the potential to direct climate finance from the global north to the global south. Hence it also aligns with the goal of increasing climate finance to developing countries. Although ultimately finance flows are primarily driven by the private sector rather than the UN, it is clear that what happens at COP does have an impact on how countries decide to implement Article 6 guidelines and direct funds through carbon markets to developing countries.

Will the 'phase down coal' pledge hold in times of energy crisis?

The ongoing global energy crisis will also affect the discussion about fossil fuels at COP27, as the Russia-Ukraine war has made a number of countries prioritise short-time energy security over climate change. As one of the major achievements at COP26, almost 200 countries pledged for the first time ever to phase down the use of unabated coal and end inefficient subsidies on fossil fuels. At the same time, however, coal consumption was already making a strong comeback due to economic recoveries from Covid-19 lockdowns. In 2022, coal consumption is expected to continue rising by 0.7% year-on-year, pushing demand to record-high levels - because of the energy crisis-induced price advantage of coal versus natural gas.

Global coal consumption



Source: International Energy Agency, bp, ING Research

This could potentially make the discussion on reducing fossil fuel consumption more difficult, as governments committed to phasing down coal could use the energy crisis as an argument to be more lenient on their own targets.

It is also important to see if large emitters which have not yet committed to the pledge, such as China, India, and the US, will join the group of committed countries. In China, President Xi Jinping, who recently secured a third term, emphasised that prudence would govern efforts toward peak emissions and that fossil fuels and renewables will be developed in parallel with each other in China.

Conclusion

COP27 is deemed an 'implementation COP', where much attention will focus on how governments are going to honour their commitments, and how they can work together to address climate challenges at the global level. With the global warming clock ticking, delayed responses could become considerably less effective.

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