



RESEARCH SPOTLIGHT

Q4 2022 COP27 Assessed: Sharm El-Sheikh

This year's conference at Sharm El-Sheikh, Egypt, has come to a close. While COP26 focused on securing pledges by nations to reduce emissions, foster cooperation between nations, and secure international commitment to the 1.5C threshold set at COP21 in Paris, COP27 was labeled as the "implementation" COP by the Egyptian presidency, aiming to turn these ideological commitments into reality through quantifiable commitments and deadlines. However, COP27 was characterised by stark divisions after running 36 hours over the deadline.

Global political commitments around climate can have an impact on all stakeholders, and important implications for "E" pillar themes and companies facing and managing "E" risks and opportunities. We reviewed and assessed outcomes and milestones for COP26 in our Q4 2021 newsletter; this year, we share our view of the outcomes and potential investment implications of COP27, and review progress and milestones since COP26.

What does the science say?

Unfortunately, as was clear in last year's IPCC report, we are far from where we need to be from a global standpoint if we want to avert the most serious impacts of climate change. In its latest report, the World Meteorological Organisation (WMO) stated that the past eight years were on track to be the hottest on record.^{2 3} Global carbon emissions are due to hit a record high this year, according to the 2022 Global Carbon Budget report by the Global Carbon Project, while coal use has gone up, not down. The biggest increases came from India and the USA, while China's emissions fell for the first time since 2016.⁴

There were several warnings in the WMO report. The "telltale signs and impacts of climate change are becoming more dramatic", it said.⁵ The rate of sea level rise had doubled since 1993, and the past two and a half years alone accounted for 10% of the total rise in sea levels since satellite measurements began nearly 30 years ago, it said. This year has also been marked by record-breaking glacier melting in the European Alps, while the Greenland ice sheet also shrank, the report found. We discussed the implications of these climate changes in the Q3 2021 newsletter, where we broke down the IPCC's Sixth Assessment report.

A UN report has warned, meanwhile, that "woefully insufficient" climate efforts mean the world is still on track

for at least 2.4C of warming — well above the 1.5C goal set in the 2015 Paris agreement.⁶ The theme is clear: more action is needed, and quickly.

Adaptation: Loss and Damage

The biggest headline and outcome at Sharm El-Sheikh was the agreement on a "loss and damage" fund. While mitigation has largely been the focus of previous COPs, the UN has said that a much bigger element of financing should go towards adapting to the effects of climate change — from weather warning systems to climate-resilient infrastructure and new farming methods — for which developing countries will need up to \$340bn a year by 2030.⁷ For decades more than 130 developing countries have been demanding financing to cover loss and damage caused by environmental and economic devastation caused in developing countries after centuries of unchecked fossil-fuel use by industrialised nations.⁸ The issue of "loss and damage" was finally put on the formal agenda at COP27 for the first time. Surprisingly, there were signs of constructive progress on this contentious topic.

The matter grew more urgent this year, marked by a succession of extreme weather events. For example, although Pakistan contributes less than 1% of planet-warming fossil fuel emissions today, this summer it suffered devastating rains that flooded a third of its territory and caused an estimated \$30 billion in damages.⁹

At COP26, wealthy countries, including the US and the EU, pushed back on a proposal by vulnerable nations to create a loss and damage finance fund. Earlier in the COP 27 conference, Germany, in its current role as president of the G7 countries, launched the Global Shield.¹⁰ The Global Shield is a separate initiative which is intended to provide developing countries with "substantially more and better pre-arranged finance against disasters".¹¹ A few developed countries made pledges to the Global Shield, with Germany committing €172m, France committing €20m next year, Ireland \$10m and Canada \$7m. The trouble with the Global Shield is that total pledges so far stand at about \$210m, far below the vast costs of climate disasters already devastating developing countries.¹² Additionally, many developed countries criticised the initiative as an effort by rich countries to distract attention from a serious loss and damage facility that would cost them more.

In their opening remarks at COP27, the Alliance of Small Island States said the loss and damage agenda item was “the floor of what is acceptable; it is our bare minimum”. The group wants a loss and damage response fund to be created that would be operational “by 2024”.¹³ By the middle of COP27 the topic had reached a political impasse, with many developed nations continuing to push back on what they say are potentially unlimited compensation claims.^{14 15}

In a surprising turn, developed countries *agreed* that a dedicated fund should be established before COP28 begins next year with nearly 200 countries agreeing to set up this fund. Siobhan McDonnell, a Pacific loss and damage negotiator, who drafted the proposal that resulted

Loss and Damage

Good News: Agreement between developed and developing nations is a significant positive step for climate justice; may incentivise adaptation related investments; shows that co-operation on challenging issues is possible

Bad News: With all the major details still to be decided, there is plenty of scope for future disappointment on execution

Our Grade: A-

Mitigation: Fossil fuels

The other side of the COP27 coin is the topic of fossil fuels and efforts towards climate change *mitigation*. While we are optimistic about the loss and damage fund, we note that at this stage it is only an agreement without tangible commitments. At COP27 the topic of fossil fuels demonstrates how easily abstract agreements without concrete steps taken for action can unfurl.

Over the last several years the threshold of limiting temperature rises to 1.5C above pre-industrial levels set in the Paris Agreement seemed almost universally agreed upon and foundational to almost all climate-related conversations. However, upon arriving at COP27, many negotiators were surprised to find that some countries were trying to pull apart the 1.5C goal.

“When I arrived here, I got a really strong sense of backsliding,” said Mary Robinson, the former president of Ireland.²¹ Along with leaders of nearly 200 of the world’s largest businesses and civil society groups, Robinson signed a letter urging governments at the climate talks to stick with 1.5C.²² Frans Timmermans, vice-president of the European Commission, spoke of the tortuous negotiations,

which included some countries, including China, trying to abolish the requirement established in Glasgow for countries to update their plans on emissions every year.

Alok Sharma, President of COP26, warned that “This could be the COP where we lose 1.5C” as anxieties grew over a push from some countries to weaken the text.²³ This was also contrary to hopes that the energy crisis exacerbated by Russia’s war on Ukraine, which has caused soaring fuel prices, would be a “historic turning point” that would encourage governments to cut reliance on fossil fuels.²⁴ Rishi Sunak has stated in a speech that “Russia’s invasion of Ukraine and contemptible manipulation of energy prices has only reinforced the importance of ending our dependence on fossil fuels”.²⁵

Also notable was the presence and friendlier reception towards many gas producers, such as EQT and NewMed Energy. This is in contrast to previous COPs where fossil fuel companies were “ostracised as the chief villains of global warming”.²⁶

As we discussed in the Q4 2021 newsletter, in the final hours of the COP26 conference, India and China won a last-minute concession from the EU and the U.S. Changes were made to the Glasgow Climate Pact over the wording of an intention to abandon coal, which was watered down from “phase-out” to “phase-down”.²⁷ The final language of the Glasgow Climate Pact called for “phasing down” unabated coal power and phasing out “inefficient” fossil fuel subsidies.²⁸

Similarly at COP27, in the end the language in the agreement around fossil fuels was weak, barely managing to save the 1.5C goal and the agreements made at COP26. The push by dozens of countries to include a commitment to phase down all fossil fuels was unsuccessful after resistance from countries such as Saudi Arabia and Russia. Much like in Glasgow, the final agreement in Sharm El-Sheikh was altered at the last minute to include the need for “low-emission” energy, which would allow the continued production of fossil fuels when paired with carbon capture technology.²⁹ Timmermans said “There were too many attempts to roll back what we agreed in Glasgow. This deal is not enough [on cutting emissions]...We have fallen short”.³⁰ Alok Sharma, spoke in clear frustration of having to defend commitments agreed last year from sustained attack by other countries. “We had to fight relentlessly to hold the line,” he said.³¹

According to analysis by Climate Action Tracker, previous forecasts put us approximately on course for a 2.7C world.³² The pledges on emissions cuts made at COP26 fell short of those required to limit temperatures to 1.5C. If all commitments made before and during COP26 are

fulfilled, we would be on track for 1.8C, according to the International Energy Agency.³³ Following COP27, the International Energy Agency said that if the commitments made in Egypt are fully implemented, warming can be limited to 1.7C, a modest improvement from the forecasting of the COP before.³⁴

Fossil Fuels

Good News: Despite aggressive lobbying from companies and countries with fossil fuel interests, the Glasgow 1.5C goal was maintained at COP27. IEA forecasts based on commitments improve, but only marginally.

Bad News: Concessions to fossil fuel interests and watered-down language to achieve compromise; little progress (if any) from COP26

Our Grade: C

Methane, the U.S. and China

At the last COP the Global Methane Pledge was announced, and we discussed this in detail in a prior Research Spotlight. Having gathered backing from 119 countries, the Global Methane Pledge commits signatories to reducing their overall emissions by 30% by 2030, compared with 2020 levels.³⁵ The U.S. government also published a detailed blueprint of how it intends to meet the goal.³⁶

Highlighted as an emerging climate theme in our Q3 and Q4 2021 newsletters, methane comprises about 95% of natural gas, and, after CO₂, is the second most significant greenhouse gas. Methane is 80x as effective at trapping heat than CO₂ in a 20-year period, and, as such, is a much more powerful short term heat trapper than CO₂.³⁷ The UN announced it will launch a public database of global methane leaks detected by space satellites. The Methane Alert and Response System (MARS) will build on the Global Methane Pledge.³⁸

The key question now is to see if countries will live up to their commitments, especially as methane emissions are still rising.³⁹ There are signs of concrete progress on this issue. Forty of the 119 countries that signed the Pledge unveiled their plans at COP27.⁴⁰ The EU is making major progress on cutting discharges in the energy and waste sectors (while we note that doing the same for agriculture has proven deeply challenging.)⁴¹ In the U.S., the EPA unveiled tougher proposed rules on methane leakage during COP27, upping the ante on the oil and gas industry to tackle emissions of the greenhouse gas. The rules would include a “super-emitter response programme” requiring operators to respond to third-party reports of high-volume

methane leaks.⁴² Commitments, are, indeed, translating to real actions that will impact companies and emitters.

China is an important factor in addressing the methane challenge, but the outlook appears mixed, and the politics are not entirely clear. In our newsletter covering the conference in Glasgow we discussed how China and the U.S., the world’s two biggest emitters, unveiled a joint declaration to work closely to achieve the 1.5C temperature goal set out in the 2015 Paris Agreement. Steps were agreed on a range of issues including methane emissions, the transition to clean energy, and de-carbonisation. The US-China joint statement issued in Glasgow last year contained little by way of new commitments, other than China stating it would address methane emissions. But China did not go as far as to join the US-EU pact to cut methane emissions by 30 percent by 2030. Earlier this year climate discussions between the U.S. and China deteriorated after U.S. House Speaker Nancy Pelosi’s visit to Taiwan.⁴³ On the flipside, a positive development came about on November 14 when U.S. president Joe Biden and Chinese leader Xi Jinping agreed to restart formal talks on climate issues.⁴⁴ The outcome of the Methane Global Pledge and the resumed negotiations between China and the U.S. remain to be seen at next year’s COP.

Methane

Good News: The Global Methane Pledge was one of the big wins from COP26, and there is tangible evidence of action and continued progress being made in order to meet methane commitments, which may have an impact on heavy corporate emitters in the future

Bad News: China’s actions remain uncertain, and politics continues to cloud the outlook

Our Grade: B

Deforestation

This year’s COP also saw positive momentum on the topic of deforestation. More than 25 countries at COP27 have launched the Forest and Climate Leaders’ Partnership, which aims to ensure they hold each other accountable for a pledge to end deforestation by 2030.⁴⁵ ⁴⁶ They have announced billions of dollars to finance their efforts. Brazil, Indonesia and the Democratic Republic of Congo, the three largest rainforest nations, formed a strategic alliance to coordinate the protection of their forests. Together, they are home to more than half of the world’s remaining primary tropical forests.⁴⁷ Forests are vital to climate

change mitigation as they serve as carbon sinks, trapping CO2 that would otherwise be released into the atmosphere, and their rapid destruction is releasing tonnes of CO2 into the atmosphere. The allegiance with Brazil is especially positive news as Brazil's former President, Jair Bolsonaro, stripped enforcement measures, cut spending for science and environmental agencies, fired environmental experts, and pushed to weaken Indigenous land rights, in favour of the agribusiness industry. Between August, 2019, and July, 2021 more than 8.4m acres disappeared from the Amazon, an area larger than the entire nation of Belgium.^{48 49 50 51} Prior to the Brazil election results Carbon Brief had suggested that if Bolsonaro lost to Lula, annual deforestation in the Brazilian Amazon could be down by nearly 90 percent by the end of the decade, as Lula focused on forest loss a decade ago when he was formerly president.⁵² At COP27 President Lula stated "There is no climate security for the world without a protected Amazon...We will do whatever it takes to have zero deforestation" and insisted that climate change would have the highest priority for his new government.⁵³

Although beyond the scope of this Spotlight, the recent COP15 Biodiversity Summit in Montreal was reported by the FT to have attracted significant participation from investors for the first time.⁵⁴ While we believe it remains "early innings", the increasing focus on preservation and sustainable use of natural capital and recognition of the value of biodiversity will have increasingly important implications on corporates, as their behaviour and business practices come under increasing investor and consumer scrutiny; those firms "ahead of the curve" with suitable biodiversity policies and protections should be well placed relative to their peers, as events such as COP15 gain increasing importance for global investors.

Deforestation
.....
Our Grade: A-

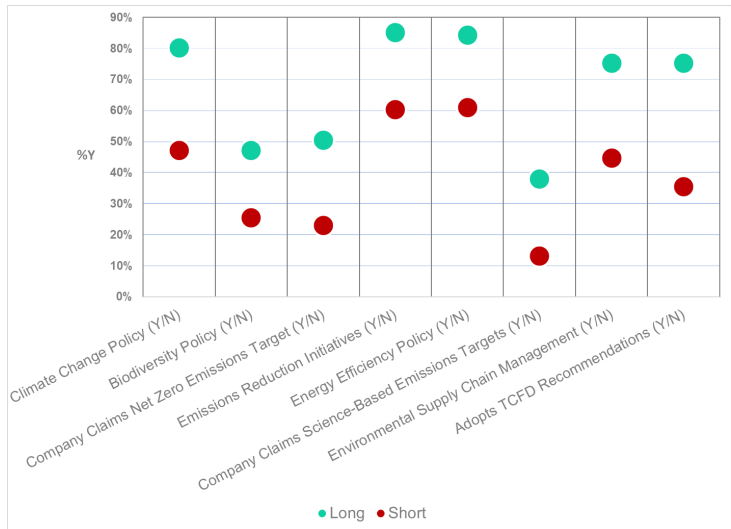
COP27 Conclusion

In our view, the outcome of COP27 was decidedly mixed. The lack of tangible progress on implementation – a key goal of this COP – and risks to targets and language around fossil fuel decarbonisation pledges was most certainly disappointing, though not entirely surprising. However, the breakthrough agreement on "loss and damage" provides some grounds for optimism that common ground can be found between developed and developing countries, even on very difficult and contentious issues, while positive momentum on deforestation commitments and actions provide further

reasons to remain optimistic. As frustrating as the outcome has been around fossil fuels and the lack of implementation progress in this area, it is reassuring that despite lobbying efforts, the key 1.5C commitment was maintained. But going forward, we need to see more action on implementation, and not just commitments. Words are reassuring, but actions will ultimately be what matters.

As we have noted in prior newsletters, "E" pillar thematic have been challenging in 2022, and this year we have seen greater benefit from "S" and "G" thematic from an investment perspective. However, we believe that as we move from commitments to implementation – from talk to action – on issues such as carbon emissions and biodiversity, that the "E" pillar will very likely be an important thematic driver of returns for ESG investors in the months and years to come. Finally, in the chart below, we demonstrate the strong alignment of our long portfolio relative to our short portfolio with some of the key themes from COP we have discussed above.

COP27 REVIEW:
.....
Our Overall Grade: B



The metrics above show the % of number names in the long & short books respectively which have implemented or adopted policies, standards or practices linked to addressing climate change risk. Data coverage across both long & short books is 90% or greater. Source ECO Advisors, Bloomberg ESG. Please contact us for full details on individual metrics.

REFERENCE FOOTNOTES

1. <https://citywire.com/selector/news/esg-funds-have-struggled-in-2022-report-finds/a2396169>
2. <https://public.wmo.int/en/media/press-release/eight-warmest-years-record-witness-uptake-climate-change-impacts>
3. <https://on.ft.com/3W1aWyn>
4. <https://essd.copernicus.org/articles/14/4811/2022/>
5. <https://public.wmo.int/en/media/press-release/eight-warmest-years-record-witness-uptake-climate-change-impacts>
6. <https://www.unep.org/resources/adaptation-gap-report-2022>
7. <https://www.ft.com/content/77c055f4-8d6e-4649-8f8f-cfc5559a77d9>
8. <https://edition.cnn.com/2022/11/03/opinions/cop27-climate-loss-and-damage-vanuatu-sutter/index.html>
9. [bloomberg.com/news/articles/2022-11-06/cop27-climate-summit-who-s-going-and-what-s-happening](https://www.bloomberg.com/news/articles/2022-11-06/cop27-climate-summit-who-s-going-and-what-s-happening)
10. <https://www.dw.com/en/germany-g7-launch-global-shield-climate-finance-at-cop27/a-63728889>
11. https://www.v-20.org/wp-content/uploads/2022/10/2022-10-07_Global-Shield-against-Climate-Risks_Concept_FINAL.pdf
12. <https://www.ft.com/content/f4a5860f-ee00-4212-9445-9af07671bb29>
13. <https://www.scientificamerican.com/article/in-a-first-u-n-climate-summit-will-discuss-climate-reparations/>
14. <https://www.theguardian.com/environment/2022/nov/18/cop27-is-it-right-to-talk-of-reparations>
15. <https://www.bloomberg.com/news/articles/2022-11-06/cop27-climate-summit-who-s-going-and-what-s-happening>
16. <https://www.ft.com/content/b3a6ea05-1357-4564-a448-27b16a376a4a?emailId=a492658f-c484-458c-916c-ac99749668b8&segmentId=a8cbd258-1d42-1845-7b82-00376a04c08f>
17. <https://www.theguardian.com/world/2022/nov/21/pacific-leaders-celebrate-cop27-victory-on-loss-and-damage-fund-after-decades-of-advocacy>
18. <https://www.ft.com/content/c623fe2d-9399-4fb4-85ae-1cb2fdcf857c>
19. <https://www.ft.com/content/b3a6ea05-1357-4564-a448-27b16a376a4a?emailId=a492658f-c484-458c-916c-ac99749668b8&segmentId=a8cbd258-1d42-1845-7b82-00376a04c08f>
20. <https://www.ft.com/content/b3a6ea05-1357-4564-a448-27b16a376a4a?emailId=a492658f-c484-458c-916c-ac99749668b8&segmentId=a8cbd258-1d42-1845-7b82-00376a04c08f>
21. <https://www.nytimes.com/2022/11/16/climate/cop27-global-warming-1-5-celsius.html>
22. <https://www.wemeanbusinesscoalition.org/cop27-all-in-for-one-point-five/>
23. <https://www.theguardian.com/environment/live/2022/nov/14/cop27-egypt-lula-brazil-rainforests-climate-conference-live#:~:text=He%20concluded%20starkly%3A%20%E2%80%9CWe%20keep%201.5C%20alive.%E2%80%9D>
24. <https://www.ft.com/content/a43427ac-0e7e-48bf-8c3e-4165179aff4>
25. <https://www.lbc.co.uk/news/sunak-fighting-climate-change-fundamental-to-prosperity-and-security/>
26. <https://www.reuters.com/business/cop/big-gas-chiefs-bill-themselves-climate-leaders-cop27-2022-11-14/>
27. <https://www.ft.com/content/651ceef3-c5bc-4648-9d61-2212608c8910>
28. <https://www.theguardian.com/environment/2021/nov/13/cop26-countries-agree-to-accept-imperfect-climate-agreement>
29. <https://www.ft.com/content/b3a6ea05-1357-4564-a448-27b16a376a4a?emailId=a492658f-c484-458c-916c-ac99749668b8&segmentId=a8cbd258-1d42-1845-7b82-00376a04c08f>
30. <https://www.ft.com/content/a43427ac-0e7e-48bf-8c3e-4165179aff4>
31. <https://www.theguardian.com/environment/2022/nov/20/cop27-agrees-to-historic-loss-and-damage-fund-to-compensate-developing-countries-for-climate-impacts>
32. https://climateactiontracker.org/documents/997/CAT_2021-11-09_Briefing_Global-Update_Glasgow2030CredibilityGap.pdf
33. <https://www.euronews.com/green/2021/11/04/cop26-five-takeaways-from-day-4-as-countries-pledge-to-cut-coal-power>
34. <https://www.bloomberg.com/news/articles/2022-11-20/cop27-latest-climate-envoys-haggle-over-final-deal-in-egypt#:~:text=%E2%80%9COne%20year%20later%2C%20as%20we,w%20are%20just%20getting%20started.%E2%80%9D>
35. <https://news.sky.com/story/cop26-world-leaders-pledge-to-cut-methane-emission-levels-by-30-by-2030-12457744>
36. <https://www.whitehouse.gov/wp-content/uploads/2021/11/US-Methane-Emissions-Reduction-Action-Plan-1.pdf>
37. <https://www.nationalgeographic.com/environment/article/methane>
38. <https://www.reuters.com/business/cop/cop27-un-hunt-sources-climate-warming-methane-space-2022-11-11/>
39. <https://www.bloomberg.com/news/articles/2022-10-26/global-warming-to-hit-catastrophic-2c-even-if-governments-meet-climate-targets>
40. <https://www.reuters.com/business/cop/fifty-countries-unveil-methane-plans-un-climate-summit-us-official-says-2022-11-03/>
41. <https://www.bloomberg.com/news/articles/2022-10-06/eu-is-falling-short-of-its-global-methane-pledge-ambition>
42. <https://www.epa.gov/newsreleases/biden-harris-administration-strengthens-proposal-cut-methane-pollution-protect>
43. https://www.ft.com/content/57aad7fd-de16-4f76-bac0-7db5b4863698?accessToken=zvAAAYR8ZEhlc9Xqtf93hZPdO6wH21tY2mA.MEYClQCYuitJirZzH_sdOBijqtQThErTgYmlqLujeyT9UjplIQIhAMkzN2m5bnZcxvHuJudXM0GC0WUgEr5FV1N8LXcOU79l&sharetype=gift&token=0e4628f8-ca2d-47cf-b41d-7e99d057df4
44. <https://www.bloomberg.com/news/articles/2022-11-14/biden-xi-talks-break-ice-yet-differences-remain-key-takeaways?leadSource=verify%20wall>
45. <https://www.reuters.com/business/cop/cop27-countries-band-together-protect-forests-2022-11-07/>
46. <https://unfccc.int/news/cop27-leaders-boost-sustainable-forest-management>
47. <https://www.euronews.com/green/2022/11/14/what-happened-on-day-eight-of-cop27-5-key-takeaways-as-climate-talks-continue>
48. <https://www.reuters.com/article/us-brazil-environment-ibama-exclusive/exclusive-as-fires-race-through-amazon-brazils-bolsonaro-weakens-environment-agency-idUSKCN1V114I>
49. <https://news.mongabay.com/2020/05/brazil-sacks-officials-who-curbed-deforestation-on-amazon-indigenous-lands/>
50. <https://www.nytimes.com/2019/07/28/world/americas/brazil-deforestation-amazon-bolsonaro.html>
51. <https://www.vox.com/down-to-earth/2022/9/29/23373427/amazon-rainforest-brazil-jair-bolsonaro-lula-deforestation>
52. <https://www.vox.com/down-to-earth/2022/9/29/23373427/amazon-rainforest-brazil-jair-bolsonaro-lula-deforestation>
53. <https://www.bbc.co.uk/news/science-environment-63625698>
54. https://www.ft.com/content/ca359df2-a934-426b-a90f-a8d62727df0f?accessToken=zvAAAYV9ZhzlkdkPKNZ3yqTRCa9OpD6jWJyffDw.MEQCI EJ4Yis0AB2gAUebWNN15y8d8_gchCR-Dj-_HelCUHWWAiB6yHO46nldrbzURT2SDseRWJzXocGJY-MrJpEGLA4Wdw&sharetype=gift&token=d8ddee93-48ff-4cf0-8791-3bab8f69809