

COP 27

Understanding the implications for investors



“Greenhouse gas emissions keep growing. Global temperatures keep rising. And our planet is fast approaching tipping points that will make climate chaos irreversible. We are on a highway to climate hell with our foot on the accelerator.”

António Guterres, Secretary-General of the United Nations

The 27th Conference of the Parties (COP) has come to an end, where global stakeholders gathered in Egypt to begin international negotiations on climate change under the United Nations banner. During COP 27, which aimed to focus on implementation, countries agreed the Sharm-el-Sheikh Implementation Plan (COP 27 deal).

In this short paper, we summarise the key outcomes against the objectives - **Mitigation, Adaptation, Finance and Collaboration**, as well as the corresponding implications and considerations for investors.



COP Goal

“We must unite to limit global warming to well below 2°C and work hard to keep the 1.5°C target alive. This requires bold and immediate actions and raising ambition from all parties in particular those who are in a position to do so and those who can and do lead by example”.

Mitigation

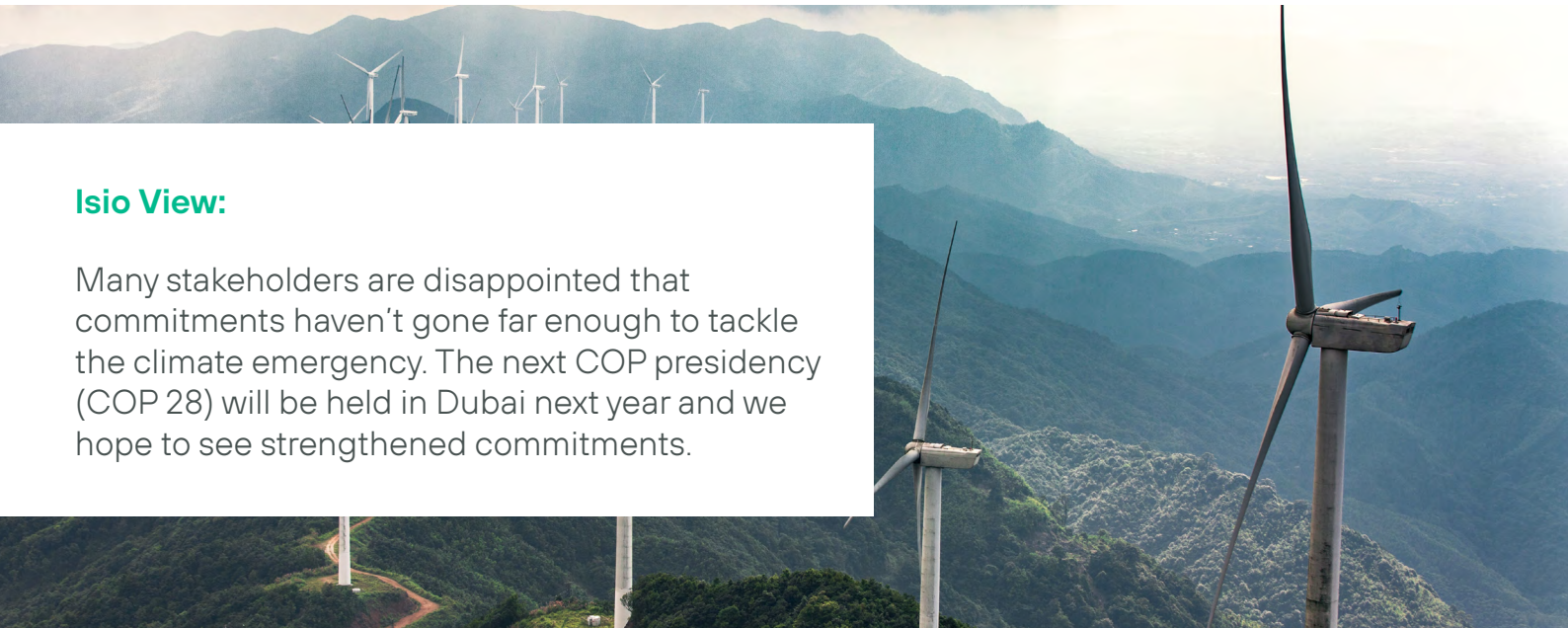
Climate change mitigation refers to efforts to reduce or prevent emission of greenhouse gases.

Outcomes:

- The COP 27 deal **recognises that limiting global warming to 1.5°C requires rapid, deep and sustained reductions in global greenhouse gas emissions** of 43% by 2030 relative to the 2019 level. Whilst the deal does not require parties to ramp up decarbonisation ambitions, there are calls on countries to consider further actions to curb emissions by 2030, including methane.
- The COP 27 deal calls on parties to **accelerate the transition towards low-emission energy systems**, with recognition that the unprecedented global energy crisis underlines the urgency. Whilst this includes calls to accelerate efforts to phase down use of unabated coal power and phase out of inefficient fossil fuel subsidies, some countries had pushed to phase out, or at least phase down, all fossil fuels.
- The COP 27 deal **emphasises the importance of protecting, conserving and restoring nature and ecosystems**, as well as encourages parties to consider nature-based solutions. The post-2020 Global Biodiversity Framework is likely to be agreed at COP 15 held in December 2022 in Montreal, which will look to agree 2030 biodiversity targets.

Isio View:

Many stakeholders are disappointed that commitments haven't gone far enough to tackle the climate emergency. The next COP presidency (COP 28) will be held in Dubai next year and we hope to see strengthened commitments.





COP Goal

“We must ensure that COP27 makes the crucially needed progress [on the global goal of adaptation] and urge all parties to demonstrate the necessary political will if we are to capture and assess our progress towards enhancing resilience and assist the most vulnerable communities.

COP27 should witness enhanced global agenda for action on adaptation, confirming what we agreed on [at previous COPs] with regard to placing adaptation at the forefront of global action”.

Adaptation

Adaptation refers to the process for human and natural ecosystems to adjust to actual or expected climate change and its effects in order to moderate harm or exploit potential benefits.

Outcomes:

- The **Sharm-el-Sheikh Adaptation Agenda** was also agreed, which contains 30 global adaptation outcome targets to enhance resilience for climate-vulnerable communities, by 2030. These targets have a focus on **food and agriculture, water and nature, coastal oceans, human settlements, and infrastructure**.
- The Adaptation Agenda is expected to mobilise \$140-300bn across public and private sources.
- Late-night talks eventually resulted in an agreement to **establish and operationalise a loss and damage fund**. After years of resistance, nations agreed to set up a fund to provide payouts to developing countries that suffer “loss and damage” from climate-driven storms, floods, droughts and wildfires.
- This does however come with financing concerns, where the previous commitment of developed countries providing \$100bn p.a. of finance for mitigation action having not yet been met. **The finance gap remains an unresolved challenge.**

Isio View:

The deal has successfully brought adaptation to investor attention, with new targets agreed. Engagement is key to achieving these targets. Financing concerns remain a big issue for their success.

The newly set up Loss and Damage Fund is a major win.





COP Goal

"In COP27 it is essential that we make significant progress on the crucial issue of climate finance while moving forward on all finance related items on the agenda.

The importance of adequacy and predictability of climate finance is key to achieving the goals... There is a need for enhanced transparency of finance flows and facilitated access to meet the needs of developing countries".

Finance

Financing of the climate transition is currently woefully inadequate to meet the requirements for net zero emissions.

Outcomes:

- The COP 27 deal **estimates we will need financing of \$4-6tr per year to achieve 2050 net zero emissions.**
- Developed nations have been **urged to meet their climate finance commitments**, and international finance institutions to scale up climate financing. As noted previously, the finance gap remains an unresolved challenge.
- There are **calls on private finance** to meet required levels of climate financing, investors should consider relevant opportunities.
- Informally, there were discussions on **beneficial climate-related debt terms**, or debt-for-climate/nature swaps, as innovative ways of financing the transition.

Isio View:

The deal has put pressure on developed nations and private markets to meet financing requirements, though this is not currently sufficient and there is a large financing gap to be filled.





COP Goal

“Enhancing and facilitating agreement in the negotiations is of the utmost importance for the Presidency of COP27 to achieve tangible results in a balanced manner.

The advancement of partnership and collaboration will help deliver our four goals and ensure the world is adopting more a resilient, and sustainable economic model where humans are at the centre of climate talks”.

Collaboration

Global collaboration is required in order to streamline efforts towards priority areas and to ensure efficient use of financing.

Outcomes:

- At the summit there was a focus on **raising the voices of the younger generation** given the significant impact of climate change on future generations.
- Egypt noted that UN negotiations are based on consensus and that reaching agreements would “require **inclusive and active participation from all stakeholders**”.
- There was a particular focus on **vulnerable communities** and representatives from countries in the African region.
- Egypt, as the COP 27 host, argued that governments, and civil society needed to work together “to transform the way in which we interact with our planet”.

Isio View:

There is widespread agreement on the need for collaboration and engagement in order to ensure efforts are successfully coordinated.

There has not yet been sufficient collaboration and the use of global initiatives such as the setting up of TNFD will be key to the success of the four goals.



What it means for investors



Objectives

- Where trustees/investors have access to good quality emissions information, ambitious and impactful **decarbonisation targets** can be set in alignment with wider global ambitions.
- **Social objectives** saw an increase in attention alongside climate objectives in Egypt and investors could consider expanding their ESG objectives to include social factors. We recently published a paper discussing [why investors should care about social issues](#).

Opportunities

- The COP 27 deal highlights the need for investments in climate solutions, in particular **clean energy**.
- There was also momentum gained on nature-based solutions, this also ties in with the work of the Taskforce on Nature-Related Financial Disclosures (TNFD). We recently published a paper discussing [why investors should care about nature](#).
- There was an emphasis on the need for **private finance** to meet the required levels of climate financing.
- **Carbon markets** are becoming increasingly fundamental to the task of achieving net zero, however there is uncertainty around the impacts on investors. We recently published a [paper](#) with an overview of the role of carbon markets.

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