



COP27 key takeaways

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COP27 key takeaways

Agenda



1. Overview
2. How did we arrive at COP27?
3. What did the final text achieve?
4. Key topics
 - i. Implementation COP: financing at the center of debate
 - ii. What it means for business: accelerated decarbonization and integrity
 - iii. Brazil's comeback to climate discussions

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Overview

The Conference focused on implementation with the developing world at the front stage



Climate

- African COP agrees on **loss and damages' fund**, with clear guidelines yet to be defined, while adaptation and climate justice are increasingly part of the agenda
- The final agreement recognizes that the **energy crisis** urges a faster deployment of renewable energy, but **did not commit to a phase-out of fossil fuels**
- “We are on our way to climate hell*”: **2.4-2.7 °C warming with current NDC targets**, 2.0 °C with net-zero commitments and 1.8 °C if targets under discussion are implemented

Finance

- Developed economies did not fulfill **US\$ 100 bn target** and the final text did not propose a new one
- Estimates point that **US\$ 1 tn would be need in external finance for the transition in emerging markets (ex-China) by 2030**
- In a *policrises* world that heavily burdens governments, the **private sector** will be critical, and **divestment** is not a solution
- The role of **multilateral development banks** as well paths to avoid **indebtedness** were key themes

Forests and Brazil in the agenda

- For the first-time, a cover decision includes "**nature-based solutions**" and a dedicated section on "forest"
- **Brazil, Indonesia and the Democratic Republic of the Congo** formed an alliance to cooperate on the conservation of their **rainforests**
- **Brazilian** president-elect's speech reinforced commitments to **stop deforestation**, announced an Indigenous People Ministry and the reintegration of the **Amazon Fund**

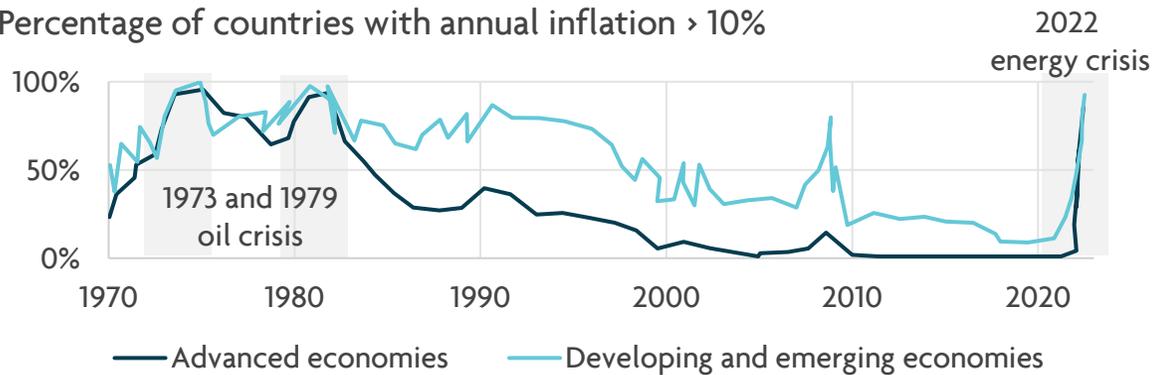
How did we arrive at COP27?

Multiple crisis led to low expectations in the run up to the Conference



Russia-Ukraine war sparked global geopolitical, energy and food crisis

Percentage of countries with annual inflation > 10%



Extreme weather events showcase the urgency of the climate crisis



Pakistan floods in 2022 led to damages and economic losses of over **US\$ 30 bn**, with reconstruction needs amounting to **US\$ 16.3 bn**



Climate change made 2022 West African floods **80x more likely**, with 1.3 mn Nigerians displaced and 1 mi ha of **damaged farmland**

The challenge of balancing energy security and climate concerns at COP27



Short-term responses to the **global energy crisis** include increased coal use by Europe and Asia and higher demand for African natural gas exports, with an estimated **1% increase in global emissions in 2022**, although lower than expected



At the same time, **public policies** launched during the crisis – such as RePowerEU and IRA - point to a **fossil fuel peak in the medium term** for first time according to the IEA, while **clean energy investments** still need to reach **US\$ 4.2 tn by 2030** (vs US\$ 1.3 in 2021)



Hosted in an African country, COP27 aimed at putting **developing countries perspectives** – including loss and damage and financing – at the center of the agenda, as well as having a full day dedicated to **adaptation and agriculture**

What did the final text achieve?

Advancement on loss and damage, although fossil fuel phase out was not indicated



Creation of a loss and damage fund

- The “Sharm el-Sheikh Implementation Plan” countries agreed on a loss and damages fund to compensate for the impacts of extreme weather on the physical and social infrastructure of poor countries, as well as to support the rescue and rebuild efforts
- Details on how this mechanism will work are still to be defined throughout 2023 up to COP28, including contributors (only developed economies, or top emitters such as China and India also) and who will be the recipients



Energy security and transition

- The final text recognized that the global energy crisis requires an acceleration of clean and just transitions to renewable energy
- It kept the previous phrase of “phase down of unabated coal power and phase-out of inefficient fossil fuel subsidies”, while countries such as India were calling for a phase down of all fossil fuels
- Many criticized the text since it promotes “low-emission” energy that could be interpreted as gas or fossil fuels with CCUS



Reinforced commitment to 1.5°C

- With no major new commitments, current 2030 targets are still leading to a +2.4 to +2.7 °C average temperature increase above pre-industrial levels. Scenarios including net zero targets indicate a +1.8 °C temperature increase by 2100, still above the target of +1.5 °C
- Although some countries were calling for loosening the ambition, the 1.5°C target was reinforced in the final agreement



Forests and oceans on the agenda

- For the first time, a COP cover decision includes the term “nature-based solutions” and a dedicated section on “forest”
- The oceans were also part of the final text for the first time, emphasizing that governments should include “ocean-based action in their national climate goals and in the implementation of these goals”

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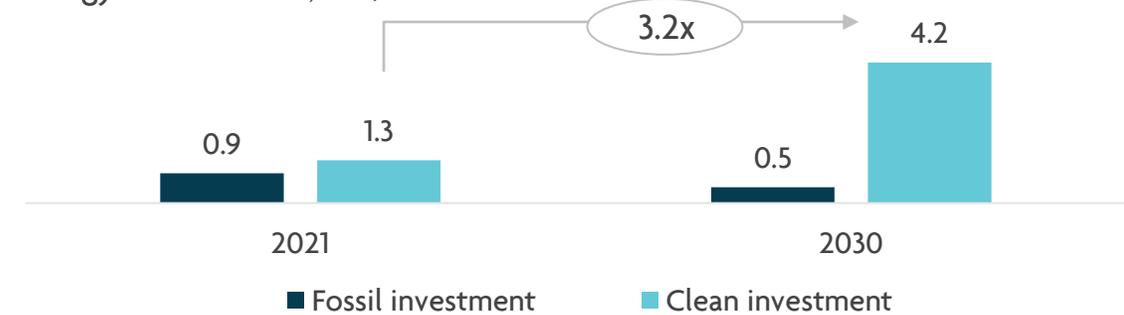
Financing at the center of debate

Given current governments' high fiscal burdens, private sector and MDBs* are called to contribute



Clean investment must increase...

Energy investments, US\$ tn



...mainly in developing economies

US\$ 100 bn

Developed economies did not meet the **US\$ 100 bn target in climate finance** to developing economies by 2020, with levels reaching US\$ 83 bn in 2020

US\$ 1 tn

New estimates commissioned by the UN point that **US\$ 1 tn per year in external climate finance** for mitigation and adaptation will be needed by 2030 for emerging and developing countries ex-China

Key takeaways from COP27



Mobilizing private capital and revamping the role of MDBs

- Given **high fiscal burden** in emerging economies, private financial institutions will be key
- **Blended finance** can be a relevant tool, even though volumes fell 62% in 2019-2021 (to US\$ 14 bn) vs. 2016-2018
- **Bridgetown Agenda** - multilateral development banks and international finance institutions are critical to scale up and simplify access to climate finance without further burdening governments



Just Energy Transition Partnerships

- **South Africa** finally had its **US\$ 8.5 bn** “Just Energy Transition Plan” approved by its backers
- **Indonesia** announced a new **US\$ 20 bn deal** led by the EU, USA and Japan, to finance the retirement of Indonesian coal plants and scale up renewables

What it means for business

Divestment does not solve the issue, but O&G and hard-to-abate need to decarbonize faster



Accelerating and upscaling corporate decarbonization



Divest or finance robust plans? During the Finance Day, Mark Carney emphasized that “the world will not reach net zero in aggregate through divestment”, and that investors need to invest in a sustainable and resilient transition, including “going where emissions are and backing sound transition plans by heavy emitters”



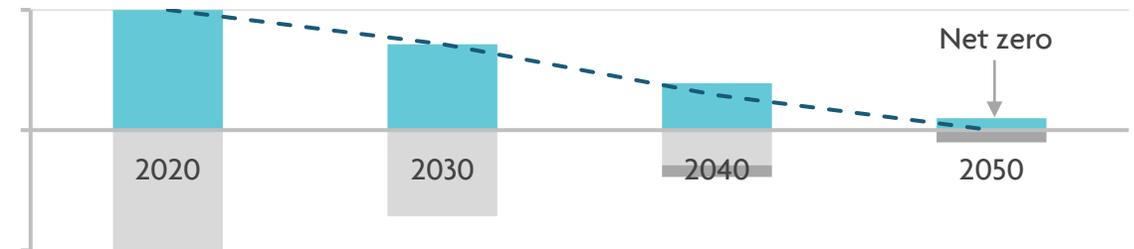
O&G was part of official discussions but is still unwelcome. O&G companies were invited due to the global energy crisis and recognition of the world’s dependence on fossil fuels, although the presence of 636 O&G executives - the 2nd largest delegation - was criticized as impeding further ambition in the final text



Hard-to-abate coalitions moved forward aiming at implementation. The First Movers Coalition, which provides demand signals for low carbon products, launched its concrete and cement initiative and had new companies' commitments (e.g.: Rio Tinto, Orsted, GM and Vattenfall)

Avoiding greenwashing: integrity is key in net-zero trajectories

Illustrative example of company’s scopes 1, 2 and 3 emissions (tCO₂e)



- Absolute emission reduction - aligned with 1.5°C trajectory
- Neutralization of residual emissions - through removal only
- Optional compensation (inc. avoided emissions) - not counted towards goals
- - - Net GHG emissions

UN-commissioned report on the integrity of net zero commitments

- Prioritization of emission reduction (1.5°C targets including scope 3)
- Neutralization of residual emissions through carbon removal
- Not accounting for emission reduction offsets in targets

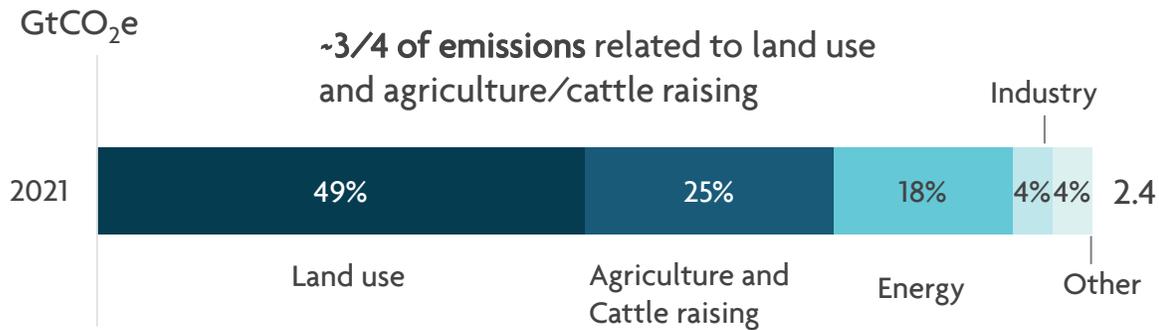
This comes in the opposite direction of **John Kerry’s proposal** to channel private sector investment to phase out fossil fuels in emerging markets through carbon credits

Brazil is back

The country is currently amid the top 7 largest emitters, but can be a leader in the climate fight

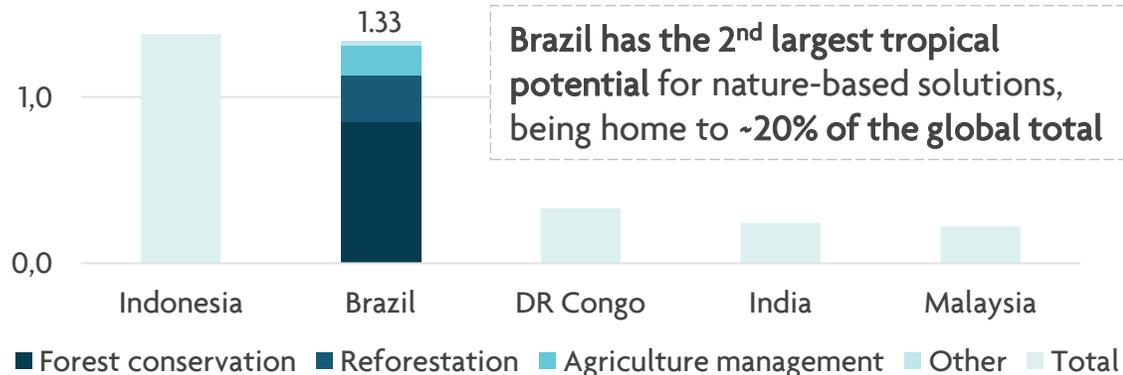


Brazilian emissions increased 12% vs. 2020, mainly driven by land use...



...but at the same time the country is a leader in NBS potential

GtCO₂e/year cost-effective natural climate solutions potential



Key takeaways from COP27



New government emphasizes that Brazil is back

- The President-elect attended the Conference in person and met with climate envoys from the US and China
- The speech reinforced commitments to stop deforestation, announced an Indigenous People Ministry, the reintegration of the Amazon Fund and emphasized the need for developed countries to upscale financing

Forestry partnerships in the public and private sectors



- **Brazil, Congo and Indonesia** launched an alliance to cooperate on forest conservation, promoting new sustainable funding mechanisms as well as leveraging on REDD+ program
- Vale, Itaú Unibanco, Santander, Rabobank, Suzano and Marfrig announced a new company (**Biomás**) to enable the **reforestation and conservation of up to 4 mn ha** in the Amazon, Atlantic Forest and Cerrado

Final takeaways

COP27 advanced on putting implementation and emerging markets at the center of the agenda



Keeping 1.5°C alive

Sharm el-Sheikh Implementation Plan reinforces 1.5°C target 

No major announcement of more ambitious targets 

Current 2030 pledges still put world on track for +2.4 – 2.7 °C 

Financing

Announcement of loss and damages fund 

Failure to deliver US\$ 100 bn pledge or set new target 

Private sector and multilateral institutions called to contribute 

Fossil fuels and decarbonization

Final text did not call for phase out of all fossil fuels 

O&G is invited to be part of climate discussions 

Hard-to-abate sectors reinforce demand signals to decarbonize 

Forests and carbon markets

NBS in final text. Nations and companies launch forest alliances 

Voluntary carbon markets receive mixed signals 

Brazil is back to the climate agenda, focused on deforestation 



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