ASG Analysis: COP27 Highlights Opportunity for Private Sector Leadership on Climate

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Key takeaways

- While the private sector had a larger presence at COP27 than at previous summits, businesses were still left out of official conversations and agreements on climate action.

- Key trends that emerged from the conference include the increasing prevalence of reporting mechanisms and standards that aim to monitor and limit emissions and harmful behavior. These standards and mechanisms are here to stay and will likely only increase demands on businesses.

- Tensions remain between governments on the topic of climate benchmarks, including the historic 1.5-degrees Celsius warming limit, which was challenged during the conference. For low- and middle-income countries, new loss and damages fund agreements were a major success.

- Post-COP, the integration of public and private action will be crucial to achieving meaningful progress. Businesses have an opportunity to proactively create net-zero strategies and climate transition plans, leading the way on climate action and demanding that governments catch up.

Overview

Once a forum for government and multilateral organizations to discuss technical agreements on climate, the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP) has become a major opportunity to gather stakeholders from across sectors to discuss sustainable solutions to climate change. Now, after its 27th iteration, it is important to look beyond the official consensus-based outcomes, which have yet again defaulted to the lowest-common-denominator. Government action should be assessed *in conjunction with* landmark announcements from the private sector and civil society. Post-COP, the integration of public and private action will be crucial to achieving meaningful progress. Businesses have an opportunity to proactively create credible net-zero strategies and climate transition plans, leading the way on climate action and demanding that governments catch up.

The good, the bad, and the confusing

The good: COP27 saw the first-ever mentions of nature-based solutions, "tipping points," and the need for financial system reform, including within multilateral development banks and international financial institutions such as the World Bank and the IMF. Also for the first time, there were pavilions dedicated solely to food and agriculture as the relationship between climate change and food systems takes on new significance in the midst of a global food crisis. Participants widely discussed the need for more private involvement to scale up low-carbon investments.

The bad: Business, skills, and training lacked explicit mention in the "cover decision," known as the Sharm el-Sheikh Implementation Plan, which summarizes official negotiations' key results (or lack thereof). There was little discussion of plastics pollution or hard-to-decarbonize sectors, especially the chemical industry. Overall, there was little formal government inclusion or discussion of indigenous peoples, youth, Small Island Developing States (SIDS), and climate refugees. Efforts to establish a voluntary carbon market were also not successful.

The…confusing: More than three decades after it was first proposed, a groundbreaking agreement was made to provide financial assistance to developing countries for loss and damage related to climate change. However, there was no agreement on where the funds would originate nor how the financing would be provided. Limiting temperature rise to 1.5 degrees Celsius was nearly removed from the cover decision and, while it remained in the end, a resolution to ensure emissions peak by 2025 was taken out. A provision to boost "low-emissions energy" made its way into the final text, but this vague wording could include anything from solar and wind to nuclear and even gas, which has lower emissions than coal but is still a major fossil fuel.

What could this mean for your business?

The race to become a part of the "sustainable business club" is well underway. Businesses that have joined sustainability-focused networks and coalitions and have invested a significant amount in positive socioenvironmental impact are already being held up as examples to highlight the shortcomings of other private sector actors. Regardless of whether governments will disburse newly promised funds and follow through on ambitious commitments on mitigation and adaptation initiatives, businesses cannot afford to delay climate action any longer. As some companies have started to use the Science-Based Targets Initiative (SBTi) for goal setting, those without robust emission reduction roadmaps and human rights standards for their business operations and value chains are falling behind. As civil society becomes increasingly aware of the mitigation and adaptation failures of governments at summits like COP27, companies are expected to take ownership of their climate impacts and work to fill public ambition gaps.

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The leaders of sustainable, climate-friendly businesses have recognized that higher expectations from the public are an opportunity, not a hurdle. Just before the start of COP27, several major reports about global progress on GHG emissions reduction and climate action were released, further highlighting the need for comprehensive action to limit global warming. Another report helped frame these findings for the private sector, showing growing public trust in business while trust in government is decreasing. Given the increasing urgency of the climate situation and these evolving perceptions of corporate responsibility, businesses are likely to face more pressure to create, implement, and report on strategic climate action and sustainability plans.

It is clear that reporting requirements are on the rise. The U.S. Securities and Exchange Commission is expected to approve proposed Climate Risk Disclosure Rules, and in Sharm El-

Sheikh, President Biden announced a proposal that would require federally-contracted vendors to publicly disclose greenhouse gas emissions and climate-related financial risks and to set science-based emissions reduction targets. On November 16, the European Financial Reporting Advisory Group approved the updated versions of the European Sustainability Reporting Standards, which are a part of the newly released Corporate Sustainability Reporting Directive (CSRD); these standards will require four times as many companies within the EU (approximately 50,000) to comply with ESG disclosure regulations. This trend is not likely to be reversed; companies should err on the side of caution and anticipate even stricter reporting requirements in the near future.

Companies are creating new roles and departments to tackle climate change and sustainability issues and to fulfill these increasingly stringent and comprehensive reporting requirements. Newly appointed Chief Sustainability Officers are often overwhelmed by the fast pace of change in reporting policy and international standards and by a lack of guidance for these experimental roles; thus, intra-industry coalitions and partnerships with nonprofits or government entities have emerged as popular options for engagement. The cover decision for COP27 leaves out any mention of business, signaling that public-private partnerships will be especially important for ensuring that the private sector's perspective is included in global efforts to coordinate climate action. Announcements of partnerships and initiatives encouraging private sector action at COP27 were particularly abundant in the areas of agriculture, forestry, and related issues like food security. For example, the International Finance Corporation launched a $6 billion financing facility called the Global Food Security Platform, with $2 billion to come from private investors.

Other areas of focus for public-private collaboration at COP27 were green hydrogen and climate finance, especially insurance. The Insurance Adaptation Acceleration Campaign, for example, will aim to mobilize 3,000 insurance companies (50 percent of the market) by COP28 to scale the industry's ability to reduce climate risk and jointly pursue innovative public-private partnerships. Host country Egypt, in partnership with Belgium and the UN Industrial Development Organization, launched the Global Renewable Hydrogen Forum, a multi-stakeholder public-private platform to facilitate the use of renewable hydrogen.

To the disappointment of many businesses, little progress was made on operationalizing Article 6 of the Paris Agreement. Despite several proposals for carbon pricing mechanisms by entities like the International Chamber of Commerce, efforts to establish a voluntary carbon market at COP27 were not successful due to challenges regarding reporting transparency, definitions, and liability for reversals (for example, if a forest generating carbon credits burned down in a fire). For companies working hard to achieve net zero, progress on Article 6 at COP28 will be imperative, especially on the topic of authorization. Should future negotiations favor a country's right to revoke or amend the authorization of emission credits, the investment risk for the private sector would increase, thus hindering the development of existing and new emissions reduction initiatives.

Looking ahead to COP28

On the ground at COP27, businesses and business and industry NGOs (BINGOs) were already focused on COP28. With next year's conference set to take place from November 30 to December 12 in Dubai, United Arab Emirates (UAE), businesses are excited about the future host country's demonstrated resolve to meaningfully engage the private sector in climate action. With more than 1,000 members in the UAE delegation mingling with business representatives and requesting feedback at COP27, it was evident that the UAE saw this year's event as a test case for their own COP.

As a petrostate, the UAE is dependent on oil. We expect the hosts to discuss clean and renewable energy at COP28 while supporting a *gradual* energy transition in alignment with the rest of the Gulf states. Paired with the country's efforts to become a pioneer in technological innovation, this stance will likely mean that companies working on high-tech alternatives like green/blue hydrogen and carbon capture and storage will be particularly welcome at the discussion table, as will solar and nuclear energy technology companies given the opportunities afforded by the Gulf's geography and climate. The UAE has also taken steps to position itself as a finance leader and an investment hub, so businesses involved with digitization, blockchain, green bonds, sustainable and innovative finance, and similar fields will be well-positioned to engage in Dubai.

The UAE and the Gulf states have emphasized biodiversity and nature-based solutions as crucial aspects of their mitigation strategies. In the last year, they have announced and joined afforestation-focused initiatives like the Saudi Green Initiative and the Middle East Green Initiative. With COP15 on Biodiversity also taking place in the coming weeks, we can expect a growing focus on the link between nature and climate action and those working in this space leading up to COP28 – but also some challenges to the feasibility of Gulf afforestation projects by environmental advocacy groups.

Conclusion

COP27 made it clear that stakeholders expect businesses to act on sustainability issues regardless of the ambition of their governments. This is an incredible opportunity for BINGOs to both outpace government action and fill in the gaps on issues that were not properly addressed at COP27. Especially since the UAE may be less ambitious in phasing out fossil fuels and implementing other mitigation strategies next year, private actors have a key chance to build upon public trust and stakeholder expectations to establish themselves as the voice of change and progress on a global scale. Popular, successful strategies for doing so have included seeking out opportunities for public-private partnerships; funding R&D of innovative solutions; and developing credible net-zero strategies and climate transition plans that equitably distribute the benefits and costs of the transition. Ambition, speed, and transparency on climate action, as well as due diligence across operations and supply chains, will continue to be crucial for businesses and organizations to maintain accountability, navigate ever more stringent government regulations, and credibly prepare for future COPs.

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About ASG

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ASG's Sustainability practice has extensive experience helping clients navigate the intersection of sustainability, politics, and business. For questions or to arrange a follow-up conversation please contact Melissa Kopolow.