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Kirkland Alert

COP27 Highlights Climate Opportunities and Risks for the Private Sector

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On November 18, 2022, the 27th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP27) concluded in Sharm El Sheikh, Egypt. This COP was not expected to be as consequential as 2021's COP26 in Glasgow, with negotiations focused on the funding needed to enable developing countries to adapt to and be compensated for the impacts of climate change, as well as other more technical matters related to implementing existing climate agreements.

Here, we briefly highlight COP27 developments relevant for private companies and investors, including those related to scrutiny of corporate net-zero commitments, climate finance, and carbon markets and emissions trading.

UN Guidance on Private Climate Commitments

At the beginning of COP27, the UN's expert group on private-market emissions commitments released a report (the "UN Report") condemning the use of "false claims, ambiguity and 'greenwash'" in corporate climate pledges and establishing ten core recommendations for high-integrity net-zero plans. The recommendations include:

- ***Announcing a net-zero pledge***: entities should publicly announce net-zero pledges, which should represent a "fair share of the needed global climate mitigation effort";
- ***Setting net-zero targets***: entities should make commitments that include short-, medium- and long-term emissions reduction targets and are aligned with the latest scientific guidance on limiting global warming to 1.5°C; and
- ***Using voluntary credits***: entities should prioritize emissions reductions across their value chains to meet net-zero targets, using high-quality voluntary carbon

credits only to compensate for annual unabated emissions.

The UN Report underlines a growing focus on “greenwashing” by market participants and regulators, and it could help to both inform stakeholder scrutiny of net-zero pledges and guide corporates as they work with their advisers to establish credible and robust climate commitments.

Climate Funding for Developing Countries

Providing funding for developing nations — both in the form of blended finance and as reparatory “loss and damage” payments for climate impacts — was the headline issue at COP27.

To accelerate the deployment of **blended finance**, the COP27 high-level Implementation Plan calls for the growth and reformation of international financial institutions such as the World Bank, encouraging a greater emphasis on climate-focused project funding and financial de-risking to make climate investments in emerging markets more attractive to private capital.[1]

COP27 also featured groundbreaking commitments for **“loss and damage” funding** to compensate developing countries for the financial impacts of climate-related disasters. The Implementation Plan includes provisions for a dedicated “loss and damage” fund, and the G7 and Vulnerable 20 Group of Finance Ministers announced the creation of a “Global Shield Against Climate Risks” initiative to accelerate timely disaster aid. Although the implementation strategies for these programs remains largely unclear and existing funding commitments are limited, both contemplate adjacent policies encouraging the mobilization of private capital toward climate adaptation projects.

Collectively, these developments may support climate investment opportunities for private capital relating to mitigation and adaptation in emerging markets.

Carbon Markets

Following progress in Glasgow, negotiations continued at COP27 on the implementation guidance for Article 6 of the Paris Agreement. Article 6 establishes a framework for the international transfer of emissions reductions between countries and is expected to create greater linkages between compliance and voluntary markets. There was, however, only limited progress in Egypt on the details behind the creation and transfer of these emissions reductions. Efforts by negotiators to clarify how credits used to meet voluntary commitments or domestic regulatory obligations can be applied to national climate targets will continue next year.

Nevertheless, carbon markets were a central topic of discussion in Egypt. Reflecting the recognition of the role of carbon finance in supporting additional climate mitigation projects — and the surging corporate demand for voluntary carbon credits to support corporate climate goals — COP27 delegates announced new initiatives, including:

- The Energy Transition Accelerator announced by the US, which would generate credits through the deployment of renewable energy and the retirement of fossil fuel infrastructure in developing countries; and
- The African Carbon Markets Initiative, which will fund African carbon credit projects in categories such as ecosystem conservation, renewable energy and clean cookstoves.

Meanwhile, in a sign of the growing regulatory interest in voluntary carbon markets,[2] the International Organization of Securities Commissions (IOSCO) — an association of global financial regulators including the U.S. Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) — issued consultation papers on both the voluntary carbon markets and compliance carbon markets.

As these various initiatives take shape and the carbon markets continue to scale, buyers of voluntary carbon credits will have to navigate developing voluntary guidance, regulation and stakeholder expectations.

***Tony Moller provided valuable research and drafting assistance on this Alert.*

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1. Other announced initiatives to encourage public-private investments in developing nations include:

- A Just Energy Transition Partnership (JETP) to accelerate clean energy investment in Indonesia and retire the country's coal-fired power plants;
- A dedicated blended finance initiative from the Network for Greening the Financial System, a group of 114 central banks and financial supervisors; and
- Guidance from the Glasgow Financial Alliance for Net Zero (GFANZ) on how its 550+ signatory financial institutions can participate in climate-aligned investment opportunities in developing economies. ↩

2. For more information on recent voluntary efforts, see our August 8, 2022 *Alert*, "Release of Draft Carbon Credit Principles Underscores Importance of Integrity to Voluntary Carbon Market Ambitions." ↩

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Suggested Reading

- 01 December 2022 Press Release Kirkland Advises Twin Ridge Capital Acquisition Corp. on Business Combination with Carbon Revolution Limited
- 01 December 2022 - 02 December 2022 Sponsored Event IR Magazine: ESG Integration Forum - US
- 30 November 2022 Kirkland Alert DOL Final Regulation Eases Path for ERISA Fiduciaries to Consider ESG Factors When Selecting Investments