Updates
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COP27: Four Takeaways for Business Leaders

The 27th United Nations Climate Change Conference of the Parties (COP27) was held in Sharm el-Sheikh, Egypt, in November 2020. While much was discussed, there are four takeaways that may be of greatest interest to business leaders:

First, in adopting the Sharm el-Sheikh Implementation Plan (Implementation Plan) to transform the global economy to a sustainable, low-carbon future, the parties recognized the need for changes to the global financial system to help stimulate and support this transformation. Second, support for the Global Methane Pledge increased as the parties displayed a heightened focus on methane emissions. Third, there was disagreement surrounding carbon offsets, which could lead to a lack of uniformity in the creation, use, and valuation of those credits. Fourth, the parties agreed to the creation of a Loss and Damage Fund that seeks to provide new opportunities for businesses looking to invest and engage in climate mitigation and adaptation solutions, green technologies, and broader sustainability.

An Implementation Plan for Global Transformation to a Low-Carbon Economy

One of the main deliverables of COP27 was the development of the Implementation Plan, which detailed the parties' agreement to transform the global economy towards a sustainable, low-carbon future. The Implementation Plan emphasized the need for a more rapid move towards reliance on renewable energy. The plan also detailed the requirements for a swift and comprehensive transformation of the global financial system to implement low-carbon solutions for economic development.

To that end, the Implementation Plan asked governments, central banks, commercial banks, institutional investors, and other financial actors to work together to invest at least $4-6 trillion per year towards such low-carbon solutions. While the Implementation Plan did not prescribe how these actors should work together or what steps they should take to reach these annual investments, adoption of the plan signals expanded global commitment to emissions reductions and sustainable business practices. It also underscores the point that Environmental, Social, and Governance (ESG) issues, climate investments, and clean technologies are not just passing trends, but instead are manifestations of real changes that are occurring within legal, social, economic, and financial systems throughout the world, as well as within individual businesses.

Developments in the Global Methane Pledge and U.S. Policy Announcements on Methane

At COP26, the United States spearheaded the establishment of the Global Methane Pledge, which seeks to cut anthropogenic methane emissions by at least 30% by 2030 from 2020 levels. In the year since, the United States, the European Union, and 11 other countries launched a series of initiatives through which over half of the world's oil and gas producers and refiners collectively agreed to cut methane emissions and utilized satellite technology to track and respond to "super emitter sources." Support for the Global Methane Pledge increased during COP27, including new country endorsements and new national methane action plans.

From the U.S. regulatory perspective, the Global Methane Pledge has translated into new proposed Clean Air Act (CAA) rules that the Environmental Protection Agency (EPA) announced in November 2022. The proposed rule would implement updated and broadened methane and VOC emission reduction requirements for new, modified, and reconstructed oil and gas sources. The rule would also require states to develop plans to limit methane emissions from existing sources nationwide. More specifically, the proposed rule requires a range of monitoring programs for new and existing sites, new standards for pneumatic controllers, and new performance standards for new and existing sources, including storage tanks, pneumatic pumps, and compressors.

These new standards and regulations for methane emissions will have real impacts on a variety of business operations, even beyond the natural resource extraction sector. Continued support for the Global Methane Pledge signals that the days of primarily talking about carbon emissions are now gone. As a result, businesses should consider methane and all other greenhouse gas emissions and how their operations may be affected by future regulatory actions.

Future of Global Carbon Offsets Market Is Uncertain

One of the highlights from COP26 was an agreement to establish global carbon offsets markets. While many observers expected COP27 to make progress on that agreement, the future of global carbon offsets markets remains uncertain. The parties developed some guidance for trading carbon credits on an open market, but countries were not able to agree on exactly what such a market would look like. Further muddying the waters is a disagreement on what "emissions avoidance"—or keeping carbon-storing ecosystems intact—should look like in practice. For example, it's unclear how carbon credits would be computed if these "emissions avoidance" ecosystems were disrupted or destroyed (e.g., a forest already sold as a carbon credit project were subsequently burned down). This lack of detail resulted in a fracturing of support for market-based approaches to carbon offsets, preventing further action on global carbon offsets markets at COP27. While various carbon offset markets are anticipated to grow dramatically, it remains to be seen how the lack of uniform global standards will affect the creation, purchase, and sale of such credits in the coming years.

For companies already active in carbon markets or those considering purchasing or developing new carbon credit projects, the lack of progress in creating a uniform market means that the voluntary market may remain without established standards for determining the value, integrity, or appropriate use of credits. Companies will need to continue to rely on voluntary protocols to register and trade credits, claim benefits associated with those credits, and monitor the long-term ecological or emissions-reducing value of the underlying offset projects.

Historic Loss and Damage Fund Agreement

One of the biggest developments out of COP27 was an agreement among the parties to establish a Loss and Damage Fund, although specific details about the timeline and contributions were pushed to COP 28. Many observers thought this would be one of the most intractable issues up for discussion. However, just before the COP27 negotiations concluded, the parties delivered a ground-breaking decision to create a damage fund to compensate vulnerable countries affected most by climate change. The Loss and Damage Fund would be the first of its kind and may mark a sea change for how adaptation and mitigation efforts are conducted by governments going forward. Specifically, the parties agreed to establish a "transitional committee" to operationalize the fund, with recommendations to be presented at COP28 next year.

Concurrent with the establishment of the Loss and Damage Fund, the parties renewed pledges of over $230 million to the Adaptation Fund, which was previously established to help vulnerable countries adapt to new realities created by climate change. While details of the new pledges remain to be seen, alongside the Loss and Damage Fund, these developments may bring new opportunities for businesses looking to invest and engage in a wide range of climate mitigation and adaptation solutions, green technologies, and broader sustainability efforts.

Real-World Implications for Business

COP27 reaffirmed the world's continued focus on climate change in ways that will inevitably influence a wide array of organizations. While commitments made by member nations do not directly translate into legal requirements, they can spur domestic legislation and move the needle in a variety of ways. This includes potential government spending, increased public scrutiny, and political pressures. In the case of the Methane Pledge, the EPA's movement forward with proposed rulemaking on methane on the heels of COP27 may ultimately lead to regulatory requirements and enforcement actions and more immediately raises compliance priorities. In short, COP27 will have some real-world implications for how companies plan and operate in the coming years.

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