

ASG Analysis: What to Expect at COP27

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Key takeaways

- The 27th annual Conference of the Parties to the U.N. Framework Convention on Climate Change (COP27) will take place in Sharm El-Sheikh, Egypt, from November 6 to 18, 2022.
- COP27 faces several headwinds that could diminish the Egyptian hosts' chances of delivering collective and concrete plans for global action through implementation. Governments' attention and resources have been drawn away from climate due to ongoing global crises, including the war in Ukraine, rapidly tightening financing conditions, and the remnants of Covid-19's impact on supply chains and labor markets.
- Nevertheless, we expect attendees from across sectors and industries to use the conference to explore strategic partnerships, aiming to pool resources and gain credibility in pursuit of decarbonization. COP27 continues to be an essential opportunity for businesses and organizations to engage in problem-solving and knowledge-sharing with peers, governments, and individual stakeholders.

Public versus private sector

The 27th annual Conference of the Parties to the U.N. Framework Convention on Climate Change will take place in Sharm El-Sheikh, Egypt, from November 6 to November 18. Despite the increased attention on COP's convening power after last year's summit in Glasgow, the current geopolitical environment is not conducive to a successful "traditional" COP, whereby nuanced negotiations lead to technically grounded international agreements. Even the Egyptian COP27 presidency implicitly acknowledges this fact, tagging COP27 as the "implementation COP" and directing attention to side events and discussions that will drive climate action in the years to come.

Though formal discussions remain important, a combination of factors has drawn attention away from this COP. Repercussions of the war on Ukraine, inflation and shifting credit markets, and Covid-19's continued negative impact on global social and economic stability will result in reduced progress for formal negotiations. COP27 also coincides with the U.S. midterm elections and the G-20 summit in Indonesia, reducing leaders' ability to zero in on climate efforts.

Still, COP's unique convening power and the Egyptian presidency's efforts to deliver on implementation make the conference a significant opportunity for companies and organizations, which can also use the event to plan engagement and build momentum for future COPs. Anticipation is already building for COP28 in the United Arab Emirates.

The consensus that government leadership alone will not be enough to address climate change will boost participation from the private sector, as seen at last year's COP26. This will likely create opportunities for cross-sector collaboration at this and future COPs. Partnerships between and among public and private actors are becoming popular strategies to pool resources and build credibility in pursuit of decarbonization. Examples of these partnerships include the Glasgow Finance Alliance for Net Zero (GFANZ), a coalition formed in 2021 that represents significant firms across the financial sector, and the First Movers Coalition (FMC), a group of now more than 50 companies making ambitious pledges to use purchasing power to collectively drive market demand for low-carbon tech. We expect private economic players to explore the potential for similar partnerships formally and informally through their attendance at COP27.

Climate finance and a just transition

As we approach November, climate finance remains the top priority at COP27; countries will aim to ensure long-term funding for mitigation and adaptation, as well as to achieve the goals of the Glasgow Pact and the Paris Agreement. Expectations regarding outcomes, however, remain low. After failing to reach a stated \$100-billion-per-year commitment to climate finance by 2020, governments will have to make significant efforts during COP27 to negotiate a new collective financial goal and progress toward setting post-2025 climate finance targets. Rising economic pressure on developed nations, stemming from a cost-of-living crisis and rising interest rates, will likely dampen ambitions on international climate finance as rich countries focus their efforts on their local economic challenges.

The reduced emphasis on the governmental negotiations means member states are unlikely to reach a final resolution on subjects such as Article 6 rules for a global carbon market or Loss & Damage (L&D) to help frontline nations recover, adapt, and build resilience to disasters. Though there has been progress on national initiatives for environmental justice and just energy transitions, the U.S. and the EU have not reconsidered their stances against a separate funding mechanism for L&D since COP26. COP27's setting in Egypt has empowered developing countries, especially African nations, to publicly press developed countries to create a specialized finance facility. However, L&D is expected to be incorporated into broader talks on climate finance instead. The limited commercial opportunity in L&D financing – as opposed to mitigation financing for renewable energy projects – means the private sector will likely make little progress in this area without government support.

Supply chains are another area where there is likely to be debate over ensuring a just transition. For instance, COP27 will be the first convening after several major developed and developing countries have launched programs to secure critical minerals for their green transitions. There will be some debate as to whether these plans may "lock out" poorer nations from much-needed resources. External pressures on the relationship between rich and developing nations – for example, regarding access to fertilizer in the face of rising gas prices – are likely to add a degree of difficulty to the discussions.

Making the most of COP

Businesses and organizations can engage in problem-solving and knowledge-sharing with peers, governments, and individual stakeholders by attending events and taking advantage of COP27's thematic schedule. COP presents an unparalleled opportunity to learn about and share strategies for sustainability in tandem with regulators and civil society groups. Private actors in hard-to-abate sectors may find "Decarbonization Day" (November 11) and "Energy Day" (November 15) beneficial. A wide range of actors are likely to benefit from attending "Finance Day" (November 9), which will feature discussions on sovereign debt for nature and climate investments, the private sector's role in climate-related initiatives, and financial regulatory bodies' role in facilitating climate finance. These themed days will allow businesses to announce and elevate innovative technologies and projects, learn about global policy changes, and provide input to aid policymakers in their work.

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