

Key progress in volatile year for energy transition raises implications for path to COP28

Building on the COP26 summit in Glasgow last year, this year's UN summit on climate change in Sharm el-Sheikh, Egypt brought together more than 45,000 participants. Highlights of the summit included new promises by Brazil and the creation of a 'loss and damage' fund.

Below, we outline key trends as context for this year's conference and highlight selected announcements with potential implications.

Context: Year from COP26 to COP27 brought extreme climate events, news findings impacting the outlook

- 2022 saw floods in Pakistan; heatwaves in Europe, China and other countries; droughts in North America – showcasing the urgency of any climate change action.
- Shortly before the meeting, a new report by the UN Environment Programme estimated that current pledges would result in a global heating of 2.4-2.6C by the end of the century if implemented fully.¹

Price increases and volatility put focus on clean energy transition while maintaining security of supply



Since COP26, price increases and volatility on gas markets, in part driven by Russia's invasion of Ukraine, have also led to significant price increases in electricity wholesale markets. This has resulted in a challenge for industry and political leaders as well as regulators to dampen the impacts of these price movements and ensure sufficient security of energy supply despite ongoing limitations of established gas supply channels.



Despite this increased focus on supply security, most governments are continuing or even accelerating their transition to renewable energy sources to generate electricity. However, there continues to be a funding gap for clean energy investment in emerging and developing economies. Amounts invested have remained flat since the 2016 Paris Agreement according to the IEA.²

	Selected COP27 announcements ^{3,4}	Possible implications for path to COP28
<p>Global "loss and damage" fund</p>	<p>1 Agreement to provide funding for vulnerable countries hit by climate change impacts³</p>	<ul style="list-style-type: none"> • Mechanism for wealthy nations to provide financial support for developing countries suffering from climate change impacts. Advertised as signal to build trust. • Announcement of a 'transitional committee' to organize funding being set. Many details yet to be agreed upon (e.g. selection of recipients).
<p>Reducing emissions</p>	<p>2 Implementation plan calling on parties to accelerate efforts towards the phasedown of unabated coal power⁴</p> <p>3 Implementation plan recognising that global energy crisis underlines the urgency to transition to renewable energy⁴</p>	<ul style="list-style-type: none"> • No reference to phasing out of all fossil fuels led to criticisms by some commentators that phrasing agreed at COP26 was not extended or strengthened. Exemplified by 2022 decisions in some countries, such as Germany, to reactivate coal capacity in light of energy crisis. • Ambiguity on 'low-emission' technologies could mean acceptance of gas as a transition fuel. But potentially also increasing role for technologies such as hydrogen (more on hydrogen markets). • Emphasis on urgency to transition to renewable energy, which in many markets will be driven by solar and wind (see more on large-scale wind projects here). • Agreement on international carbon credit markets proved elusive and may now be a potential focus topic at COP28 in Dubai next year⁵.
<p>Decarbonising 5 key sectors</p>	<p>4 Package of actions by group of governments on five key areas⁶:</p> <ul style="list-style-type: none"> • Power • Road transport • Steel • Hydrogen • Agriculture 	<ul style="list-style-type: none"> • Initiatives by coalitions of committed countries, including G7, European Commission, India, Egypt, Morocco and others. • Wide range of measures, including development of low-emission and near-zero emission steel, hydrogen and batteries. • Ambition to setting a common target date for phasing out "polluting cars and vehicles", which will likely require transition enablers such as vehicle-to-grid (read more here). • Opportunities for investors and industrial clients to find profitable ways or funding to "essential infrastructure projects including at least 50 large-scale net-zero emission industrial plants, at least 100 hydrogen valleys and a package of major cross-border power grid infrastructure projects."⁶

Sources:

1. UN Environment Programme (27/10/2022) Emissions Gap Report 2022
2. IEA (October 2022) World Energy Outlook 2022
3. UN Climate (20/11/2022) Press Release: COP27 Reaches Breakthrough Agreement on New "Loss and Damage" Fund for Vulnerable Countries
4. UN FCCC (20/11/2022) Sharm el-Sheikh Implementation Plan. Revised draft decision -/CMA.4
5. Reuters (18/11/2022) U.N. carbon market talks to drag beyond COP27 as deals elusive
6. Breakthrough Agenda (11/11/2022) The Breakthrough Agenda: a master plan to accelerate decarbonization of five major sectors