

COP27 Briefing Paper



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Executive summary

It's important to acknowledge the sense of disappointment from many as COP27¹ concluded. That disappointment has been justifiably expressed through the disheartened comments of many notable figures, and in the early media reports of those who followed the conference carefully. The lack of a definitive statement on phasing out fossil fuels was, for many, including for this firm, particularly disappointing.

The Conference of Parties, however, is one step on a long journey of political compromise by State actors. Densely worded statements reflect the complexity of this process and will justifiably be regarded by some as a lack of progress or ambition. Nevertheless, it would be a mistake to view the conference as a reason to disengage with this process. The international effort to develop mechanisms that reduce anthropogenic climate change will continue to shape national regulatory environments. State and non-State actors² need to be aware of the progress that was made and the areas for further action. It's not just a matter of being ahead of the curve, it's also a matter of being in place to shape that curve.

Our analysis of COP27 is designed to assist proactive and ambitious players in the international carbon space. We highlight progress against the key international pledges made at previous COPs and outline the most important areas of development.

In Section 3 (*Public Finance – Loss and Damage*) we analyse COP27's headline achievement; the creation of a Loss and Damage Fund³. It's a welcome breakthrough at a political level but the ambiguity surrounding operational details offers plenty of space for interested players to shape outcomes.

Section 9 (*Carbon Markets – Article 6.4*) gives a detailed analysis of COP27's decisions on the crucial Article 6.4 mechanism, including the agreed guidance on the transition from Certified Emission Reductions (CERs⁴) to those recognised under Article 6.4. The failure to agree on an international registry for countries that are yet to establish a Designated National Authority for the new mechanism, is also discussed. This is presented in the context of voluntary carbon reduction markets and the progress made in establishing consistency for internally transferred mitigation outcomes (ITMOs⁵) as recognised by Article 6.2.

Many will have noted the rising concern around 'greenwashing' by companies keen to burnish their climate credentials. COP27 sharpened the focus on this issue and Section 4 (*Net Zero*) includes a detailed analysis of new criteria that smart operators will seize on to demonstrate their *bona fides* in this respect. Other sections of our analysis cover the emergence of specific initiatives for Africa and the increasing prevalence of new alliances and partnerships to overcome procedural constraints by forging innovative approaches to carbon reduction. The latter perhaps best reflects our key take-away: notwithstanding the disappointment from many in relation to COP, non-parties with vision and ambition will seize the opportunity to understand, shape and contribute to the global effort to reduce climate change.

¹ Please see definition in Schedule 1 (Glossary).

² Considered to be industry (including companies generally), financial institutions, cities and regional government.

³ Please see definition in Schedule 1 (Glossary).

⁴ Please see definition in Schedule 1 (Glossary).

⁵ Please see definition in Schedule 1 (Glossary).

Updates on key pledges from COP26

Glasgow Leaders' Declaration on Forests and Land Use¹³



Signatories/participants

Over 140 countries including the US, Russia, China and Brazil.

COP26 pledge

At COP26⁶, over 140 countries collectively committed to halt and reverse forest loss and land degradation by 2030.

Updates from COP27

World leaders from over 25 countries and the European Union launched the Forest and Climate Leaders' Partnership (FCLP). FCLP members represent 60% of Global GDP and over 30% of the world's forests.

The FCLP will initially be co-chaired by the US and Ghana, and annual meetings will be held to encourage accountability in efforts to achieve the ending of deforestation by 2030. Starting in 2023, the FCLP will publish an annual Global Progress Report summarising progress towards this 2030 goal.

In the first FCLP event at COP27, progress on, and new commitments towards ending deforestation by 2030 were announced. These included Colombia's intention to set aside \$200 million annually for the next two decades to save the Amazon, Kenya's plans to restore 10.5 million hectares of degraded forests and rangelands and Ecuador's plans to increase forested land by 1.4 million hectares by the end of 2023.

FCLP members are Australia, Canada, Colombia, Democratic Republic of the Congo, Costa Rica, Ecuador, the European Union, Finland, Fiji, France, Gabon, Germany, Ghana, Guyana, Indonesia, Japan, Kenya, Korea, the Netherlands, Nigeria, Norway, Pakistan, Singapore, Sweden, Tanzania, the United Kingdom, the US and Vietnam.

⁶ Please see definition in Schedule 1 (Glossary).

Other notable progress and challenges

+ Opec for Rainforests

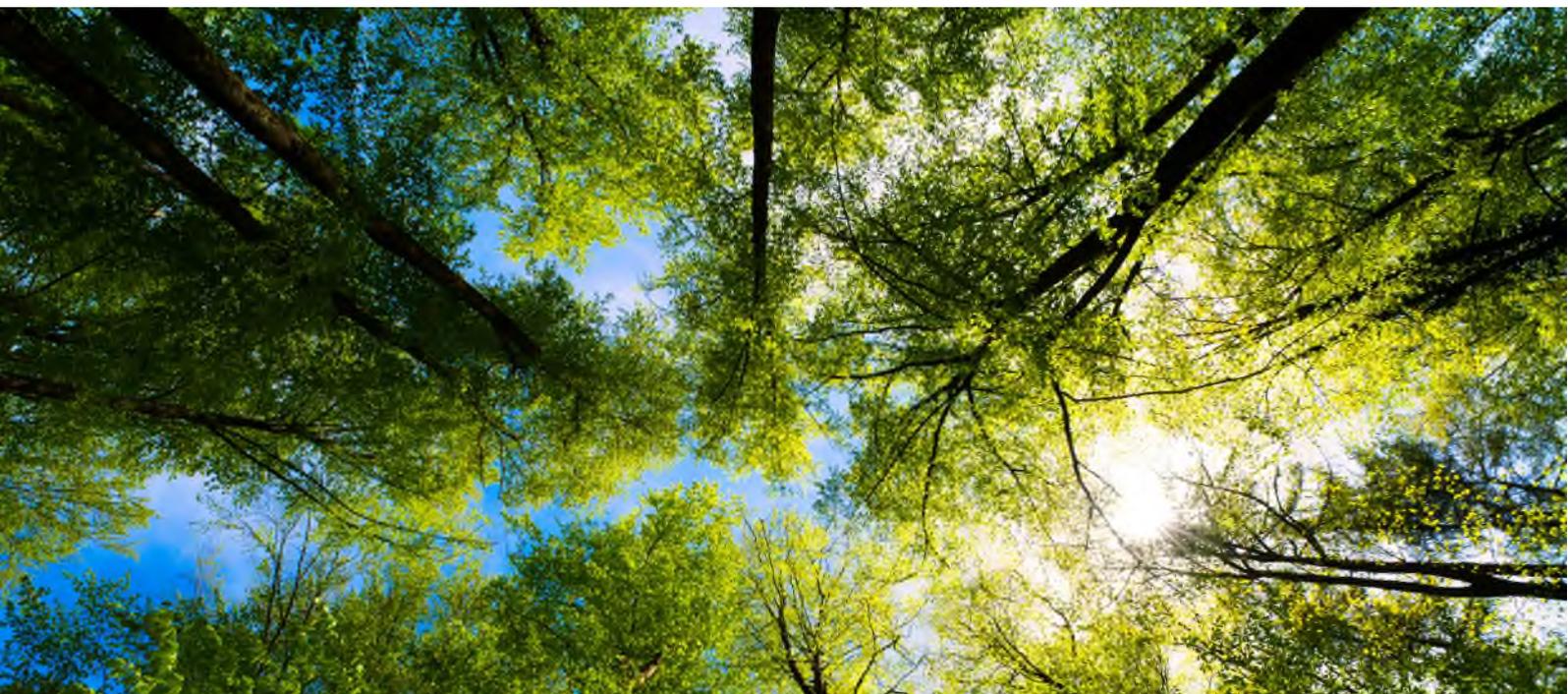
At the G20 summit, Brazil, Indonesia and the Democratic Republic of the Congo signed a strategic alliance to coordinate their conservation (nicknamed an “Opec for Rainforests”), calling for the negotiation of a new sustainable funding mechanism to preserve tropical rainforests

+ Lowering Emissions by Accelerating Forest Finance (LEAF) Coalition

Established at COP26 in Glasgow, LEAF is a public-private coalition of governments and companies that aimed to initially mobilise at least \$1 billion of public-private finance to protect tropical forests from deforestation, while protecting the rights of Indigenous People and local communities. Members of the LEAF Coalition purchase high-integrity emissions reduction credits in return for financing LEAF.

At COP27, LEAF announced:

1. financial commitments to support tropical nations in reducing emissions from deforestation are now in excess of \$1.5 billion;
2. H&M Group and Volkswagen Group joined the coalition;
3. South Korea joined the coalition, becoming LEAF’s first Asian national government;
4. Ecuador became the first forest nation to sign a LEAF memorandum of agreement setting out a roadmap for the signing of binding Emissions Reduction Purchase Agreements by April 2023, with Costa Rica and Nepal also having signed memorandums of agreement; and
5. letters of intent were signed with the first four Brazilian States - Amapá, Amazonas, Mato Grosso and Pará – to progress negotiations towards binding agreements to supply emissions reductions to LEAF Coalition participants.



Global Forest Finance Pledge



Signatories/participants

Canada, EU, Germany, France, Japan, Belgium, Denmark, Netherlands, Norway, South Korea, the UK, the US

COP26 pledge

12 countries pledged \$12 billion for forest-related public climate finance between 2021 and 2025 for the protection, restoration and sustainable management of forests. Separately, 11 donor countries (together with the Bezos Earth Fund) pledged at least \$1.5 billion to support efforts to reverse forest loss by 2030 in the Congo Basin.

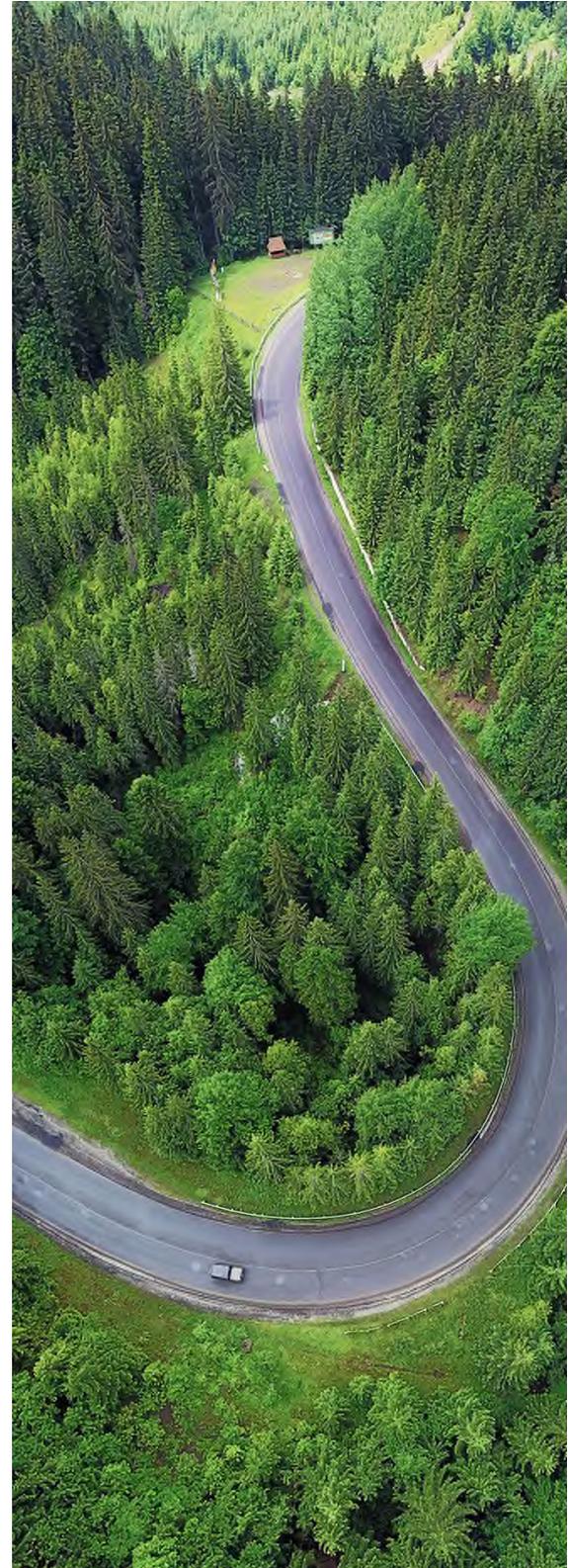
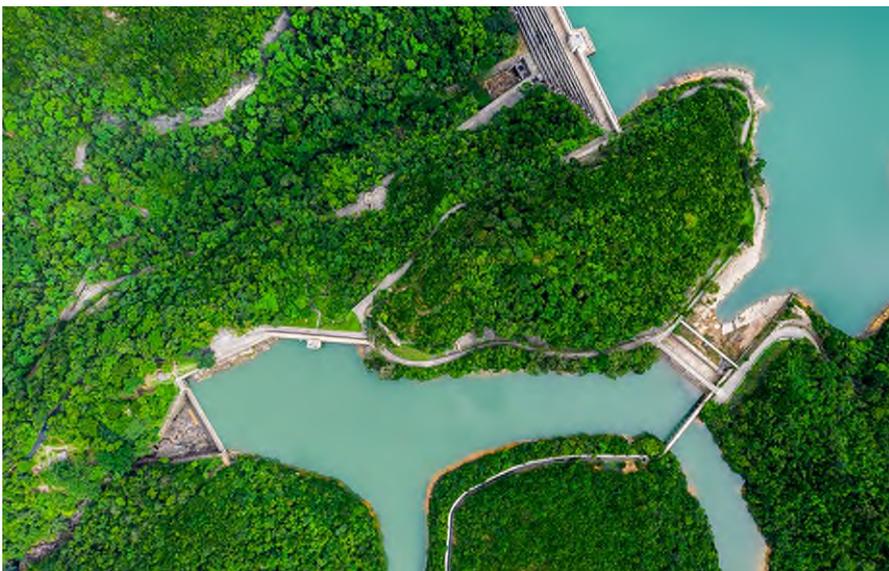
Updates from COP27

Germany doubled its contribution from €1 billion to €2 billion. Funds will be invested mainly via bilateral programmes with partner countries such as Pakistan, which has set itself a goal of restoring forest habitats by planting ten billion trees by 2023. Funding will also be provided to multilateral initiatives including, for example, the Central African Forest Initiative (CAFI) and the Congo Basin Forest Partnership.

Other notable progress and challenges



The Global Forest Finance Pledge released a report outlining that \$2.67 billion was contributed to forest-related programmes in developing countries in 2021, 22% of the 5-year commitment made at COP26.



Global Methane Pledge (GMP)



Signatories/participants
150+ countries

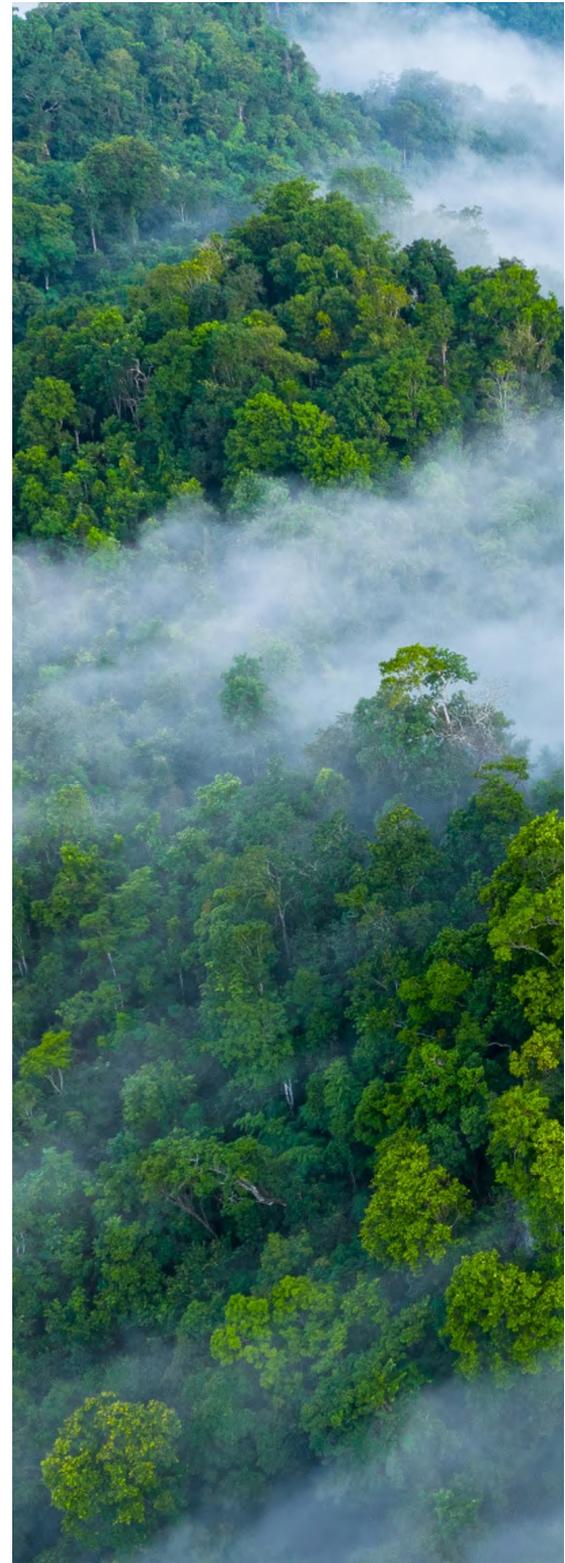
COP26 pledge

Participating countries pledged to cut methane emissions by 30% of 2020 levels by 2030. This could eliminate over 0.2°C of warming by 2050. Countries also agreed to continuously improve the national GHG⁷ inventory reporting under the UNFCCC⁷ and Paris Agreement⁸.

Updates from COP27

See Section 8 (*Energy*) for an update on the Global Methane Pledge. Key points to note:

- 50 countries now have or are in the process of developing national Methane Action Plans for implementation across 2022/2023.
- The GMP Food and Agriculture Pathway and the GMP Waste Pathway were launched to improve food security, the waste value chain and agricultural viability.



⁷ Please see definition in Schedule 1 (Glossary)

⁸ Please see definition in Schedule 1 (Glossary)

Global Coal to Clean Power Transition Statement

 Signatories/participants
46 Countries

COP26 pledge

A group of 46 countries pledged to “accelerate a transition away from unabated coal power generation”. The statement included commitments to rapidly scale up technologies and policies for the purpose of transitioning away from unabated coal power generation in the 2030s, for major economies, and in the 2040s globally. Countries committed to cease issuing permits, commencing construction or providing direct government support for new unabated coal-fired power generation.

Updates from COP27

The Global Coal to Clean Power Transition Statement was not addressed at COP27.

Other notable progress and challenges

-  China remains the global leader in financing clean energy installations but new incentives for wind and solar in the US’ Inflation Reduction Act suggests it will ramp up energy financing in the near future. Europe has maintained a steady increase of renewable electricity production.
-  Despite this, reports show that many European and Asian countries that had pledged to accelerate a transition away from unabated coal power generation have since resurrected their coal sectors as a result of recent energy insecurity resulting from Russia’s invasion of Ukraine. As a result, coal demand was [forecast](#) to reach an all-time high in 2022.



Glasgow Financial Alliance for Net Zero (GFANZ)



Signatories/participants

Over 550 financial firms across 50 countries

COP26 pledge

Over 450 financial firms committed to manage their assets to achieve net zero targets through credible net zero transition plans. Importantly, they had to align with the UN's Race to Zero criteria: using science-based guidelines to reach net zero emissions across all emissions scopes by 2050; setting 2030 interim targets that represent a fair share of the 50% decarbonisation required by the end of the decade; setting and publishing a net zero transition strategy; committing to transparent reporting and accounting on progress against those targets; and adhering to strict restrictions on the use of carbon offsets.

Updates from COP27

The key GFANZ announcement during COP27 was its funding of the second project under the Just Energy Transition Partnership (JETP) in Indonesia. \$10 billion of funding from state agencies will release a similar amount from GFANZ members. The funds will allow Indonesia to significantly reduce its reliance on coal plants.

GFANZ also released a report ahead of COP27 called "[Call to Action: One Year On](#)⁹", which outlines the progress made against the key policy levers since Glasgow and makes recommendations to embed net zero transition planning in global regulation

Other notable progress and challenges

- + Over the year since Glasgow, GFANZ has added around 100 new members extending now to 550 members from 50 countries. The Alliance has faced down a number of challenges, including dropping the declaration made by its UN partner, Race to Zero, that no new investments should be made in coal. Member firms can therefore decarbonise at their own pace, a U-turn that also lessens competition/antitrust law risks that a boycott of coal may have generated. Members must still meet GFANZ's complex data reporting requirements, and the proposed rules and recommendations from bodies such as the Task Force on Climate-Related Finance Disclosures (TCFD) and the U.S. Securities and Exchange Commission (SEC) on mandatory climate-risk disclosures will underline the importance of getting this reporting process right.
- Some members of GFANZ initiatives have now withdrawn their involvement, some citing the complex reporting burden. This includes a large US asset manager which cited a desire to engage more directly with investors on climate change risks. Its decision to withdraw follows the increased politicisation and policy fragmentation faced by asset managers in relation to climate change initiatives



Clydebank Declaration



Signatories/participants
Over 20 Countries

COP26 pledge

Over 20 countries including the UK, the US, Japan, Australia and Canada supported the establishment of green shipping corridors (i.e. zero-emission maritime routes between two or more ports). The aim was to establish at least six green shipping corridors by 2025 and many more by 2030.

Updates from COP27

At COP27 several governments and organisations made further green shipping commitments:

- The UK made a pledge alongside the US, Norway and the Netherlands to commit to operating bilateral green shipping corridors and green maritime links between the countries.
- The UK and US launched a Green Shipping Corridor Task Force to collaborate with private sector stakeholders and encourage research and development to establish green shipping corridors.
- The US and Norway launched a new “Green Shipping Challenge” encouraging governments, ports and companies to prepare commitments to help reduce GHG emissions from the shipping sector as part of efforts to fulfil the Paris Agreement.

Other notable progress and challenges



The 2022 Annual Progress Report on Green Shipping Corridors was launched in association with the first anniversary of the Clydebank Declaration. Overall, the report demonstrates that Green Corridor activity in 2022 exceeded expectations, with more than 20 initiatives and 110 stakeholders for key shipping segments involved and with coverage of some of the most important deep-sea routes.



International Aviation Climate Ambition Coalition

 Signatories/participants
50+ countries

COP26 pledge

23 countries committed to advancing ambitious actions to reduce aviation CO₂ emissions at a rate consistent with efforts to limit the global average temperature increase to 1.5°C above pre-industrial levels. Signatories also acknowledged that the International Civil Aviation Organization (ICAO) (with whom they will seek to collaborate) was the appropriate forum in which to address emissions from international aviation. In addition, the declaration set out ways to ensure the effectiveness of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

Updates from COP27

The International Aviation Climate Ambition Coalition was not addressed at COP27

Other noticeable progress and updates

-  Since COP26, the IACAC has increased its membership to over 50 countries and set the goal of being net zero in terms of CO₂ by 2050.
-  The ICAO launched the Assistance, Capacity-building and Training for Sustainable Aviation Fuels (ACT-SAF) programme in June 2022, which is focused on assisting states in their decarbonisation efforts in aviation through SAFs.



100% Zero-Emission Vehicle Sales by 2040



Signatories/participants

214 signatories

Overview

154 signatories including 38 countries, 44 cities, states or regional governments, 11 automotive manufacturers, 27 fleet owners, 13 investors with significant shareholdings in automotive manufacturers and two financial institutions pledged that new cars and vans sold are to be zero-emission by 2035 in major markets and 2040 globally. The US, China and Germany declined to sign, along with Volkswagen, Toyota and BMW.

Updates from COP27

There were a new group of signatories to the pledge at COP27, pushing the total number of signatories to 214. Among these are corporate signatories such as Delta Electronic, Coca-Cola EUROPACIFIC Partners and Valeo, as well as additional national signatories including France and Spain.

COP27 also saw the launch of a new partnership – Accelerating to Zero (A2Z) – working towards the 2035 and 2040 targets. As part of this initiative, a Global Memorandum of Understanding was drawn up which pledges to shift all new medium- and heavy-duty vehicle sales to zero-emission vehicles by 2040. Notably, this was backed by the Biden Administration.

Other notable progress and challenges

The demand for and sale of electric vehicles is surging globally, comprising 10% of total car sales in 2021–approximately four times the market share in 2019. The many highlights of this notable progress include:

-  emissions from transport featured far more heavily in National Determined Contributions since COP26;
-  The European Parliament voted to ban the sale of petrol and diesel cars from 2035;
-  companies such as Ford and Volvo publicly supported vehicle emissions regulations;
-  recent US legislation was passed providing significant incentives for the financing of electric vehicles and infrastructure ¹⁰.



¹⁰ Inflation Reduction Act and the Infrastructure Bill.

US-China Joint Glasgow Declaration on Enhancing Climate Action in the 2020s



Signatories/participants
The US and China

COP26 pledge

The US and China unveiled a joint declaration which set out their commitment to work together in taking ambitious action “during this critical decade” in order to meet the central goals of the Paris Agreement. Among other matters, the declaration highlighted the reduction of methane emissions, decarbonisation and the protection of forests as key areas of joint efforts.

Updates from COP27

John Kerry, the US Special Presidential Envoy for Climate, specifically acknowledged that climate related interaction between the US and China at COP27 was limited, with little progress made. Concrete plans for this alliance between the US and China are yet to be announced.

Other notable progress and challenges

An understanding between the two largest emitting countries will be essential to limit global heating to 1.5°C.



Beyond Oil and Gas Alliance (BOGA)



Signatories/participants

Members: Costa Rica, Denmark, Sweden, France, Greenland, Ireland, Quebec, Wales, Washington State and Portugal

Associate Members: New Zealand, Portugal and California

Friends: Italy, Fiji, Tuvalu, Kenya and Chile

COP26 pledge

BOGA, an alliance co-chaired by Costa Rica and Denmark, is a coalition of governments and stakeholders cooperating to facilitate the managed phase-out of oil and gas production. BOGA aimed to elevate the phase-out as an issue in international climate dialogues, to mobilise action and commitments, and create an international community of practice on the phase-out.

Updates from COP27

At COP27, BOGA expanded to include Washington State and Portugal as core members as well as Fiji, Tuvalu, Kenya and Chile as friends of the alliance. Kenya’s inclusion is particularly notable as the first African country to associate themselves with the alliance.

BOGA also announced initial support of \$10 million for a new fund to provide technical assistance for developing countries to initiate their transition

Other notable progress and challenges



BOGA has not yet managed to win the support of major fossil fuel producers.



Public Finance

Climate Finance

COP27 and Finance Initiatives

UNFCCC-sponsored funds for long-term climate finance are only part of the climate finance story. Alongside the official projects driven by the Conference of the Parties, a number of significant climate finance initiatives were announced during COP27. In this way, COP agendas can spur action both by national governments and by releasing capital flows from the private sector.

COP funds

Countries were [encouraged](#) at COP27 to fully deliver on the \$100 billion per year for developing countries goal “urgently and through 2025”. A target date of 2020 had been set at COP15 in 2009 in Copenhagen; and it is reported that up to \$90 billion has been provided to date since that target was set, according to estimates by John Kerry cited in the Financial Times.

The Green Climate Fund, also launched in 2010, now has \$11.3 billion of funding proposals approved. Pledges were also made at COP27 towards a number of COP-sponsored funds: Adaptation Fund (\$230 million), Least Developed Countries Fund (\$70.6 million), Special Climate Change Fund (\$35 million) and Global Environment Facility (\$5.33 billion, with a climate-related finance target of $\geq 80\%$ of all funding commitments).

Multilateral Development Banks were [called](#) on at COP27 to reform their practices and priorities, align and scale up funding, and mobilise climate finance from various sources, with a view to achieving a substantial increase. These generous sentiments are lacking in tangible action points, but they indicate the direction of travel that will be pushed forward by initiatives outside the COP process.

Bridgetown Initiative

The [Bridgetown Initiative](#) was championed in a speech at COP27 by Mia Mottley, Prime Minister of Barbados. The Initiative calls for reform of the global financial architecture in light of the cost of living crisis, a developing country debt crisis following COVID-19 and climate-related disasters, as well as the climate crisis.

To address the debt crisis, the Initiative calls for “emergency liquidity” from the International Monetary Fund. This would take the form of increased access to the IMF’s unconditional rapid credit and financing facilities, temporary suspension of interest surcharges and utilisation of at least \$100 billion of unused special drawing rights (which allow IMF members to borrow cheaply from other members’ reserves). The Initiative also calls for the creation of a resilience and sustainability trust.

The Initiative also calls on the G20 to agree debt service suspensions for Multilateral Development Bank (MDB) loans to the poorest countries, and major debt issuers are encouraged to normalise clauses suspending interest and default in times of natural disaster or pandemic. Currently the Inter-American Development Bank is the only MDB to offer this type of clause in its lending.

Bridgetown also calls for an additional \$1 trillion in multilateral lending to governments, a global mechanism for raising reconstruction grants following a climate disaster, and \$650 billion in Special Drawing Rights for a multilateral agency to encourage private investment in low carbon transition; \$2 trillion has been estimated to be required.

CRDCs

While some demands of the Bridgetown Initiative may sound ambitious, UK Export Finance [announced](#) at COP27 that it will offer low-income countries and small island developing states Climate Resilient Debt Clauses (CRDC) in its direct sovereign loan agreements, with the ability to defer debt repayments for 12 months in the event of a natural disaster.

CRDC deferrals will not be considered events of default, and deferred payments will be repayable over a 5-year period. The UK Treasury’s Private Sector Working Group has also launched a [model term sheet](#) with climate resilient debt deferrals in bond and loan contracts¹¹. The UK is calling on all multilateral development banks to explore CRDCs.



¹¹ <https://www.icmagroup.org/assets/CRDCs-November-2022.pdf>.

Green/Green finance

A partnership was announced during COP27 between the International Islamic Trade Finance Corporation (ITFC) and the Regional Voluntary Carbon Market Company, to utilise Islamic finance to combat climate change. The Shariah council of the Islamic Development Bank has issued a fatwa to the International Islamic Trade Finance Corporation (ITFC) allowing Islamic finance to be used for carbon credits, as a traded "right to intangible assets".

Saudi Arabia is now establishing its Designated National Authority and is to launch a voluntary carbon market in early 2023. Given the prevalence of Islamic finance in Gulf petroleum-producing countries as well as the fact that COP28 will be held in Dubai, these are important developments.

US Energy Transition Accelerator

John Kerry announced the US Energy Transition Accelerator at COP27. This is a public initiative supported by the Bezos Earth Fund and the Rockefeller Foundation. It aims to encourage private investment in renewable energy through a new type of carbon credit, to accelerate developing countries' transition to clean energy and phase out fossil fuels. Those countries will be able to earn carbon credits - that will be certified by an accreditation body - by replacing fossil fuel usage with renewable energy. Whilst Kerry stated the new mechanism would be ready by COP28 in Dubai, few further details are yet available. The backing of the US government in such a high profile initiative is encouraging, but some have queried whether another (US-based) carbon market is really needed, specifically in light of remaining uncertainties in other, more established, carbon markets (such as Article 6).

Climate finance legacy

The US Energy Transition Accelerator, the Islamic finance ruling, CRDCs and the Bridgetown Initiative are just some of the most high profile finance projects showcased at COP27. There are hundreds more projects on the ground. The UNFCCC¹² conferences have, over the years, talked into existence a huge new sector of the finance industry that enables the clean energy transition: this will likely be the real legacy of the COP27 finance funding measures.



¹² Please see definition in Schedule 1 (Glossary).

Loss and Damage



Pledge

Loss and Damage Finance

COP27 was the first time questions of loss and damage made it onto the official COP agenda; the result was an agreement to create a Loss and Damage Fund (LDF) under the UNFCCC¹³ regime.

The definition of loss and damage varies by groups and jurisdictions but is generally understood to refer to the negative impacts of climate change and their associated costs. There has already been some UN-level collaboration in tackling the challenges of loss and damage faced by developing nations. During COP19, for example, the Warsaw International Mechanism on Loss and Damage ([WIM](#)) was created to promote the implementation of approaches to address loss and damage in a comprehensive, integrated and coherent manner. WIM's functions include: enhancing knowledge and understanding of risk management associated with loss and damage, strengthening relationships between relevant stakeholders and enhancing action and support on finance, technology and capacity-building to address loss and damage.

Under the umbrella of WIM, the Santiago Network for Loss and Damage (the [Santiago Network](#)) was created at COP25 to catalyse technical assistance for the implementation of approaches at all levels in vulnerable developing countries. At COP27, it was [decided](#) that the Santiago Network would include a hosted secretariat, an advisory board and a network of organisations and experts.

Even with these pre-existing UN mechanisms and support for developing countries, funding for loss and damage has historically been low. [Experts have estimated](#) that by 2030, the associated economic costs in developing countries will reach \$290–580 billion. Discussion on the international stage has been politically fractured with developing nations suffering from climate change impacts calling for wealthier nations to pay their fair share on the basis of the polluter-pays principle.

The COP27 negotiations were no exception to the political fracturing. There was frustration over unfulfilled financing pledges of \$100 billion per year by 2020 and negotiating deadlocks reported throughout the conference. A final text was only agreed on the Sunday after the conference had been scheduled to finish. It was finally agreed that a new [Loss and Damage Fund](#) (LDF) would be created to assist 'developing countries that are particularly vulnerable' to climate impacts. UN Secretary-General, António Guterres welcomed the establishment of the fund, while also noting the many outstanding questions as to its operation.

A transitional committee will operationalise the LDF by determining which States can be considered to be 'particularly vulnerable', deciding how funds will be distributed for both slow on-set impacts as well as extreme events and (not least) identifying how funds will be raised. The committee will look at innovative sources of funding like debt relief, insurance, a carbon tax, windfall taxes on the fossil fuel industry, a frequent flyer levy and other similar options. The committee will report back on the operationalising of the LDF next year at COP28.

COP27 also saw the launch of the [Global Shield against Climate Risks](#), offering agreed financial support to developing countries in advance of climate impacts that can be quickly deployed in times of climate disasters. Initial contributions to the fund are approximately €210 million.

¹³Please see definition in Schedule 1 (Glossary).

Adaptation Finance



Pledge

Global Goal on Adaptation and the Adaptation Fund

The COP27 climate adaptation agenda moved forward a framework for the [Global Goal on Adaptation](#) (GGA) and increasing financial contributions to the Adaptation Fund. The IPCC's ¹⁴ [Sixth Assessment Report](#) had, earlier in 2022, claimed that approximately 3.3 to 3.6 billion people are highly vulnerable to climate change.

The GGA was introduced under the Paris Agreement¹⁵ (Article 7) with the purpose of creating an international framework focused specifically on reducing vulnerability to climate impacts and building resilience through global adaptation efforts. The GGA was intended to provide a similar goal post to the mitigation goal of 1.5°C, but a key challenge here is that adaptation definitions and metrics vary significantly by geographical regions and local contexts. COP27 established a draft framework for the GGA which may cover themes such as water, food and agriculture, key infrastructure, poverty, freshwater and ocean ecosystems, biodiversity and tangible cultural heritage. The work programme launched during COP27 to finalise the draft framework on GGA aims to be concluded by COP28.

New financial pledges to the Adaptation Fund were made at COP27 in the form of multiple new commitments totalling more than \$230 million. There has, however, been a historical “adaptation gap” that has persisted, with international adaptation finance flows to developing countries being “5-10 times below needs; and the gap is widening”. Whilst the COP27 Adaptation Fund decision “notes with concern” outstanding and unfulfilled pledges and the importance of increasing finance, there was no tangible commitment from the decision to ensure an increase in contributions. The COP27 President [requested](#) the UN Climate Change’s Standing Committee on Finance to prepare a report on doubling adaptation finance for consideration at COP28.

Additional adaptation announcements:

- The [Sharm el-Sheikh Adaptation Agenda](#) was launched, outlining 30 global adaptation targets to be reached by 2030 in order to increase resilience of four billion people globally. The targets aim to accelerate transformation, including through enabling solutions for planning and finance, across five impact systems: food and agriculture, water and nature, coastal and oceans, human settlements, and infrastructure.
- The [Executive Action Plan for the Early Warnings for All Initiative](#) called for an investment of \$3.1 billion (2023-2027) to improve disaster-risk knowledge, observations and forecasting, preparedness and response and communication of early warnings.



¹⁴ Please see definition in Schedule 1 (Glossary).

¹⁵ Please see definition in Schedule 1 (Glossary).

Net Zero

Introduction

As the global push continues to decarbonise and reduce emissions, there is an increased focus on achieving the vaunted “net zero”¹⁶ status. Many non-State actors, including companies and financial institutions have made expansive net zero claims or set ambitious timeframes for achieving net zero. This has led to an increased focus on the issue in many industries, such as asset management. Despite regulations dictating the content and form of green claims, such as the [EU’s Sustainable Finance Disclosure Regulation](#)¹⁷, accusations of greenwashing are on the rise.

It is against this backdrop that the High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities (UNHLEG) was tasked with addressing net zero pledges and commitments from non-State actors. Their widely anticipated inaugural report¹⁸ ([report from the United Nations’ High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities](#)) delivered in October 2022 just ahead of COP27, provides a blueprint by which we can expect standards around net zero claims and journeys to be measured into the future.

The progress to net zero

Net zero promises from non-State actors are common, and whilst ambitious goals are required if global heating is to be kept 1.5°C, they are only effective when coupled with equally ambitious plans to meet them.

Climate Action 100+ (CA100), an investor-led initiative focussing on the actions taken by the world’s largest corporate greenhouse gas emitters, published its third benchmark report ([CA100 Report](#)¹⁹) in October 2022. The report found that the real-world activities of many companies do not yet demonstrate meaningful shifts in business models to align with the Paris Agreement. In particular, it noted that net zero commitments are often not supported by realistic strategies to deliver them²⁰ and that there is a lack of alignment between investment and net zero transition goals. This, and other similar publications, suggest that more concrete and widespread actions are needed to achieve actual change and progress to net zero.

UNHLEG Report

The UNHLEG was formed on 31 March 2022 and given the task of examining the increased number of net zero commitments by non-State actors, along with the proliferation of criteria and benchmarks to set net zero commitments with varying levels of robustness. Over seven months the UNHLEG held more than 40 consultations and received over 300 written submissions, which it has drawn upon to publish its report on net zero emissions commitments of non-State entities (the [UNHLEG Report](#)²¹).

The UNHLEG Report includes ten recommendations to increase the integrity, transparency and accountability to net zero claims. The UNHLEG Report includes five main principles for guiding commitments, which each appear to be a line in the sand beyond which a non-State actor should not be considered net zero.

¹⁶ “Net zero” refers to a state in which the greenhouse gases emitted into the atmosphere are balanced by removal out of the atmosphere. This is likely to be achieved by reducing greenhouse gas emissions to as close to zero as possible, with any remaining emissions re-absorbed from the atmosphere, such as by forests.

¹⁷ Sustainable Finance Disclosure Regulation, [Regulation \(EU\) 2019/2088](#)

¹⁸ Report from the United Nations’ High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities ([October 2022](#)).

¹⁹ Climate Action 100+ Net Zero Company Benchmark Interim assessments ([October 2022](#)).

²⁰ The CA100 report states that whilst 53% of companies have a decarbonisation strategy in place to reduce their GHG emissions, only 19% of focus companies quantify key elements of their decarbonisation strategies with respect to the major sources of their emissions.

²¹ Report from the United Nations’ High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities ([October 2022](#)).

Addressing new fossil fuel supply and environmentally disruptive activities

The UNHLEG Report states:

“Non-state actors cannot claim to be net zero while continuing to build or invest in new fossil fuel supply. [...] Similarly, deforestation and other environmentally destructive activities are disqualifying.”

This sets out a strong statement of intent from the UNHLEG whereby a company will not be able to “balance out” activities on the one hand that are typically polluting, by also having an alternative “green” business division. The message from the UNHLEG is clear that non-State actors supporting such actions should not be considered “net zero”, even if only representing a part of their overall activities.

Focussing on “cheap credits” instead of the full value chain

In order to quantify emissions (and subsequent reductions) from companies and other non-State actors, the GHG Protocol²² has become widely used and is an accepted standard. The GHG Protocol classifies emissions into three scopes, where:

- Scope 1 includes direct emissions such as from company owned vehicles;
- Scope 2 includes indirect emissions such as from the generation of purchased electricity, steam, heat and cooling; and
- Scope 3 includes all other indirect emissions in a company’s value chain – a term that encompasses a hugely diverse range of emissions from sources including goods/services that it purchases, investments and the use of products it sells.

Scopes 1 and 2 are comparatively easy to target as they are often areas subject to the direct control or influence of the emitter. In contrast, Scope 3 emissions are both harder to define and often not easily controlled or influenced by the emitter. Given these challenges, emitters often use carbon credits to offset Scope 3 emissions, rather than actively intervening in the value chain to reduce emissions.

The UNHLEG Report takes aim at this practice, stating:

“Non-state actors cannot buy cheap credits that often lack integrity instead of immediately cutting their own emissions across their value chain.”

This is, however, counterbalanced by two considerations. First, the UNHLEG Report acknowledges that credits can be used for mitigation beyond the value chain, meaning non-State actors meeting their interim net zero targets are “strongly encouraged to balance out the rest of their annual unabated emissions through a high-integrity carbon credit market”. As such, the UNHLEG does not suggest that carbon credits should be abandoned but merely that reliance on them scaled back. Second, the phrase “cheap credits that often lack integrity” is an important nuance: the UNHLEG Report highlights the importance of high-integrity carbon credits as a mechanism to facilitate much-needed financial support towards decarbonising developing country economies. A functioning and widely used carbon-credit market could serve as an excellent way of channelling much needed investment from wealthier corporates and other non-State actors to developing areas in need of such investment (see Section 9 (*Carbon Markets*) on the Article 6 carbon markets and VCM).

The UNHLEG Report also notes that:

“Non-state actors cannot focus on reducing the intensity of their emissions rather than their absolute emissions or tackling only a part of their emissions rather than their full value chain.”

Indeed, it recommends a detailed transition plan being implemented with specific requirements for companies, financial institutions or cities/regions. For instance, the UNHLEG Report recommends that a company’s plan address areas including (i) demonstrating how specific actions across all parts of the company’s value chain will meet near-, medium- and long-term targets; (ii) disclosure of how capital expenditure plans, research and development plans and investments are aligned with all targets; and (iii) specifying how to achieve and maintain operations and supply chains that avoid the destruction of remaining natural ecosystems (including preventing the loss of forests, wetland and peatland).

²² See [Greenhouse Gas Protocol](#) and also their Corporate Value Chain (Scope 3) Accounting and Reporting [Standard](#).

How we can help

Simmons & Simmons' climate practice advises clients on decarbonisation across all three scopes, including:

- Scope 1: divestment of carbon-intensive assets; development and financing of renewable energy or other clean, GHG-sequestering assets and technologies.
- Scope 2: strategies to power businesses through green power purchase agreements, green heating or cooling contracts and energy efficiency contracts for reducing consumption of these inputs, including implementation and documentation of such arrangements, whether for an energy buyer, a seller of green electricity, heating or cooling or energy efficiency manager, or a financier of such transactions.
- Scope 3: structuring a business to credibly implement a net zero strategy, including pass through of carbon commitments across a value chain and the buying and selling of high-quality carbon credits.

As efforts at decarbonisation across the value chain become more prevalent, we expect our clients to face obligations from their business partners to meet certain environmental standards. For instance, at COP27 the US launched the Net-Zero Government Initiative whereby the US and 18 other countries have pledged to achieve net zero emissions from national government operations by no later than 2050. The impact in each nation of doing so will be massive, forcing changes across huge swathes of the industries and contractors forming part of the governments' value chain and Scope 3 emissions.

Addressing issues related to lobbying

The UNHLEG Report states:

“Non-state actors cannot lobby to undermine ambitious government climate policies either directly or through trade associations or other bodies. [...] This includes aligning capital expenditures with net zero targets and meaningfully linking executive compensation to climate action and demonstrated results.”

As setting net zero goals and transition plans is becoming a wide-spread practice for many non-State actors, the UNHLEG report highlights the expectation that this not be a tick-box exercise. For net zero pledges to have integrity it is not sufficient to only consider emissions targets and reductions, rather there must be a holistic view on an entity's impact. By explicitly signposting that lobbying and advocacy should be in favour and not against ambitious climate policies, the UNHLEG attempts to bring clarity on an area that can be easily overlooked in the net zero planning process. The UNHLEG Report considers that non-State actors should publicly state their affiliations and associations, and to either transform or leave those organisations that fail to advocate for positive climate action. The report also underlines the importance of voluntary leadership in engaging with government policies, stating that non-State entity transition plans should include the “specific policies and regulations [...] needed to facilitate transition plans”.

Tackling greenwashing with regulated requirements

The UNHLEG Report suggests that to tackle greenwashing “non-State actors need to move from voluntary initiatives to regulated requirements for net zero”. This is likely to be addressed on a number of fronts, the most important of which we believe non-State actors should be aware of are:

- A push for the introduction of mandatory annual public disclosure of greenhouse gas data, net zero targets and the plans for, and progress towards, meeting those targets. This is expected to be the type of reporting advocated for in the CA100 Report.
- The introduction of regulations to standardise the best practices established by non-State actors in respect of net zero claims, transition plans, procurement, product standards and disclosure. For instance, disclosure requirements exist or are phasing in across the EU, the UK, Japan, China, South Africa, Kenya and India but feed into a fragmented regulatory landscape.

Reporting burden

Within the last 24 months there has been a significant rise in climate-focused disclosure regulations and standards globally. To name a few examples; there is the UK TCFD reporting requirements and the EU Sustainable Finance Reporting Directive (SFDR). Significant legal, accounting and data resources are required to create such climate-risk disclosure reports. There are also upcoming regulations that include the US Securities and Exchange Commissions (SEC) proposed mandatory climate-risk disclosures rule.

Increasingly these climate-related disclosure requirements are becoming more onerous by capturing the entire value chain of an entity and not just its own organisational footprint. For example, the EU has adopted the Corporate Sustainability Reporting Directive (CSRD) and also proposed the [Corporate Sustainability and Due Diligence Directive \(CSDDD\)](#)²³.

Much of the data and analysis required for these disclosures are relatively new and not yet fully standardised. There are numerous reporting methodologies, but the continued widespread adoption of standards such as TCFD reporting recommendations and the [SBTI Corporate Net Zero Standard](#)²⁴ provide much needed consistency and integrity across this landscape.

Additionally, the International Sustainability Standards Board (ISSB), which was convened during COP26, has made significant progress towards developing a global baseline climate disclosure standard. The ISSB announced at COP27 that these standards would be incorporated into the global environmental disclosure platform offered by the Climate Disclosure Project, a well-regarded and long established charity organisation.

How we can help

As the ESG landscape continues to evolve at pace, it can be hugely challenging to stay abreast of these changes while both mitigating key risks and seizing opportunities.

Simmons & Simmons have a range of tools to support companies in navigating this evolving landscape. These include (i) ESG-specific trackers (litigation, regulation and policy), (ii) ESG disclosure “health checks” (an independent review of ESG disclosures to mitigate the risk of greenwashing and misalignment), and (iii) a Clean Energy Tool (giving you access to legal and regulatory renewable energy data).

If you are interested in any of these tools or have questions on ESG more generally, our dedicated ESG Team is at hand to support you; please do not hesitate to reach out to us.

Conclusion

The UNHLEG Report has underlined the importance of ambitious targets and actions by non-State actors. It proposes raised standards as to what can be considered net zero aligned, and provides detailed recommendations and clear pathways to action.

If the UNLEG’s recommendations are adopted, we may see greater scrutiny of net zero commitment and related disclosures. This can be particularly impactful when considering the growth in mandatory and voluntary disclosure reporting standards.

The implementation of the UNHLEG report recommendations may also result in an increased focus on the creation of high quality carbon credits.

However, with no legal obligation to do so and as the timeframe required to implement change narrows, it appears the level of ambition and level of voluntary action in the net zero space will have to grow if the UNHLEG’s recommendations are to be realised.

²³ https://ec.europa.eu/info/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en

²⁴ See the [SBTI](#) and their Corporate Net Zero [Standard](#).



Africa

Key Initiatives and Outcomes for Africa from COP27

Just Transition

COP27 was hailed as the first COP for Africa not least because the event was taking place on the continent, but also due to considerable debate around what a “*just transition*” to clean energy should look like. A large proportion of the continent’s population, well over 50%, do not currently have access to electricity. Given this, the principle of “leave no one behind” has been the crux of a *just* energy transition for Africa.

The paradox is that a number of African countries have significant fossil fuel reserves and have been working towards the strategic development and exploitation of these resources for export revenues and their own energy supply. Some argue that while developed countries have over the last century achieved economic growth driven by industrialisation using pollutive fossil fuels, why shouldn't Africa do the same?

Africa has an opportunity to leapfrog pollutive fossil fuels and to develop using renewable energy sources and low carbon alternatives. Given the great potential for solar power on the continent, it will become more profitable and sustainable to invest in renewables in Africa as fossil fuels become uncompetitive and the costs of renewables go down.

In an effort to reconcile the needs of Africa, the Presidency of Egypt announced the COP27 Africa Just and Affordable Energy Transition Initiative (AJAETI) on 15 November 2022, Energy Day at COP27. AJAETI aims to achieve a just and equitable energy transition in Africa while being cognisant of the social and economic needs and aspirations of the African population, as well as the fact that different approaches to energy transition will be required for different countries and regions in Africa.

The official objectives of AJAETI are to (1) consolidate and facilitate technical and policy support that will make just and affordable energy transitions in all African countries financially viable, securing access to affordable energy for at least 300 million Africans; (2) transition 300 million people in Africa towards clean cooking fuels and technologies by 2027; and (3) increase the share of renewable electricity generation by 25% by 2027 and obtain a power sector based on renewables by 2063.

Funding

The idea of industrialised nations contributing to relief funds in favour of poorer nations to assist them in dealing with the consequences of global heating has been rejected for some time. Wealthier nations have been wary of accepting liability for such consequences and contributions have been unsatisfactory. However, some progress was finally made at COP27 on this front with the establishment of the Loss and Damage Fund, which should kickstart negotiations and invite greater initiatives and contributions at COP28 and onwards.

On 20 November 2022, the Sunday after COP27, a decision was finally reached on loss and damage funding for vulnerable countries – see Section 3 (*Public Finance – Loss and Damage*) for further details. A transitional committee will be formed to make recommendations on loss and damage funding for consideration at COP28 (November-December 2023).

Also at COP27, a group of 85 African insurers pledged to create a financing facility, the African Climate Risk Facility (ACRF), to provide \$14 billion of coverage by 2030 to help the continent’s most vulnerable communities deal with climate disaster risks. The insurers are calling for pledges to help fund the project.

Voluntary Carbon Markets

COP27 saw the launch of the African Carbon Markets Initiative (ACMI) which aims to expand Africa's participation in voluntary carbon markets (VCMs). Its [Roadmap Report](#) sets out programmes to create supply of and demand for carbon credits in Africa, as well as to secure financing.

The objectives of ACMI are to (1) grow African carbon credits retirements from 16 Mr CO₂e in 2020 to 300 Mr CO₂e by 2030 and up to 2.5 Gt CO₂e by 2050; (2) create or support 30 million jobs by 2030 and more than 100 million jobs by 2050; (3) raise the quality and integrity of African credits to mobilise up to \$6 billion by 2030 and more than \$100 billion per annum by 2050; and (4) ensure equitable and transparent distribution of carbon credit revenue.

ACMI will support African governments to set national targets, clarify regulation and create incentives to boost the supply of carbon credits. ACMI is also advocating for an advance market commitment for Africa's VCM by working with several buyers and project developers to set up a multi-million-dollar commitment to purchase African carbon credits by 2030.

To ensure longevity of the market, buyers will need confidence that the underlying emissions reductions are real and permanent. There will also need to be transparency on local communities' share of revenues. ACMI will work with bodies such as [The Integrity Council for the Voluntary Carbon Market](#) and the [Voluntary Carbon Markets Integrity Initiative](#) to establish standards for voluntary carbon credits.



Commitments and other initiatives

At a special COP27 session on “Advancing Adaptation Action in Africa”, the US launched a diverse package of support for Africa aimed at adaptation and resilience in the amount of \$150 million.

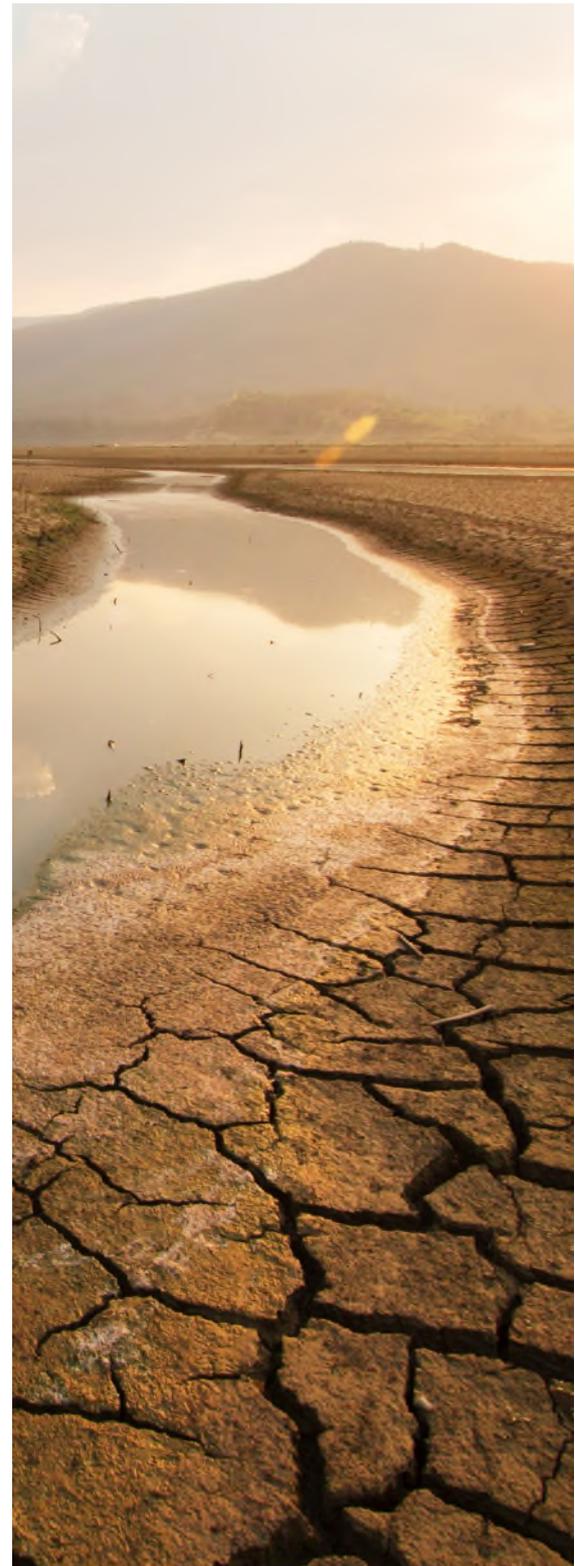
The European Commission and the African Union announced a new Team Europe Initiative on Climate Change Adaptation and Resilience in Africa as part of the EU-Africa Global Gateway Investment Package. The programme aims to improve early-warning systems, implement climate and disaster risk finance and insurance systems, mobilise international climate finance on adaptation, and provide funding for data-driven risk assessment projects.

The Sharm el-Sheikh Adaptation Agenda was also announced during COP27. It aims to improve conditions for those living in the most vulnerable communities by 2030 – see Section 3 (*Public Finance – Adaptation Finance*) for further details.

The COP27 Presidency launched the Action on Water, Adaptation and Resilience (AWARe) initiative, which offers transitional adaptation solutions to the world’s most vulnerable communities and ecosystems in Africa, including water scarce countries. The priorities of the AWARe initiative are to (1) decrease water loss and improve water supply worldwide; (2) propose policies for cooperative water-related adaptation actions; and (3) promote cooperation between water projects and climate actions.

The African Cities Water Adaptation Fund (ACWA Fund), led by the World Resources Institute among others, aims to fund water resilience solutions across Africa. The ACWA Fund aims to leverage at least \$5 billion in funding to implement strategic and innovative projects in 100 African cities by 2032.

The Africa Food Systems Transformation Initiative (AFSTI) launched at COP27 aims to transform the agri-food system by 2030 towards more resilient production practices, balancing food security with food system transformation priorities. AFSTI is a joint effort between Boston Consulting Group and the UN Climate Change High Level Champions.



The African Forest Landscape Restoration Initiative (AFR100) was also launched at COP27 with the aim of bringing 100 million hectares of land in Africa into restoration by 2030. The initiative is led by African governments in partnership with technical and financial stakeholders and will focus on accelerating restoration to enhance food security, increase climate change resilience and mitigation, and combat rural poverty. AFR100 sets out best practices for its land restoration initiatives to ensure that they are successful, lasting and beneficial, such as balancing local needs with national and global priorities and avoiding strategies that lead to the conversion of natural ecosystems.

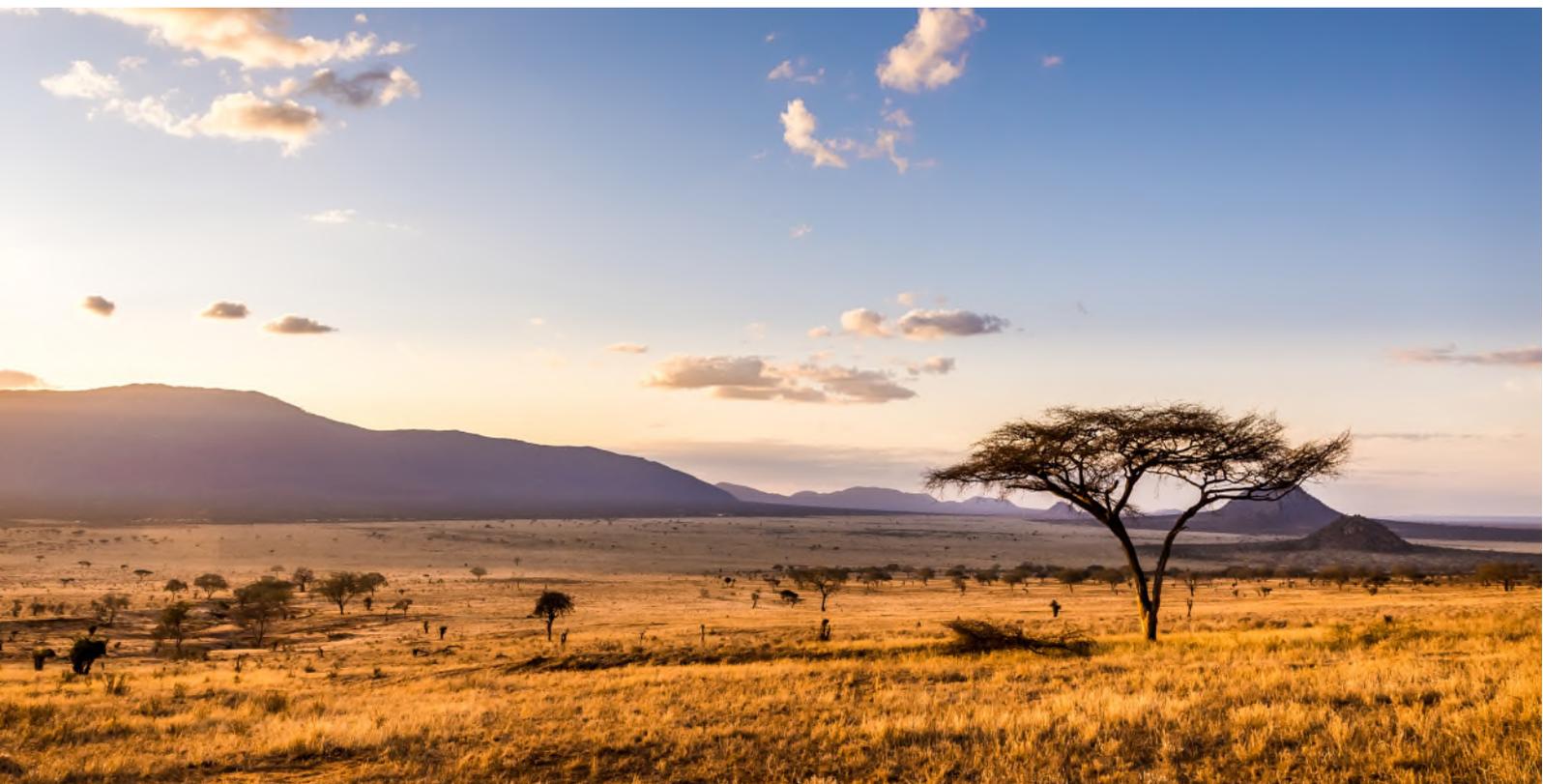
The Africa Net-Zero Concrete Group aims to accelerate the decarbonization of the cement industry in Africa by sharing information, supporting companies in their net zero trajectories via the UN "Race to Zero" initiative, and accelerating the establishment of net zero country sector roadmaps in African countries. The first African Net-Zero Concrete National Roadmap has been set by Egypt.

Egypt, Kenya, Mauritania, Morocco, Namibia and South Africa have formed the Africa Green Hydrogen Alliance to collaborate on and develop green hydrogen projects on the African continent.

Infinity Power and its partners signed a framework agreement with the Egyptian government for the development of a 2 GW green hydrogen project in the Suez Canal Economic Zone.

Conclusion

As has been made clear, there were a number of key initiatives launched at COP27 which are promising for Africa. Convening 2022's COP in Africa gave greater exposure to the continent's energy, food and water demands, as well as the need to safeguard its people from adverse consequences of our changing climate. While, undoubtedly, current efforts are falling short of what is required, the African-focussed initiatives from COP27 will ring a loud bell for the continent's needs to be met, both within and outside of future COPs.



Private Finance

GFANZ

Introduction

The Glasgow Financial Alliance for Net Zero (GFANZ) launched to great acclaim at COP26²⁵, pledging that financial sector entities managing over \$130 trillion of assets would commit to net zero initiatives. It has since been subject to a number of criticisms – on liability for disclosures, the reporting burden and competition law, for example – but how hard do these really bite, what has the Alliance achieved in its first year, and will member firms stick around for the long haul? There is some cause for cautious optimism: the reach of GFANZ has increased, and it has expanded its resources for financial institutions with net zero transition plans, mobilising capital for emerging markets and developing economies, and net zero public policy. Yet, as we note in Section 2 (*Updates on key pledges from COP26*), some institutions have since withdrawn from GFANZ citing concerns relating to how they reconcile their fiduciary obligations with meeting GFANZ requirements, given regulatory uncertainty and political fragmentation in the US.

GFANZ is a group of financial institutions aiming to increase firms' participation in net zero initiatives, and act as a forum for transition to net zero. It was launched in April 2021 by Mark Carney, former governor of the Bank of England, and Michael R Bloomberg, CEO of Bloomberg LP – both currently serving as UN Special Envoys. Mary Schapiro, former SEC Chair, heads the Alliance secretariat.

Over 550 firms belong to the Alliance and have committed to net zero by 2050, with interim targets for 2030 or earlier. The Alliance is made up of seven sectoral alliances:

- Net-Zero Asset Owner Alliance (NZAOA)
- Net-Zero Asset Managers initiative (NZAM)
- Paris Aligned Asset Owners (PAAO)
- Net-Zero Banking Alliance (NZBA)
- Net-Zero Insurance Alliance (NZIA)
- Net Zero Financial Service Providers Alliance (NZFSPA)
- Net Zero Investment Consultants Initiative (NZICI)

Challenges for GFANZ

Even without the new SEC rules, the reporting burden is already thought to have led two pension funds to leave the Alliance in the months leading up to COP27. GFANZ's data reporting requirements were said to have been too resource-intensive for Cbus Super (an Australian NZAOA member – see box) and Bundespensionskasse (an Austrian PAAO member). And perhaps this was a factor in the EU's agreement, after COP27, to exempt banks from its sustainability due diligence directive.

²⁵Please see definition in Schedule 1 (Glossary).

After COP27, some asset managers, including one of the largest US asset managers, also withdrew from its GFANZ member initiative, Net Zero Asset Managers (NZAM), citing a desire to engage more directly with investors on climate change risks.

It is notable that no institutions from either China or India are GFANZ members and that only one member is from Russia. This raises questions as to whether there is a level playing field amongst global firms if firms in some countries do not follow GFANZ standards.

Competition law

In 2020 the UN launched a “Race to Zero Campaign” whereby both private and public institutions were encouraged to join the group and commit to achieve net zero carbon emissions by 2050. GFANZ had previously stated that all GFANZ members must align with the Race to Zero criteria. After Race to Zero unilaterally declared that no new investments should be made in coal, however, GFANZ received pressure from its members to withdraw this previous statement regarding alignment. Financial institutions in the Alliance have indicated that banning GFANZ members from investing in fossil fuels may raise concerns relating to competition and antitrust law.

Following the raising of these concerns, further changes introduced by GFANZ no longer require members to comply with specific Race to Zero criteria.

Just Energy Transition Partnership projects

At COP26, the governments of South Africa, France, Germany, the UK, the US and the EU, forming the International Partners Group (IPG), announced a Just Energy Transition Partnership (JETP), whereby they would support South Africa on its just transition to decarbonisation. GFANZ is now facilitating the implementation of a JETP in Indonesia by mobilising significant private capital for such projects.

The first project was undertaken in accordance with South Africa’s COP26 pledge to retire most of its 15 coal plants by 2030. This was funded by \$8.5 billion in loans from the International Partners Group (IPG) comprising of the EU, France, Germany, the UK and the US.

The second project under the JETP, with funding from GFANZ, was announced by Indonesia at COP27. Indonesia has now committed not to build 13 gigawatts of planned coal plants, phase out unabated coal plants and start reducing power emissions by 2030 (previously 2037). The JETP and IPG will provide \$20 billion in public funding (half from state agencies led by the US and Japan) and GFANZ has committed to mobilise and facilitate at least \$10 billion in private finance for the project. The \$20 billion in public funding is significant, as it acts to de-risk and therefore crowd in private finance.

A third JETP project with Vietnam is also anticipated to close in December 2022. Up to \$7 billion will be provided by public loans and grants, including the IPG, releasing a similar amount from other private sources.

The balance

The JETP projects are a clear demonstration of the real world impact GFANZ can have. In balance, the value of such projects may well outweigh the legal and reputational criticisms - ranging from liability for disclosures, the reporting burden to competition law – the scheme has faced since its creation.

Carbon Pricing

One instance of possible widespread regulatory reform is Canada’s [Global Carbon Pricing Challenge](#)²⁶. This initiative asks all COP27 countries to adopt carbon pricing as a central part of their climate strategies, with the goal of covering 60 percent of global emissions by 2030. Carbon pricing creates a financial incentive for people and businesses to pollute less. There are a number of ways this can be achieved but the most widely recognised form of this would be a carbon tax, by which big emitters are charged pursuant to the amount of carbon dioxide equivalent they produce. An alternative method could be to the introduction of pollution caps on industries, which are gradually reduced to promote a net zero transition.

In Canada, individual provinces can implement their own carbon pricing strategy or opt into the federal system. However, all carbon pricing systems are comparable and include a common scope and a minimum carbon price trajectory of Can\$170/tCO₂e by 2030. It is easy to see how this could be scaled with a common scope, price and potential opt-in system agreed by COP27 countries.

²⁶ The [Global Carbon Pricing Challenge](#)



Forests and Oceans

Forests

Forests have long been recognised as a key natural resource in mitigating climate change, and [research](#) has identified that the world’s forests removed approximately twice as much carbon dioxide as they emitted between 2001 and 2019, therefore acting as a “carbon sink” absorbing net 7.6 billion metric tonnes of CO₂ per year. In addition, the recent IPCC report highlights that the AFOLU²⁷ sector can provide 20–30% of the global mitigation under a 1.5°C pathway.

Reducing deforestation, preserving and restoring rainforests is integral to lowering GHG²⁸s. After a record-breaking 1,500 square miles of forest were destroyed in the Brazilian Amazon in the first half of 2022, at COP27 Brazil’s president-elect, Luiz Inácio Lula da Silva, reinvigorated hopes of halting deforestation, by announcing a pledge of zero deforestation and degradation of Brazilian biomes by 2030. See Section 2 (*Pledges*) for further details.

The inclusion of two dedicated chapters on “Forest” and “Ocean” in both the two final cover decisions in Sharm El-Sheikh, respectively [COP27](#) and [CMA4](#), including references to “nature-based solutions” and “food” was a welcome breakthrough in recognising the integral role that nature-based solutions can play in regulating the climate.

On forests, the COP27 cover decision “emphasises” the importance of protecting, conserving and restoring nature and ecosystems in order to achieve the 1.5°C target, including through forest and marine ecosystems (paragraph 15) and “recalls” the importance of Parties to “collectively aim to slow, halt and reverse forest cover and carbon loss, in accordance with national circumstances, consistently with the ultimate objective of the Convention, as stated in its Article 2” (paragraph 48). The COP27 cover decision also “encourages” parties to consider, as appropriate, nature-based solutions or ecosystem-based approaches for their mitigation and adaptation action (paragraph 48)²⁹.

²⁷ Please see definition in Schedule 1 (Glossary).

²⁸ Please see definition in Schedule 1 (Glossary).

²⁹ “Nature-based solutions” are not expressly defined in the final text, however the text does encourage Parties to take in to consideration [United Nations Environment Assembly resolution 5/5](#) which describes “nature-based solutions” as actions to protect, conserve, restore, sustainably use and manage natural or modified terrestrial, freshwater, coastal and marine ecosystems which address social, economic and environmental challenges effectively and adaptively, while simultaneously providing human well-being, ecosystem services, resilience and biodiversity benefits.

REDD+

Reducing emissions from deforestation and forest degradation, and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries (REDD+) is a framework which was developed under the UNFCCC³⁰ to reduce carbon emissions from deforestation and forest degradation in developing countries. REDD+ enables developing countries to be economically rewarded through sovereign carbon credits for actions they take to preserve their forests and reduce deforestation and/or increase carbon stocks, which in turn result in verified carbon reductions and or removals. Initiated in 2005, REDD+ is a standard governed by 21 COP decisions and recognised in Article 5, Paragraph 2, of the Paris Agreement. At COP26 rainforest countries tried to secure finance for early action starting from 2016 to ensure some parity with the CDM (which can transition into the Paris Agreement from 2013). Such discussions are expected to continue. See Section 9 (*Carbon Markets*) on Article 6.2 and Article 6.4 for more information on COP27 developments regarding REDD+ and Article 6. However, there are no restrictions around any sector within the scope of the Article 6 mechanisms under the Paris Agreement.

At COP27, the CMA4 cover decision directly recalls Article 5, paragraph 2 of the Paris Agreement³¹ (paragraph 80) with regard to implementation around forests, and most importantly both cover decisions ([COP27](#) and [CMA4](#)) do include a small but significant footnote (respectively paragraphs 47 and 80) which refers to decisions [1/CP.16](#) and [9/CP.19](#). Decisions 1/CP.16 and 9/CP.19 refer to results-based finance to progress the full implementation of REDD+ activities included at paragraph 70 of decision 1/CP.16, and reaffirms that results-based finance provided to developing countries for the implementation of REDD+ activities may come from private sources. The inclusion of REDD+ in the final cover text is an encouraging outcome, and the reiteration that private finance can be used to support developing countries in slowing deforestation and reducing emissions will hopefully see the investment required to enable REDD+ to meet its climate change mitigation potential. The Coalition for Rainforest Nations has noted that through UNFCCC REDD+ multiple gigatonnes of nature-based carbon credits are generated annually and that their sale has the potential to become a multi-billion-dollar market.

Ultimately, the COP27 final cover decision could see countries, as well as private companies, purchase sovereign carbon credits, making it more profitable for developing countries to maintain forests and reverse deforestation, than continue with deforestation. Ahead of COP27, the UNFCCC³² approved 187 and 9 million tons of GHG emissions reductions and removals achieved by Gabon and Papua New Guinea under the REDD+ mechanism, respectively between 2010 and 2018 and 2014 and 2015. Both countries are aiming at selling a part of those sovereign carbon credits to private buyers. Additional quantities of REDD+ sovereign carbon credits have been announced for Q1 2023, respectively by Honduras, Belize, Suriname and Papua New Guinea.



³⁰ Please see definition in Schedule 1 (Glossary).

³¹ Please see definition in Schedule 1 (Glossary).

³² Please see definition in Schedule 1 (Glossary).

Oceans

Although at a different degree of maturity compared to forests, both in terms of science and COP guidance, oceans are another integral component of natural ecosystems and the global response to climate change. It was not until COP25 that Parties recognised the need to understand the importance of the ocean in the context of climate change. The [COP25 final decision](#) (Decision 1, paragraph 3.1) requested the Chair of the Subsidiary Body for Scientific and Technological Advice (SBSTA) to convene the first ocean and climate change dialogue in 2020 to consider how to strengthen mitigation and adaptation action in the context of oceans. Since then, Parties have built on the outcomes of the first ocean and climate change dialogue and at COP27, Parties continued to strengthen ocean-based action as well as the mandate for annual ocean and climate change dialogue.

For the first time, the COP27 final cover decision, includes a specific “Ocean” section at chapter XIII, paragraphs 45 and 46 of the final cover decision.

The cover decision at paragraph 45, welcomed the “key messages from the [ocean and climate change dialogue in 2022](#)”, which included messages that (i) ocean-based measures offer significant mitigation and adaptation options (Chapter 4, paragraph 2); and (ii) funding for ocean-climate action needs to increase and become more accessible (Chapter 4, paragraph 7). Additionally, paragraph 45 confirms that future ocean and climate change dialogues will, from 2023, be “facilitated by two co-facilitators” who will be responsible for deciding the topics for the dialogue, and preparing an informal summary report to be presented to COPs. This wording has been welcomed by the ocean community as it will structure annual dialogues and its inclusion also takes a further step towards anchoring the ocean as a key topic in climate change discussions at future COPs.

Parties are also being encouraged to “consider, as appropriate, ocean-based action in their national climate goals and in the implementation of these goals, including but not limited to Nationally Determined Contributions (NDCs³³), long-term strategies and adaptation communications” at paragraph 46 of the COP27 final cover decision. This recognises the role the ocean can play in providing solutions to achieve the 1.5°C target .

Five notable ocean related outcomes from COP27 are as follows:

- The Mangrove Breakthrough was launched. This aims to achieve an investment target of \$4 billion to secure the future of 15 million hectares of mangroves globally by 2030.
- [High-Quality Blue Carbon Principles and Guidance](#) launched to build investable, high-quality blue carbon projects; blue carbon being carbon captured by oceans and coastal ecosystems.
- A number of pledges announced with respect to Green Shipping Corridors. See Section 2 (*Pledges*) for further details.
- Amazon and Conservation International announced the establishment of the International Blue Carbon Institute, which will work with governments across Southeast Asia and the Pacific to integrate blue carbon into climate change mitigation policies at international, regional and local levels. Additionally, with support from the Singapore Economic Development Board, the Institute will serve as a knowledge hub to build capacity, expertise, standards and methodology to develop and scale urgently needed blue carbon projects.
- The Netherlands launched the “Champions Group for Deltas and Coastal Areas” initiative which seeks to harmonise action between countries and Small Island States to realise sustainable management of deltas and coastal zones in the short and medium term.

³³Please see definition in Schedule 1 (Glossary).

Agriculture

COP27 saw food and agriculture feature much more prominently than at previous COPs, with a number of announcements relating to food and agriculture, as well as a dedicated food and agriculture pavilion for the first time ever at a COP, hosted by The United Nations Food and Agriculture Organization (FAO), the Consultative Group on International Agricultural Research (CGIAR) and The Rockefeller Foundation.

The inclusion of a specific “Agriculture” section at chapter XV of the COP27 final cover decision reflects the increased prominence of food and agriculture at COP27. Whilst the dedicated section is only a single paragraph, it adopts a four-year joint work programme focussed on the “implementation of climate action on agriculture and food security”. Paragraph 49 refers to the draft [COP27 decision](#) which at paragraph 14 includes the “implementation of the outcomes of the Koronivia joint work on agriculture (KJWA), and previous activities addressing issues related to agriculture as well as future topics”.

The KJWA was a [landmark decision](#) made at COP23 which recognised the role of agriculture in tackling climate change, with countries agreeing to work together to ensure agricultural development increased food security whilst reducing emissions. The SBSTA and Subsidiary Body for Implementation (SBI), jointly addressed agriculture related issues, including through workshops, and considered the vulnerabilities of agriculture to climate change and approaches to addressing food security. In May 2018, the Koronivia road map was set out and SBSTA and SBI mandated to hold workshops on identified topics until COP26. At COP26, no decision was adopted on agriculture and the KJWA, with it being agreed that the conclusions of the first KJWA roadmap be reported on, and the future of the KJWA discussed at COP27. The welcoming of “the implementation of climate action on agricultural and food security” in the COP27 final cover decision is a positive outcome and demonstrates support of the KJWA, as well as acknowledging the potential of agriculture in combatting climate change by renewing the programme for another four years.

Other notable food and agriculture outcomes from COP27 are as follows:

- The FAO announced during COP27 an intention to publish a climate plan for the agri-food sector by COP28, demonstrating how food and farming can align with the UN goal of limiting global heating to the 1.5°C target.
- The COP27 Egyptian Presidency alongside more than 20 agriculture ministers launched a new initiative; Food and Agriculture for Sustainable Transformation (FAST). FAST is a multi-stakeholder programme to transform agri-food systems with the aim of improving food security in the world’s most vulnerable communities, by focussing on increasing climate finance flows to farmers and joining-up knowledge-sharing and policymaking efforts for sustainable food systems.
- Agriculture Innovation Mission for Climate (AIM for Climate), an initiative launched by the US and United Arab Emirates at COP26 to help agriculture adapt to climate change and reduce emissions through innovation, has doubled investment commitments to \$8 billion. At COP27 it announced commitments for \$7 billion of investments from 42 governments and \$1 billion in innovation initiatives aimed at small-holder farmers in developing economies, new technologies, agro-ecological research and methane reduction.



Conclusion

COP27 saw an increased focus on the importance of nature and nature-based solutions in reducing the effects of climate change, and this was particularly evidenced by the launch of the “Enhancing Nature-based Solutions for an Accelerated Climate Transformation (ENACT) Partnership” by the COP27 Presidency in collaboration with the International Union for Conservation of Nature (IUCN). The ENACT initiative will coordinate global efforts to address climate change, land and ecosystem degradation, and biodiversity loss through nature-based solutions, and will produce an annual report to update COP28 and subsequent meetings on progress in implementing nature-based solutions commitments.

The ever-increasing recognition of nature-based solutions is encouraging, and essential, given the 1.5°C target. In order to achieve the reductions, financing of nature-based solutions is imperative, and the recent UNEP State of Finance for Nature report has identified that investments in nature-based solutions require \$384 billion per year by 2025 to achieve 1.5°C, which is more than double the current \$154 billion per year.

The 15th Conference of Parties to the Convention on Biological Diversity is taking place in Montreal in December. Governments are expected to seek to insert new goals into the Post-2020 Global Biodiversity Framework which aims to drive action to end biodiversity loss and enhance society’s relationship with biodiversity. Many have called for the need to create a sister agreement to the Paris Agreement, focussing on nature specifically, and would like to see a “Paris moment for nature” at this convention. The enhanced focus by governments on nature-based solutions and dedicated forest, ocean and agriculture programmes at COP27 is encouraging and expectations are high for the Conference in Montreal.





Energy

Introduction

This section reviews the key developments during COP27 with respect to energy and mitigation. After years of ambition raising and regime building, COP27 has been branded the ‘implementation COP’. However, against a backdrop of ongoing war in Ukraine, economic turmoil and energy insecurity, the difficulties of striking a balance between energy security and emission reductions proved harder than ever. Countries managed to stave off calls to renege on the 1.5°C target agreed in Glasgow. However, the path to the 1.5°C target is now increasingly unclear with no clear commitments to phase-out fossil fuels nor clear pathways for staying below the global temperature limit in the agreed texts. COP27 was the second largest COP on record, and amid strained talks, countries, investors and civil society were eager to take action outside of the procedural constraints of formal negotiations. There were several new alliances and partnerships; the release of influential new reports; an increased focus on methane reduction; and intense investor focus on overcoming practical problems hindering the transition to clean technologies.

More of the same

Many hoped that the Glasgow Climate Pact’s³⁴ reference to fossil fuels might have been the precursor to stronger language this year. Despite the push for a clear-cut commitment to phase out all fossil fuels led by India and supported by a coalition of 80 countries, the COP27 final cover decision eschewed strong language, with each draft remaining silent on the issue. Although unsuccessful, India’s proposal sent a positive signal for what can be expected at the 2023 G20 meeting in Delhi. The COP27 final cover decision generally holds the Glasgow Climate Pact line by emphasising “the urgent need for immediate, deep, rapid and sustained reductions in global greenhouse gas emissions” (*paragraph 8*). In addition, the COP27 final cover decision restated the COP26³⁵ pact on the “phase-out of unabated coal and phase-down of inefficient fossil fuel subsidies” (*paragraph 13*) – including by switching from “phase out” to “phase down” in the final moments of negotiations (as seen in Glasgow). However, the COP27 final cover decision also promotes “a clean energy mix, including low-emission and renewable energy” (*paragraph 10*). The decision to reference “low-emission energy” as a clean alternative to renewables in the last day of negotiations has been interpreted by many as leaving the door open to nuclear or gas projects - the latter featuring heavily on the side-lines of COP27 as a solution to current energy scarcity - or to allow the continued production of fossil fuels when paired with carbon capture technology. This reflects the recent decision by the EU to give gas and nuclear a ‘green’ label under EU sustainable finance rules.

³⁴ Please see definition in Schedule 1 (Glossary).

³⁵ Please see definition in Schedule 1 (Glossary).

Keeping 1.5°C Alive

Against this challenging backdrop, it was evident there was some possibility of renegeing on the 1.5°C target agreed at last year’s COP26 summit in Glasgow. Indeed, early drafts of the COP27 cover decision included text reverting to the 2°C language in the Paris Agreement³⁶ as well as removing the obligation for countries to ratchet up their commitments on cutting greenhouse gas emissions. Whilst climate negotiators successfully fought to ‘keep 1.5°C alive’, it’s been weakened by its move to the Science and Urgency section (as opposed to sitting within the climate solutions in the Glasgow Pact) and through the lack of progress regarding pathways for staying within the global temperature limit. In addition, reference to peaking emissions featured only briefly within very early drafts of the COP27 cover decision, with no other mention of peaking in later drafts. The silence in the COP27 texts is concerning considering the clear warnings in the recent IPCC report that greenhouse gas emissions must peak in just two years if we are to keep within the 1.5°C limit.

While the ease with which countries can backtrack from commitments was evident at COP27, the COP27 final cover decision includes a paragraph in the preamble stating that the “increasingly complex and challenging global geopolitical situation...should not be used as a pretext for backtracking, backsliding or de-prioritizing climate action”. This is a notable addition; although has not been linked to the 1.5°C global temperature limit, which may help to safeguard it from future attacks.

Mitigation Work Programme

Last year, COP26 [resolved](#) to create a mitigation work programme to urgently ‘scale up mitigation ambition and implementation’, leaving the details to be ironed out in Sharm El-Sheikh the following year. It was concluded that the programme will be operationalised through focused meetings and processes, running until 2026 with annual reports linked to each COP. However, the details of the Mitigation Work Programme were subject to intense discussions, with every paragraph bracketed in the initial drafts. There was a strong push from developing countries for detailed language and specific focus areas (such as equitable distribution of carbon budgets, carbon colonialism, circular economy and all sectors in the 2006 IPCC guidelines). Many developed countries resisted, eventually agreeing to just four sectors; industrial processes; agriculture, forestry and land use; and waste. The text stresses that the programme will not impose new targets, and will be “non-prescriptive, non-punitive, facilitative” (*paragraph 2*) whilst reaffirming the primacy of NDCs³⁷ (*paragraphs 2 and 3*). Unfortunately, both the implementation text and the mitigation work programme remain silent on reaffirming countries’ obligations to submit updated NDCs, as per [decision 1/CMA3](#). However, the mitigation work programme did carve out a space for investment focused events, as well as a focus on the unlocking of public and private finance (*paragraph 11*).

Beyond the formal negotiations

Significant progress was made on the side-lines of COP27, where international initiatives were free of the procedural constraints of having to reach consensus between nearly 200 countries. The Beyond Oil & Gas Alliance (BOGA), an initiative launched last year that aims to phase out oil and gas production, attracted several new members including Chile, Fiji and the US state of Washington, with Portugal becoming a “core member” and Kenya becoming the first African country to become a ‘friend’ of BOGA. By becoming a core member, a country commits to ending new licensing for oil and gas exploration and extraction, and commits to an end date of production in line with the Paris Agreement. In addition, by preparing financial packages outside of COP27, countries were able to target specific countries and causes. For example, Indonesia announced a \$20 billion Just Energy Transition Plan (JETP) to support its transition away from coal by 2030, and Vietnam is also expected to seal \$11 billion in funding for similar purposes. In addition, the Global Renewables Alliance was launched at COP27 to combine industry bodies and organisations for the main types of renewable energy, including the Global Wind Energy Council (GWEC), Long Duration Energy Storage Council (LDES), Green Hydrogen Organisation (GH2), International Hydropower Association (IHA), Global Solar Council (GSC) and the International Geothermal Association (IGA). This alliance aims to use the collective weight of its members’ technologies to overcome the challenges affecting the global energy transition and boost the renewable energy industry’s ability to advocate their position.

³⁶ Please see definition in Schedule 1 (Glossary).

³⁷ Please see definition in Schedule 1 (Glossary).

Decarbonising the hard-to-abate sectors

Progress has also been made with regard to the decarbonisation of the hard-to-abate sectors of hydrogen. A [recent report](#) had highlighted the potentially significant role that hydrogen could play in Africa and green hydrogen was high on the COP27 agenda with the presidency devoting a high-level roundtable to it. The meeting focussed on the potential role of hydrogen in enabling a just transition in developing countries. Key priorities included increasing public-private collaboration, capacity building and cross border trade and financing. At the roundtable, Egypt and Belgium launched the Global Renewable Hydrogen Forum - a multilateral initiative bringing together public authorities, the private sector, port authorities and intergovernmental authorities whilst fostering dialogue between hydrogen-producing countries and hydrogen-consuming ones. In addition, the Breakthrough Agenda, which is based on a [report](#) outlining the five key emitting sectors, set out a framework to scale up low-carbon hydrogen production. Agreed priority areas and recommendations in the green hydrogen space include the evolution of international standards and associated certification schemes, ensuring timely and practical permitting processes and making increased levels of concessional finance available that can mobilise large scale private investment in hydrogen production. By the end of the summit, the move to green hydrogen had gained considerable momentum, with several new public-private partnership agreements being announced and Egypt signing over \$85 billion of hydrogen framework agreements.

Another hard-to-abate sector includes the cement industry. Being the second most-used product on earth (after water), it is [responsible for approximately 7%](#) of global emissions. Therefore, the agreement by the concrete and cement sector to join the First Movers Coalition and agree to dramatic carbon reduction initiatives at COP27 is significant.



Overcoming the permitting barriers

The creation of the Planning for Climate Commission at COP27 is a crucial development in meeting the heightened renewables capacity needed to remain within the 1.5°C global heating limit. The complex and lengthy permitting procedures that energy projects typically encounter represent a real barrier to the rapid scale up of renewables and green hydrogen. The newly formed Commission will provide a set of recommendations to ensure permitting and approval processes encourage both speed and buy-in from communities. As a result, planning reform has been put high up on the agenda for many countries, with the European Commission [proposing](#) emergency measures to simplify permitting of energy projects.

Methane

The Paris Agreement called for a united global effort towards combatting GHG³⁸ emissions which, through “rapid, deep and sustained reductions”, must fall by 45% by 2030 to limit global heating to 1.5°C. Although less prevalent in the atmosphere than CO₂, methane is a far more potent GHG than CO₂ with a global heating potential [more than 80 times](#) greater than CO₂ in the first 20 years after it is released. Recognising this, COP27 saw 150 participants (up from 110 at the end of COP26 but still missing key emitters such as China) [voluntarily pledging](#) to cut their methane emissions by a minimum of 30% from their 2022 levels by 2030 in an urgent attempt to meet global heating targets under the Global Methane Pledge (GMP). Participants predict that prompt and effective action on methane emissions could eradicate at least 0.2°C of warming by 2050. Additionally, the recent [CACCC-UNEP Baseline Report 2030](#) highlights a number of key benefits to public health and crop yields that accompany reducing methane concentration levels in the atmosphere.

Key messages from COP27

- (1) The IPCC in April 2022 [stated](#) that GHGs³⁹ must fall by 43% by 2030 to limit global heating to 1.5°C, with methane levels to fall by approximately a third. The revised and increased figure indicates a worsening scenario and the importance of timely action. Given the increase in GMP participants and Methane Action Plans, we may soon start to see more regulation and guidance at national levels on the control of methane. [Remarks](#) by EU Executive Vice-President Timmermans highlighted the EU’s accelerating energy-sector methane regulation, and the push for a Common Agricultural Policy on Methane to come into force in 2023.
- (2) Active expansion on controlling methane beyond the energy sector, with particular focus on food, agriculture and waste through the launch of the GMP Food and Agriculture Pathway and the GMP Waste Pathway.
- (3) Opportunities for methane reduction and mitigation technologies to accelerate through an array of possible funding options including JETPs (see Section 6 (*Private Finance – GFANZ*)), the Climate & Clean Air Coalition (CCAC)⁴⁰ Trust Fund and other philanthropic groups.
- (4) Whilst stopping short of committing to the GMP, China’s climate envoy, Xie Zhenhua, demonstrated increased willingness on behalf of China to curb methane emissions by announcing that a draft of methane reduction legislation focusing on energy, waste and farming is [currently passing through the legislative and administrative pipeline](#)⁴¹. With China emitting significantly more emissions than any other country, and responsible for approximately a fifth of global emissions, this is a potentially significant development. However, the impact of this plan will depend on the extent to which the plan seeks to reduce emissions, as opposed to just monitoring and calculating them - which Xie Zhenhua outlined as key focuses of the current draft.

³⁸ Please see definition in Schedule 1 (Glossary).

³⁹ Please see definition in Schedule 1 (Glossary).

⁴⁰ Climate & Clean Air Coalition.

⁴¹ [China crashed a US-EU methane event at Cop27, to join support \(climatechangenews.com\)](#)

Beyond COP

- (1) At least [50 countries](#) now have national Methane Action Plans or are developing such plans to be implemented over course of 2022 and 2023;⁴²
- (2) Increasing number of Just Energy Transition Partnerships (JETPs). As expanded on further in Section 6 (*Private Finance – GFANZ*)⁴³, JETPs aim to enable developing countries to grow sustainably by funding energy transition projects-
- (3) At the Major Economics Forum, the US and EU launched the Global Methane Pledge Energy Pathway, an initiative focused on developing research, policy and frameworks to cut methane emissions in the energy (*oil and gas*) sector. To date, [developments through the pathway include](#):⁴⁴
 - (A) a joint declaration between energy importers and energy exporters to [reduce GHG emissions from Fossil Fuels](#);⁴⁵ and
 - (B) the use of [technology \(satellites\)](#) by the UNEP International Methane Emissions Observatory (the “IMEO”) in tandem with the new Methane Alert and Response System (MARS) to identify methane leaks and notify relevant persons for swift and effective mitigation action⁴⁶.

Conclusion

The objective of building consensus between nearly 200 countries on how best to avert the worst impacts of climate change is an inherently difficult one, and against a backdrop of energy insecurity, geopolitical tensions and economic instability, this proved harder than ever. The COP27 agreements failed to deliver the decisive text necessary to deliver on its promises of implementation, with the 1.5°C global temperature limit in serious jeopardy in the absence of clear-cut commitments to phase out fossil fuels.

Despite this, away from the main negotiations, more positive developments occurred. There was intense investor focus on decarbonising hard-to-abate sectors with encouraging discussions aimed at overcoming practical obstacles to a net zero world. The announcement of several public-private alliances to reduce reliance on methane and scale clean energy technologies were encouraging but require urgent implementation.



⁴² <https://www.state.gov/global-methane-pledge-from-moment-to-momentum/>

⁴³ Please see definition in Schedule 1 (Glossary)

⁴⁴ <https://www.state.gov/global-methane-pledge-from-moment-to-momentum/>

⁴⁴ <https://www.state.gov/joint-declaration-from-energy-importers-and-exporters-on-reducing-greenhouse-gas-emissions-from-fossil-fuels/>

⁴⁵ <https://www.unep.org/news-and-stories/press-release/un-announces-high-tech-satellite-based-global-methane-detection>



Carbon Markets

In this section we provide an in depth legal analysis of the Article 6.2 and Article 6.4 carbon markets, as well as the Voluntary Carbon Market. See the schedules to this briefing paper for a summary of the COP27 Article 6.2, 6.4 and 6.8 published texts, which build upon the Article 6 Rulebook established at COP26 in Glasgow.

Article 6.2

At COP26⁴⁷ the Article 6.2 CMA3 decision⁴⁸ ([COP26 Article 6.2 text](#)) was agreed. This set out the framework for establishing an international carbon market for trading ITMOs⁴⁹ between countries seeking to achieve the emissions reductions targets set out in their NDCs⁵⁰. The use of this market is envisaged where a host country, that being the country hosting the carbon reduction or removal activity, is overachieving on its NDC and the buyer country is underachieving on its NDC, allowing the buying country to purchase ITMOs from the host country.

COP27 was seen as an opportunity to resolve uncertainties, and build upon, that text. In various respects this was achieved, with greater and clearer detail regarding the practical implementation of Article 6.2 being [drafted into](#) the COP27 Article 6.2 text. Some key developments included:

- 1** **the Article 6 database and centralised accounting and reporting platform (CARP):** the Article 6 database is the platform on which participating Parties record their emissions reductions and related corresponding adjustments⁵¹. CARP is the platform where this and other Article 6.2 related non-confidential information is published.

Amongst other helpful practical guidelines, the COP27 Article 6.2 text gave clarity to the function of the platforms (*Annex I, Chapter II (A) and Chapter III (A)*) and the importance of using the same nomenclatures so as to ensure the databases correspond with one another (*Annex I, Chapter II (B)*). These user-friendly developments are important for ensuring parties are willing to engage with the market.

⁴⁷ Please see definition in Schedule 1 (Glossary).

⁴⁸ Please see definition in Schedule 1 (Glossary).

⁴⁹ Please see definition in Schedule 1 (Glossary).

⁵⁰ Please see definition in Schedule 1 (Glossary).

⁵¹ Please see definition in Schedule 1 (Glossary).

2 **the Article 6 technical expert review team:** this is the team responsible for operationalising Article 6.2.

Amongst other things, further guidance was given on their role in reviewing the consistency of information submitted by participating Parties and the requirements for achieving consistency (*Annex II, Chapter II, paragraphs 2 and 3*); the issuance of recommendations to participating Parties where required (*Annex II, Chapter II, paragraph 5*); and, the composition of the team (*Annex II, Chapter XI (B)*). Procedures and template outlines were also provided so as to aid their reviews (*Annex II, Chapter VI and Annex III*).

3 **national registries:** each participating Party⁵² must have access to a registry for tracking ITMOs. Note that where a participating Party cannot set up its own registry, they can use the international registry set up by the secretariat⁵³ (*Article 6.2 CMA/3, Chapter V, paragraph 30*).

In the COP26 Article 6.2 text, only one paragraph was committed to national registries (*Article 6.2 CMA/3, Chapter V, paragraph 29*). Given that a registry is an integral piece of the infrastructure required to use the Article 6.2 market, the lack of detail here made operationalising the market more difficult. Happily, the COP27 Article 6.2 text has now dedicated an entire Annex (*Annex I*) to tracking. This includes guidance on the function of the registry (*Annex I, Chapter A*), information on unique identifiers for each ITMO so that they are traceable (across registries) to their correlating mitigation outcomes (*Annex I, Chapter I, paragraph 1*) and guidance on what must be recorded on the registry (*Annex I, Chapter A, paragraph 2*).

4 **capacity building:** one noticeable gear-shift at COP27 was the desire to get Article 6.2 functioning and accessible for as many Parties as possible, as soon as possible. Capacity building was therefore a key focus.

The recitals require the secretariat to organise workshops to support the identification of capacity building needs (*paragraph 18*) and provide advice to Parties on the completion and submission of initial reports (*paragraph 23*). Recital 24 also requests that the implementation of the capacity building programme be prioritised as a matter of urgency.

The text also focuses on training Article 6 experts. In the COP26 Article 6.2 text, the development of a training programme for Article 6 technical experts was mentioned as a “request” in the recitals only (*recital 7(f), COP26 Article 6.2 text*). It is now mentioned 18 times, requiring amongst other things that the training programme is made available online no later than December 2023 (*recital 11*), detailing the courses that must be provided and setting out the mandatory examinations that must be done by experts who undertake them (*Annex IV, Chapter III*).

The text also, for the first time, seeks to establish a voluntary forum for experts to “share knowledge and experience” for implementing and developing the necessary Article 6.2 infrastructure (*recital 34*). Cooperation will be key to the effective functioning of this market, so this development is highly welcome.

Notwithstanding the positive progress both in the above listed areas and in practice by governments developing their Article 6.2 infrastructures (see below regarding real time progress and bilateral developments), not all questions and gaps in the text were addressed. The information on the next page sets out some of the key questions that we (S&S) had following the release of the COP26 Article 6.2 text and analyses whether sufficient developments were made to resolve these at COP27.

⁵² Please see definition in Schedule 1 (Glossary).

⁵³ Please see definition in Schedule 1 (Glossary).

COP26 Article 6.2 headline issue and COP26 Article 6.2 text	Questions and Uncertainties within the COP26 Article 6.2 text	COP27 Progress / the COP27 Article 6.2 text
<p>Reporting</p> <p><i>Chapter III (Reporting):</i></p> <p>Participating Parties must produce “initial reports” on ITMOs containing information such as participating credentials; metrics and methods for corresponding adjustments; and, quantified mitigation metrics.</p> <p>Participating Parties must also submit, on an annual basis: (i) information onto a public database including acquisitions and holdings and details of the participating Parties, and (ii) a biennial transparency report and annex containing further detailed and quantified information regarding methodologies and metrics and annual information to the Article 6 database on the same.</p>	<ol style="list-style-type: none"> 1. Whilst the COP26 Article 6.2 text is prescriptive on what type of information will need to be provided under the reporting requirements, it is not clear how a participating Party will collate such technical information. 2. There are concerns that the reporting requirements are too expensive and burdensome to encourage countries, specifically LDCs and SIDSs, to engage with the Article 6.2 market. 3. Reporting must be transparent for the market to be effective. Uncertainty as to what information that must be submitted by participating Parties can be deemed confidential. See a full analysis of this below. 	<ol style="list-style-type: none"> 1. Annex’s IV (Outline for the initial report and updated initial report referred to in decision 2/CMA.2, annex, chapter IV A. (Initial report)) and I (Outline for annex 4 to the biennial transparency report, as referred to in decision 2/CMA.3 annex, chapter IV.C (Regular Information), paragraph 21-22) of the COP27 Article 6.2 text set out what is required in both the initial and biennial reports. <p>Whilst these annexes collate information that was previously dotted around in the COP26 Article 6.2 text, and thus remove overlapping drafting and bring clarity to the expectations placed upon participating Parties, it is almost a direct replication of the previous text, with no new guidance added. As such, the gap on guidance for participating Parties as to the collection of information remains.</p> <p>Despite this, as per the above commentary at (4) under “capacity building”, it is encouraging that the COP27 Article 6.2 text gives so much focus to the training of the Article 6.2 technical expert review team (see Annex IV, Training programme for technical experts participating in the Article 6 technical expert review team), which will include members from participating Parties. Hopefully such training will cover the collection of information.</p> <ol style="list-style-type: none"> 2. The willingness of countries, including LDCs and SIDS, to develop the Article 6.2 market suggests countries are willing to engage with the Article 6.2 market despite the potential infrastructure costs. The COP27 Article 6.2 text, in various places, specifically requires the secretariat, in developing the Article 6.2 market, to give “special consideration, including in terms of support for participation, to experts from developing countries, particularly the least developed countries and small island developing States” (paragraph 12). This is a positive development which we hope will encourage participation. 3. See full analysis on confidentiality below.

COP26 Article 6.2 headline issue and COP26 Article 6.2 text	Questions and Uncertainties within the COP26 Article 6.2 text	COP27 Progress / the COP27 Article 6.2 text
<p>ITMOs</p> <p><i>Chapter I (ITMOs):</i></p> <p>The list of elements required for a credit to constitute an ITMO is unclear based on lack of use of “and”/”or”.</p> <p>The application of A6.4ERs to NDCs and other international mitigation purposes⁵⁴ under Article 6.2 is unclear.</p>	<ol style="list-style-type: none"> 1. Lack of clarity as to what a credit must be to constitute an ITMO. 2. It is not clear whether A6.4ERs, as ITMOs under Article 6.2, must be applied to NDCs or other international mitigation purposes⁵⁵ (and corresponding adjustments therefore made) or, if the host Party⁵⁶ has a choice and chooses not to use them for such purposes, whether they become “unauthorised” A6.4ERs. Without clearer guidance on this, there is a risk of “double counting”⁵⁷. 	<ol style="list-style-type: none"> 1. The COP27 Article 6.2 text provides no guidance in this respect. It is acknowledged in the market, however, that whilst an A6.4ER is a type of ITMO, it is not the only type of ITMO. On this basis, an ITMO must have the characteristics listed in Chapter I (ITMOs), paragraph 1 (a) – (f) of the COP26 Article 6.2 text, but that it need not also be an A6.4ER as per paragraph 1(g). 2. The COP27 Article 6.2 text does not address this uncertainty. The COP27 Article 6.4 text, however, has distinguished between “authorised A6.4ERs⁵⁸” and “mitigation contribution A4.6ERs” (the latter coming without corresponding adjustments). Whilst not yet clear, this could indicate that where a party chooses not to use an A6.4ER towards an NDC or other international mitigation purpose, it is deemed to be the latter. See Section 9 (<i>Carbon Markets – Article 6.4</i>) of this briefing paper for further analysis on Article 6.4.
<p>Corresponding adjustments</p> <p><i>Chapter II (Corresponding Adjustments):</i></p> <p>Corresponding adjustments must be made to all ITMOs to avoid double counting. These adjustments must be, amongst other things transparent, accurate, comparable and consistent.</p> <p>These corresponding adjustments are deemed final prior to any review of reports produced by participating Parties.</p>	<p>There may be instances where a corresponding adjustment is made, but the emissions reduction as predicted and reflected in that corresponding adjustment is later not achieved. Whilst parties are required to set out in their initial report how the reversal or removal of emissions reductions will be addressed, this will be complex to administer in practice and there needs to be consistency across countries to ensure it works and is transparent.</p>	<p>This was not resolved in the COP27 Article 6.2 text. Paragraph 16(b), however, specifically requires the Supervisory Body for Scientific and Technological Advice to continue its work to develop recommendations for the consideration and adoption by the Conference of the Parties in relation to “the elaboration of further guidance for corresponding adjustments...in a manner that ensures the avoidance of double counting.”.</p> <p>Unfortunately, the date by which the Supervisory Body for Scientific and Technological Advice must action this is November 2024 (<i>paragraph 16(b)</i>), which has been delayed from November 2023 as per the COP26 Article 6.2 text.</p>

⁵⁴ Please see definition in Schedule 1 (Glossary).

⁵⁵ Please see definition in Schedule 1 (Glossary).

⁵⁶ Please see definition in Schedule 1 (Glossary).

⁵⁷ Please see definition in Schedule 1 (Glossary).

⁵⁸ Please see definition in Schedule 1 (Glossary).

COP26 Article 6.2 headline issue and COP26 Article 6.2 text	Questions and Uncertainties within the COP26 Article 6.2 text	COP27 Progress / the COP27 Article 6.2 text
<p>Grievance mechanism</p> <p><i>Chapter IV (Review):</i></p> <p>The Article 6 technical expert review team will be required to review the information submitted by participating Parties in compliance with their reporting obligations. They will challenge and provide recommendations to participating Parties where required.</p>	<p>There is no grievance mechanism under which participating Parties can challenge the review by the Article 6 technical expert review team. This is unlike Article 6.4 where a grievance mechanism has been established.</p>	<p>This is not addressed in the COP27 Article 6.2 text and remains an open issue. The voluntary forum for experts to “share knowledge and experience”, as expanded on at (4) under “capacity building” above, however, may provide a forum by which parties can respond to recommendations.</p>



Other key Article 6.2 focus points

Confidentiality

The COP27 Article 6.2 text focused on the concept of “confidentiality”. The scope of information that could be deemed confidential when submitted by participating Parties was left open in the COP26⁵⁹ Article 6.2 text, whereby it was largely assumed that all information would be public unless specified as confidential (*Article 6.2 CMA/3, paragraphs 24, 33(d) and 36(a)*).

COP27 therefore presented an opportunity to, in light of the pursuit for transparency, integrity and investor confidence in the Article 6.2 market, clarify and ring-fence the type of information that could be treated as confidential. Arguably, Annex II, Chapter VII of the COP27 Article 6.2 text (*Confidentiality*) both confused and broadened this scope.

Participating Parties are required to submit an initial report to the Article 6 technical review team including, amongst other things, their ITMO⁶⁰ metrics, methods for applying corresponding adjustments⁶¹ and quantified mitigation information in relation to their NDCs⁶² (*Article 6.2, CMA/3, Chapter III, paragraph A*).



⁵⁹ Please see definition in Schedule 1 (Glossary).

⁶⁰ Please see definition in Schedule 1 (Glossary).

⁶¹ Please see definition in Schedule 1 (Glossary).

⁶² Please see definition in Schedule 1 (Glossary).

A former draft of the COP27 Article 6.2 text provided that where a participating Party⁶³ designates information provided to the Article 6 technical expert review team as confidential, “the participating Party shall provide the basis for protecting the confidentiality of such information”. Paragraph 22, Chapter VII of the final COP27 Article 6.2 text has watered this obligation down: “the participating Party should provide the basis for protecting the confidentiality of such information”. The former draft may have forced Parties to think twice about labelling information as confidential. In allowing Parties to mark information as confidential without an obligation to provide any rationale, as per the final draft, Parties are free to treat all Article 6.2 information as confidential; including, for example, their cooperative approach, ITMO metrics, and corresponding adjustments made. This has attracted criticism, primarily on the basis that the lack of transparency around the integrity of carbon credits, and uncertainty as to the benefit an ITMO actually brings, has long stifled the use of carbon markets; Article 6.2 was intended to relieve such concern.

Whilst the submitted information will not be made public when marked as confidential by a participating Party, the Article 6 expert review team will still review such information (*Annex II, Chapter III (Information to be reviewed), paragraph 11*). This should act as a barrier to participating Parties submitting inaccurate information or abusing this lack of transparency so as to dilute the integrity of its ITMOs or avoid making corresponding adjustments, for example. Annex II, Chapter II (*Scope*), paragraphs 9 and 10 of the COP27 Article 6.2 text, however, prescribes that the review team is “non-intrusive” and “non-punitive”, that it must “avoid placing an undue burden on participating Parties” and that it shall not “review the adequacy or appropriateness of” cooperative approaches or ITMOs. It is not therefore clear what level of deterrence the review team can and will exert in practice.

It is important, however, to put this COP27 Article 6.2 text in context. What can be seen from this COP27 is the willingness of governments to implement and use the Article 6.2 carbon market. Governments themselves are of course aware that, without transparency and integrity, this market will not thrive. There is a strong case, therefore, for Governments to use this label of confidentiality only where absolutely necessary and not to abuse the scope now set out in the COP27 Article 6.2 text. Similarly, the capacity building efforts with regards to the review mechanisms and training of experts that has been introduced by the COP27 Article 6.2 text (see above) should instil confidence in the credibility and integrity of submitted information. Looking at it through this credible lens, developments on confidentiality are perhaps not so dubious as they may seem through a close analysis of the text.

See Section 6 (*Forests and Oceans*) of this paper for more detail REDD+ related developments at COP27.



⁶³ Please see definition in Schedule 1 (Glossary).

Real time progress with bi-lateral agreements

Whilst uncertainties in the rules and procedures governing the Article 6.2 market remain, countries were not put off entering into bilateral agreements; a positive sign that the market will only continue to develop. Switzerland and Ghana signed the first agreement regarding the authorisation of carbon credits, whereby Switzerland will buy carbon credits from Ghana in order to fund the installation of efficient lighting and cleaner stoves in up to five million households in Ghana. Other bilateral agreements were signed by, amongst many others, Singapore and Columbia, South Korea and Vietnam, Switzerland and Chile, and Japan and Bangladesh. Japan also established an Article 6 capacity building programme which seeks to focus on knowledge sharing with regards to methodologies, NCDs and other carbon market related experience. The fact that this has been joined by 40 other countries shows a serious commitment by governments to accelerate and operationalise the Article 6.2 carbon market.

Going forward

Some key gaps in the COP27 Article 6.2 text were specifically set aside for discussion at COP28. These included, amongst other things:

1. Whether “emissions avoidance” activities are relevant under Article 6.2, as expanded on above.
2. Whether ITMO authorisations can be amended or revoked post authorisation. This remains a controversial topic in the negotiations. Some countries argued this flexibility was required, whilst others feel this will increase investor uncertainty and dilute private sector investment in the market.
3. How the international registry will interact with other registries. Whilst the COP27 Article 6.2 text requires the secretariat⁶⁴ to continue to develop the international registry software and ensure its interoperability with other registries (*Annex I, Chapter 1(C), paragraph 17*), it does not go so far as to set out how this will work in practice.
4. How participating Parties can map and apply corresponding adjustments.

Recognising these gaps and firmly placing them on the agenda for COP28 is a welcome step which should encourage countries to continue their efforts in developing an internal framework for the Article 6.2 market.



⁶⁴ Please see definition in Schedule 1 (Glossary).

Article 6.4

Progress on the Article 6.4 mechanism

COP27 has inched forward progress on clarifying and implementing the new emissions reduction mechanism that was published at COP26 in the Article 6 CMA.4 decision, to replace the Kyoto Protocol’s Clean Development Mechanism (CDM⁶⁵). Although many decisions were postponed to COP28 and beyond, procedural rules were agreed for the Supervisory Body for implementing the Article 6.4 mechanism, and a key new concept of “mitigation contribution A6.4ERs⁶⁶” was introduced.

What are A6.4ERs?

Article 6.4 emissions reductions (A6.4ERs) are credits issued in connection with a mitigation achieved as described in paragraphs 4 to 6 of Article 6 of the Paris Agreement⁶⁷. One A6.4ER represents mitigation achieved of one metric tonne of carbon dioxide equivalent. They are intended to replace Certified Emissions Reductions (CER⁶⁸s) issued pursuant to Article 12 of the Kyoto Protocol⁶⁹.

The CDM has historically been criticised for lacking environmental integrity and not leading to real offsets, with many viewing CERs as low quality carbon credits. However, many developing countries still have large numbers of CERs that they are keen to monetise. It’s been agreed that CERs may be transferred to A6.4ERs and used towards first (or updated) NDCs, which are due by 2030.

Some guidance for transition of CERs was provided at COP27. CERs retired in the mechanism registry must be subtracted in the calculation of emissions balance, and no corresponding adjustment⁷⁰ is required. The fee structure to support the mechanism is now set out in some detail. Crediting periods for eligible CERs are set out in the COP27 text, but determination of the final cut-off date for transfers of eligible CERs from the CDM registry under the new Article 6.4 mechanism, was left to future meetings of parties to the Paris Agreement.

What are “mitigation contribution A6.4ERs”?

There will now be two types of A6.4ERs: authorised A6.4ERs and “mitigation contribution A6.4ERs”. Authorised A6.4ERs can be used towards each country’s NDCs and/or other international mitigation purposes⁷¹.

The term “mitigation contribution A6.4ERs” in the final advance text was changed from “non-authorised” units in earlier drafts at COP27. This gives some indication that these emissions reductions which could otherwise be double counted (towards both NDCs and the purchasing company’s climate goals), should not be used as carbon credits or pure offsets. They are now flagged as (somehow lesser, mere) “contributions” to emissions reductions goals.

The concern was that unauthorised units sold in the voluntary carbon market (instead of counting towards NDCs or traded under Article 6.2) could have created a two-tier market. To some extent, this still remains as danger even with the change in nomenclature, unless stronger guidance is issued in future.

⁶⁵ Please see definition in Schedule 1 (Glossary).

⁶⁶ Please see definition in Schedule 1 (Glossary).

⁶⁷ Please see definition in Schedule 1 (Glossary).

⁶⁸ Please see definition in Schedule 1 (Glossary).

⁶⁹ Please see definition in Schedule 1 (Glossary).

⁷⁰ Please see definition in Schedule 1 (Glossary).

⁷¹ Please see definition in Schedule 1 (Glossary).

What are SOP and OMGE?

Under Share of Proceeds (SOP), 5% of authorised A6.4ERs and mitigation contribution A6.4ERs are credited to an account with the Adaptation Fund that helps vulnerable communities in developing countries adapt to climate change. Details of fees to cover SOP administrative expenses were agreed at COP27, and these fees will be waived for developing countries.

Under Overall Mitigation in Global Emissions (OMGE), the number of credits on the market are reduced over time, ratcheting up carbon reductions achieved. Cancellations for OMGE can be requested in excess of the stipulated minimum 2% of issued A6.4ERs.

Earlier draft texts at COP27 had left open whether SOP and OMGE would apply to both authorised credits as well as mitigation contributions. The final advance text confirms that these schemes apply to both forms of A6.4ERs.

It is still not clear who will administer the OMGE cancellations, nor how any “cancelled credits” will be excluded from the emissions inventory of the country where the underlying emission reductions took place. A formal process for countries communicating such required reductions/removals will also be required so as to ensure the accuracy of reductions/additions to NDCs.

What are “removals”?

The Supervisory Body proposed to define “removals” as “processes or outcomes of processes to remove greenhouse gases from the atmosphere through anthropogenic activities and durably store them in geological, terrestrial or ocean reservoirs, or in products”. This definition was not adopted at COP27, and further views are requested by 15 March 2023, including on reversals, avoidance of leakage and avoidance of other environmental/social impacts. An alliance of countries developing carbon dioxide removal (CDR) projects was also launched at COP27, with Canada, the EU, Japan, Norway, the UK and the US as founding members.

What’s next?

So although some progress was made on Article 6.4 implementation at COP27, other key areas could not be agreed and were deferred for future consideration. In addition to those mentioned above, some key details still need to be agreed.

There was no agreement on an international registry for countries that do not have a national registry. Only 28 countries had by COP27 confirmed their Designated National Authorities (DNAs) for implementation of the new mechanism. There is some concern that the complexity of Article 6.4 requirements may deter some developing countries from engaging with the process. Japan launched a partnership for “Paris Agreement Article 6 Implementation” to improve understanding of the rules and share good institutional practice.

There was also no agreement on proposals for time limits on when a statement can be made by the host country authorising A6.4ERs for use towards NDCs and/or for other international mitigation purposes⁷².

In the meantime, the Kyoto CDM will continue to facilitate reduction of carbon emissions, until the Article 6.4 mechanism is fully implemented with an operational transfer process for eligible CERs.

⁷² Please see definition in Schedule 1 (Glossary).

Voluntary Carbon Markets at COP27

Introduction

A sizeable voluntary carbon market (VCM), trading approximately 500 million carbon credits in 2021, has developed over recent years, and further growth is expected as new participants seek ways of contributing to efforts to mitigate the climate emergency. Private investors, NGOs, governments and companies use the VCM to buy carbon offsets to offset their emissions. Carbon offsets are awarded to projects that reduce carbon, and may involve the reduction or removal of carbon through nature based projects such as tree planting or through the implementation of technological changes such as renewable energy and fuel switching, and household and community devices such as cookstoves.

Paris and the VCM

Historically, the VCM was dominated by private actors seeking to lower their own carbon footprints by purchasing offsets from projects validated by private standards. The Paris Agreement⁷³ raised the prospect of greater state involvement in new market and bilateral mechanisms, which was broadly welcomed as a driver of climate finance and of greater ambition. It has, however, raised difficult practical questions as to how state and private participants can interact with each other and with those mechanisms, including how and whether to count the associated carbon reductions to their NDCs⁷⁴ and how those mechanisms might interact with the existing VCM.

The VCM, unlike the Article 6 market, is governed by private standards and not by international regulations or bodies. The Article 6.4 CMA⁷⁵ (see Section 9 (*Carbon Markets – Article 6.4*)) purported to create a form of market akin to the VCM which permitted private participants to buy A6.4ERs, which are a form of carbon offset created and stored on state registries. VCM participants were generally positive about this new market, but the questions and problems identified at COP26 were not materially progressed in the aftermath. In particular, there are key outstanding technical questions on accounting for carbon reductions at a country level (i.e. towards an NDC) alongside accounting at a corporate level.

Those questions should eventually be resolved as the Supervisory Body carries out its functions and capacity is built in the new market, but in the interim, investors face uncertainty in the VCM caused by the nascent Article 6.4 market. For example, will the application of corresponding adjustments under Article 6.4 create a value premium for A6.4ERs and depress the price or demand for non-Art 6.4 credits, or will the market perceive that a high degree of state involvement in a market mechanism is itself a risk factor and destructive of value?

What is clear from the last 12 months is that interest in climate finance through the purchase of offsets has increased, and that sophisticated investors are coming into the market with an expectation that the market can provide clarity. For their part, the existing VCM standards have not pushed back against Article 6, but they are also awaiting clarity so that their processes can align with the new mechanisms.



⁷³ Please see definition in Schedule 1 (Glossary).

⁷⁴ Please see definition in Schedule 1 (Glossary).

⁷⁵ Please see definition in Schedule 1 (Glossary).

Developments

Interaction between the VCM and Article 6 markets was not wholly clarified at COP27. A decision was taken, however, to set a timeline to implement all parts of Article 6 and implement a verification mechanism that could allow countries to sell 'sovereign carbon credits' for preserving ecosystems.

There were several positive announcements made and initiatives launched at around same time as COP27, which are important for the further development and clarification of the VCM.

- 1** The International Organization of Securities Commissions (IOSCO), the global securities markets standard setter, published two papers; one on [compliance markets](#) and another on the [VCM](#). In that second discussion paper, IOSCO noted that the development of meta-registries and rules surrounding GHG accounting could mitigate the lack of infrastructure for keeping track of both the quality of credits and how they are applied in the medium term, as well as clarification about the operationalisation and application scope of corresponding adjustments⁷⁶ under Article 6. These papers were published during the first week of COP27 in order to aid those negotiating the Article 6 provisions. A gap still remains to be bridged after COP27 as to how the VCM will interact with Article 6.4. The new concept of "mitigation contribution" under Article 6.4 strongly hints that to avoid double counting without corresponding adjustments, such credits should not be used for offset claims, but there is no guarantee this is how the VCM will function in practice (see Section 9 (*Carbon Markets – Article 6.4*) for more information).
- 2** Developing nations signified a keen interest in incorporating private companies into their climate transition plans. During COP27, the African Carbon Markets Initiative (launched by multiple African nations including Kenya, Malawi, Gabon, Nigeria and Togo) announced a mechanism which would enable carbon credit buyers and financiers to purchase high-integrity African carbon credits. For more information, see Section 5 (*Africa*).
- 3** Several welcome initiatives were launched to improve the integrity of voluntary carbon credits; a key factor in encouraging participation in the VCM. The Integrity Council for the Voluntary Carbon Market (ICVCM) published several carbon credit principles (CCPs) online; adherence to which will signal the quality of a carbon credit. The Voluntary Carbon Markets Initiative (VCMI) also published a Claims Code of Practice. This is designed to assist companies in formulating claims that purchased credits in fact reduce emissions. The Code may also be valuable at COP28, as negotiators attempt to finalise the Article 6 provisions.
- 4** Citing the lack of standardisation and fungibility of carbon credits, Bloomberg Philanthropic and Three Cairns launched a Global Carbon Trust to scale the VCM market by using the ICVCM CCPs to create a large and liquid market, utilising the intensified focus which COP27 brought to the area.

Conclusion

The next year will be crucial for the development of the VCM. The need for a functioning, market is clear; it's a question of how to nurture it.

⁷⁶ Please see definition in Schedule 1 (Glossary).

The interaction between the VCM and the Article 6 carbon market is not yet clear and the interface between VCM credits and NDCs must be resolved as soon as possible. To fail to do so would open carbon offsets to accusations that they are effectively 'double counted', severely undermining their core purpose of driving investment towards projects removing/limiting the amount of carbon in the atmosphere.

The positive market developments cited under "Developments" above, should facilitate the creation of fungible instruments of high quality. By their nature, carbon projects are difficult to measure and monitor, and it is hard for investors to satisfy themselves through their own due diligence as to the integrity of the projects they are investing in. Investors who do not have the capacity to assess the quality of underlying projects but who do want to contribute to financing the reduction of GHG are looking for ways to invest in a fungible product, and that is a key focus of many of the ongoing efforts to scale the markets.

COP27 may not have seen huge progress but it certainly saw individuals, initiatives and countries get on board with the idea of a functioning voluntary carbon market. In time this will bring private finance into projects which will benefit global climate change goals. Further, the number of developing countries showing interest in hosting these projects gives hope that the benefits will be spread out around the world, rather than concentrated in developed countries. This is an exciting time for the VCM and we look forward to seeing further developments at COP28 next year.



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SCHEDULE 1 : GLOSSARY

- **“A6.4ERs”** means an emission reduction that is (A) issued in connection with a mitigation achieved pursuant to paragraphs 4 to 6 of Article 6 of the Paris Agreement, the Article 6.4 CMA.4 decision, and any further relevant decisions of the CMA, and (B) measured in carbon dioxide equivalent and is equal to one (1) tonne of carbon dioxide equivalent calculated in accordance with the methodologies and metrics assessed by the IPCC and adopted by the CMA.
- **“AFOLU”** means Agriculture, Forestry and Other Land Use.
- **“Article 6.2 CMA.3 decision”** means [decision -/CMA.3 \(Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement\)](#).
- **“Article 6.4 CMA.4 decision”** means [decision -/CMA.4 \(Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement\)](#).
- **“CDM”** means the clean development mechanism under Article 12 of the Kyoto Protocol.
- **“CER”** means a certified emission reduction issued under the CDM.
- **“CMA”** means the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement.
- **“COP26”** means the 26th United Nations Climate Change Conference, held at the SEC Centre in Glasgow, Scotland, United Kingdom, from 31 October to 13 November 2021.
- **“corresponding adjustments”** means a corresponding adjustment applied in accordance with the rules, modalities and procedures set out in Paragraph B (Application of corresponding adjustments) of Ch.II (Corresponding adjustments) of the Article 6.2 CMA.3 decision.
- **“double counting”** means the intended or unintended counting of the same physical emission reduction towards the achievement of separate and distinct targets in the NDCs of two different Parties.
- **“first transfer”** means (A) for a mitigation outcome authorised by a participating Party for use towards the achievement of an NDC, the first international transfer of the mitigation outcome, or (B) for a mitigation outcome authorised by a participating Party for use for other international mitigation purposes, (1) authorisation, or (2) the issuance, or (3) the use or cancellation of the mitigation outcome, as specified by the participating Party.
- **“GFANZ”** means the Glasgow Financial Alliance for Net Zero.
- **“GHG”** means greenhouse gases.
- **“Glasgow Climate Pact”** or **“Pact”** means the climate agreement signed by all 197 parties to the UNFCCC at the conclusion of the UN COP26 climate summit in Glasgow.
- **“host Party”** means a country of a Party in which the Article 6.4 activity is intended to occur.
- **“IFRS Foundation”** means the International Financial Reporting Standards Foundation.
- **“international mitigation purpose”** means a mitigation outcome authorised by a participating Party for use for an international mitigation purpose other than an achievement of an NDC.
- **“IPCC”** means the Intergovernmental Panel on Climate Change.

- “ITMO” means an internationally transferred mitigation outcome fulfilling the criteria set out in paragraph 1 of Ch.I (Internationally transferred mitigation outcomes) of the Article 6.2 CMA.3 decision.
- “Kyoto Protocol” means the international protocol on climate change adopted on 11 December 1997 currently adopted by 192 parties.
- “Loss and Damage Fund” or “LDF” means the fund agreed and created at COP27 to provide financial assistance to developing countries that are particularly vulnerable to climate impacts.
- “NDCs” means nationally determined contribution.
- “other international mitigation purposes” means, together, any international mitigation purposes and any other purposes.
- “Paris Agreement” means the international treaty on climate change adopted by 196 parties at COP 21 in Paris, on 12 December 2015 and entered into force on 4 November 2016.
- “participating Party” means each Party participating in a cooperative approach that involves the use of ITMOs.
- “REDD+” means policy approaches and positive incentives for activities relating to reducing emissions from deforestation and forest degradation, and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.
- “secretariat” has the meaning given to it in the Paris Agreement.
- “UNFCCC” means the United Nations Framework Convention on Climate Change adopted at the United Nations Headquarters, New York on the 9 May 1992.
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SCHEDULE 2: ARTICLE 6.2 SUMMARY

Article 6.2 mechanism: *Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement and in decision 2/CMA.3, advance version 19 November 2022.*

“Parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred mitigation outcomes towards nationally determined contributions, promote sustainable development and ensure environmental integrity and transparency, including in governance, and shall apply robust accounting to ensure, inter alia, the avoidance of double counting⁷⁷, consistent with guidance adopted by the Conference of the Parties serving as the meeting of the Parties to this Agreement. (Article 6.2, Paris Agreement)⁷⁸”.

The decision adopts the following Annexes, and calls for a number of actions to be taken to develop Article 6.2 co-operative approaches:

Annex I: Guidance – Tracking: Parties participating in a co-operative approach to NDC⁷⁹ implementation shall have a registry for ITMO⁸⁰ accounts, which uniquely identifies ITMO accounts to allow mitigation outcomes to be traceable. Any interoperability between registries of participating Parties must not allow later repudiation of inter-registry transfers. An international registry comprises each participating Party⁸¹'s registry. A secretariat will administer the development of the international registry. Non-confidential information from the international registry will be publicly available through a web portal. The Article 6.4 mechanism will also be connected to the international registry and a web platform will be developed for a centralised accounting and reporting platform, containing the international registry and the Article 6 database. The Article database will automate identification of inconsistencies in information submitted annually by participating Parties.

- The secretariat is to prioritise the development of the centralised accounting and reporting platform and the Article 6 database, as per guidance in Annex I, with a test version by June 2024 and finalised by June 2025. Parties will be able to provide feedback on the test version. An interim solution for submission of information should be provided by January 2023 (*paragraphs 25-28*).
- The secretariat is to develop processes and guidelines for information submission and processing, a consistency check and a user manual for the Article 6 database and the centralised accounting and reporting platform (*paragraph 30*). The portal for the centralised accounting and reporting platform could be integrated with the portal for reporting under Article 13 (the transparency framework) of the Paris Agreement (*paragraph 31*). Data standards for interoperability will also be developed (*paragraph 32*).
- The international registry is to be available no later than 2024, with an interim solution to be available before then (*paragraph 33*).

Annex II: Guidelines – Article 6 technical expert review: General guiding principles for the Article 6 technical expert review are set out, together with its scope of work. Reviews will cover matters including checking initial reports and biennial transparency reports on co-operative approaches submitted by participating Parties, as well as for the Article 6 database. The text sets out the review processes, the role of the secretariat and arrangements for the review team. Participating parties may designate as confidential, information provided to the Article 6 technical expert review team.

- It was determined at COP26 that initial reports will include items such as: mitigation information in NDCs, in tCO₂eq; first or updated NDCs; copies of the authorisation of ITMOs by a participating Party; and, a description of how each co-operative approach ensures environmental integrity and promotes human rights (including the right to health, rights of indigenous peoples and others in vulnerable situations, gender equality, empowerment of women and intergenerational equity).

Annex III: Outline for the Article 6 technical expert review report: this provides a skeleton outline for such report.

⁷⁷ Please see definition in Schedule 1 (Glossary).

⁷⁸ Please see definition in Schedule 1 (Glossary).

⁷⁹ Please see definition in Schedule 1 (Glossary).

⁸⁰ Please see definition in Schedule 1 (Glossary).

⁸¹ Please see definition in Schedule 1 (Glossary).

Annex IV: Training Programme for technical experts: this includes instructed courses and standard examinations for reviewers and requires that parties nominate technical experts to the roster of experts. The secretariat is to implement the training programme for technical experts (*paragraphs 8-12*). The secretariat will publish cases of persistent inconsistencies and/or non-responsiveness of a participating Party in providing information (*paragraph 13*) and a voluntary forum of Article 6 registry administrators and technical experts will be established, with an online information sharing forum (*paragraphs 34 and 35*).

Annex V: Outline for the (updated) initial report: this report must include a description of the Party's NDC where a biennial transparency report has not yet been submitted; information on ITMO metrics; the method for applying corresponding adjustments⁸² and for quantification of the NDC; and, information on each co-operative approach.

A workshop is planned and feedback is requested on the initial report. The secretariat is also required to propose a manual to facilitate information reports and to implement a capacity-building programme (*paragraphs 18-24*). The Subsidiary Body for Scientific and Technological Advice will also develop recommendations (and Parties should submit their views) including:

- for CMA5 in 2023, on the least developed countries and small island developing states; how to review confidential information; actions when inconsistencies are identified; and implications of any non-responsiveness;
- for CMA5 in 2023, on timings for the initial report and expert reviews; the process of authorisations, especially the scope of changes to authorisation of ITMOs and how to ensure transparency and consistency; issues around mitigation outcomes authorised for use towards achievement of NDCs and other international mitigation purposes⁸³; the procedure for transfer of A6.4ERs to the international registry; the accounts of the international register and the role of its administrator (as per Annex I); and, submission of information in the international registry to track ITMOs; and
- for CMA6 in 2024, on guidance on corresponding adjustments for NDCs to avoid double counting and whether ITMOs could include emission avoidance (*paragraphs 15-17*).

Annex VI: Outline for information on co-operative approaches, for the biennial transparency report: this report must include updates to the initial report; information on authorisations of use of ITMOs towards NDCs and other international mitigation purposes; information on corresponding adjustments to ensure double counting is avoided; information on how the Party has ensured ITMOs will not be further transferred/cancelled/otherwise used where they have been used towards NDCs or authorised mitigation outcomes used for other international mitigation purposes⁸⁴; and, information on each co-operative approach.

It is also clarified that the vintage of an ITMO is the calendar year in which the underlying mitigation occurred (*paragraph 5*) and that the basis for identifying any information as confidential must be provided by a participating Party (*paragraph 6*).

Annex VII: Draft format for annual reporting information required: such format to be tested by Parties by 30 April 2023.

⁸² Please see definition in Schedule 1 (Glossary).

⁸³ Please see definition in Schedule 1 (Glossary).

⁸⁴ Please see definition in Schedule 1 (Glossary).

SCHEDULE 3: ARTICLE 6.4 SUMMARY

Article 6.4 mechanism: *Guidance on the mechanism established by Article 6, paragraph 4, of the Paris Agreement [19 November advanced version](#).*

Annex I: Processes for the Article 6.4 mechanism

Processes for the Article 6.4 mechanism, that was agreed in CMA.3, are elaborated to some extent in Annex I, and will require further consideration at COP28.

Crediting periods of CDM⁸⁵ activities transitioning to the A6.4 mechanism are to end on the earlier of:

- end of the CDM crediting period if it had continued after the end of the second commitment period of the Kyoto Protocol⁸⁶ (31 December 2020);
- 31 December 2025, if the crediting period is renewable (CDM activities renewed under the A6.4 mechanism, will continue for crediting periods consistently with A6.4 mechanism rules); and
- the date determined under the conditions of the crediting period that may be specified by host Parties, as agreed at COP26⁸⁷ (*Annex I.I.A*).

The CMA is to determine the cut-off date after which no further CER⁸⁸s can be transferred from the CDM registry (*Annex I.II.A.20*). Parties may use transferred CERs towards their first (updated) NDCs⁸⁹ (*Annex I.II.B.22*).

Annex I.IV goes on to describe the intended design of the mechanism registry's electronic database. The mechanism registry will track both A6.4ER⁹⁰s authorised for use towards achievement of NDCs and/or other international mitigation purposes⁹¹, as well as "mitigation contribution A6.4ERs", which are not so authorised (*Annex I.IV.A.29*).

5% of authorised A6.4ERs and mitigation contribution A6.4ERs are forwarded to the share of proceeds for adaptation account held by the Adaptation Fund that helps vulnerable communities in developing countries adapt to climate change. First transfers⁹² are subject to a corresponding adjustment⁹³ (*Annex I.IV.B.40*).

The share of proceeds for administrative expenses is to be made up from (*Annex I.V.A*):

- Registration fee for an activity under the Article 6.4 mechanism:
 - max. \$2,000 for an activity achieving annual average emission reductions or removals over the (first) crediting period of up to 15,000 tCO₂ eq;
 - max. \$6,000 for 15,001 – 50,000 tCO₂ eq;
 - max. \$12,000 for over 50,000 tCO₂ eq or for a programme of activities;
- Inclusion fee for component project activities (CPAs) in a registered programme of activities (PoA): max. \$1,000 per inclusion;
- Issuance fee for A6.4ERs for a registered A6.4 activity: proportional to the amount issued, max. \$0.20 per A6.4ER;
- Renewal fee for renewal of crediting period for registered A6.4 project activities or PoA period, and for CPAs included in a registered PoA: at the level of registration fee applicable to the activity based on the scale of emission reductions (see first bullet above); and
- Post-registration change fee: fixed rate, max. \$2,000 per request.

All of the above fees are waived for activities in the least developed countries and small island developing States.

Activity participants can request mandatory cancellations for Overall Mitigation in Global Emissions (OMGE) over and above the stipulated minimum 2% of issued A6.4ERs. Activity participants and stakeholders can request voluntary cancellation of A6.4ERs to deliver further OMGE that has been correspondingly adjusted (*Annex I.VI.64-65*).

⁸⁵ Please see definition in Schedule 1 (Glossary).

⁸⁶ Please see definition in Schedule 1 (Glossary).

⁸⁷ Please see definition in Schedule 1 (Glossary).

⁸⁸ Please see definition in Schedule 1 (Glossary).

⁸⁹ Please see definition in Schedule 1 (Glossary).

⁹⁰ Please see definition in Schedule 1 (Glossary).

⁹¹ Please see definition in Schedule 1 (Glossary).

⁹² Please see definition in Schedule 1 (Glossary).

⁹³ Please see definition in Schedule 1 (Glossary).

Annex II: Supervisory Body procedural rules

Procedural rules for the Supervisory Body for the Article 6.4 mechanism are adopted in Annex II, as proposed by the Supervisory Body in its [Annual Report](#) and [Addendum](#). There are to be 12 members from parties to the Paris Agreement⁹⁴, including two members from each UN regional group, one from the least developed nations and one from small island developing states.

Article 6.4 issues for future consideration

The Subsidiary Body for Scientific and Technological Advice is to continue consideration of Article 6.4 mechanism procedures for adoption at COP29 in November 2024. Designated National Authorities (DNAs) for the mechanism have currently been confirmed by 28 Parties.

Decisions on the following are postponed to CMA5 in November 2023:

- whether A6.4 activities could include emission avoidance and conservation enhancement;
- connection of the mechanism registry to an international registry for Parties that do not have (access to) a registry; and
- authorisation of A6.4ERs for use towards NDCs and/or for other international mitigation purposes⁹⁵ (*paragraph 9*).

Parties' views on these matters are to be submitted by 15 March 2023 for consideration by the Subsidiary Body for Scientific and Technological Advice in June 2023 and with an expert dialogue before November 2023 (*paragraphs 9b, 10, and 11*). Views on activities involving removals are also to be submitted by 15 March 2023, for consideration and adoption at CMA5 in November 2023 (*paragraphs 19 and 20*).

A procedure for requesting transition of CDM activities to the A6.4 mechanism, is to be operationalised by June 2023, and operationalisation of the transition process is to be reported to CMA5 in November 2023 (*paragraph 23*).

⁹⁴ Please see definition in Schedule 1 (Glossary).

⁹⁵ Please see definition in Schedule 1 (Glossary).

SCHEDULE 4: ARTICLE 6.8 SUMMARY and THE CDM

Article 6.8 Non-market Approaches mechanism: *Work programme under the framework for non-market approaches referred to in Article 6, paragraph 8, of the Paris Agreement - 19 November 2022 [advance version](#).*

The Glasgow Committee on Non-market Approaches is asked to continue implementing the work programme activities. Non-market approaches (NMAs) are intended to promote mitigation and adaptation ambition as set out in the Article 6.4 CMA.4 decision.

Phase 1 (2023-24) is to:

- frame a work programme on identifying NMAs, measures for enhancing existing linkages and best practices;
- develop a web platform for information on NMAs, with a visual mapping tool and discussion forum; and
- identify projects for NMAs supporting NDC⁹⁶s with higher mitigation/adaptation ambition by networking and mapping initiatives.

Some elements can be implemented already in Phase 1, especially existing NMAs. Phase 2 (2025-26) will implement fully Phase 1. Parties participating in NMAs may on their own initiative submit information on NMAs for recording on the web platform.

A progress report is expected in November 2024 for consideration at CMA.5. The Glasgow Committee will also meet with various other bodies at the meeting of the Subsidiary Body for Scientific and Technological Advice in June 2023. A paper on enhancing engagement with public and private sector stakeholders will be considered at the Committee's third meeting.

CDM Registry and guidance: *Matters relating to the clean development mechanism registry referred to in paragraph 75(b) of the annex to decision 3/CMA.3 12 November 2022 [advance version](#) and Matters relating to the clean development mechanism 18 November 2022 [advance version](#).*

- It is noted that CERs relating to emission reductions after 31 December 2020 can continue to be processed under the temporary provisions, until the Article 6.4 mechanism becomes operational.
- A further paper will be considered in November 2023, on the operation of the CDM in the future, with timeframes, to avoid a gap before the A6.4 mechanism is operational. The temporary measures for continued issuance of CERs may be revised to allow registration, issuance and renewal of afforestation and reforestation activities.
- The CDM registry is asked to identify CERs that are eligible for transfer to the Article 6.4 mechanism.
- Transfers will be effected through cancellation in the CDM registry and communication of cancelled serial numbers to the Article 6.4 mechanism registry.
- Matters relating to the transfer of pre-2021 CER⁹⁷s in the CDM⁹⁸ registry (*paragraph 75(b) of the annex to decision 3/CMA.3*) were deferred for further consideration.

⁹⁶ Please see definition in Schedule 1 (Glossary).

⁹⁷ Please see definition in Schedule 1 (Glossary).

⁹⁸ Please see definition in Schedule 1 (Glossary).