

3 November 2022

BusinessEurope expectations for COP27

KEY MESSAGES

- 1** To be a strong actor internationally the EU must maintain European competitiveness and climate ambition in the context of a severe energy crisis. Making progress at home by finalising its ambitious Fit-for-55 package so that it will reach its 2030 targets while safeguarding the EU's economic capacity will be important.
- 2** In order to unlock further commitments on higher mitigation ambition, the EU should be willing to constructively engage with other parties on providing financing for measurable action, particularly by Least Developed Countries (LDCs).
- 3** COP27 must make significant progress towards closing the ambition gap between the EU and several of its trading partners. All G20 countries should agree to similarly ambitious 2030 targets in their NDCs, as well as credible long-term decarbonisation strategies.
- 4** Regarding Article 6, negotiators must finalise operating rules and ensure the necessary transparency and reliability of the system. The fragmented nature of existing carbon pricing regimes creates increasing operational risks to companies. Overcoming this fragmentation will enable companies to partner with governments and facilitate decarbonisation at the lowest possible cost to society.

WHAT DOES BUSINESSEUROPE AIM FOR?

- The COP27 climate conference in Sharm-El Sheikh, Egypt, will seek to build on the significant progress made in Glasgow in 2021. The Egyptian presidency has made clear it will place a particular focus on implementation of pledges made, progress on adaptation and financial commitments to assist developing countries, particularly in Africa, in their transition.
- BusinessEurope, as an official observer of the UNFCCC process, seeks a balanced negotiation outcome, that combines progress on mitigation ambition and NDC updates with increased commitments on climate finance.
- In addition, technical negotiation issues, such as e.g. detailed guidance for the implementation of Art. 6 mechanisms and the technical dialogues of the Global Stocktake (GST) must progress substantially. Furthermore, parties should provide an update on the intergovernmental pledges made outside the UNFCCC process (methane & deforestation pacts, Just Energy Transition Partnership with South Africa).



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BusinessEurope expectations for COP27**PROGRESS AT HOME: FINALIZING FIT-FOR-55**

To be a strong actor internationally, EU policymakers must first make progress at home by finalising the work on the Fit-for-55 files. In doing so, every effort must be made to ensure that the package lives up to the new reality the EU finds itself in, with unprecedented burdens born by EU business following the Russian invasion in Ukraine. The revision of the EU's headline NDC target should be conditional on closing the ambition gap with other major emitters, especially as the application of the Fit-for-55 legislation in practice and the impact from the current energy crisis cannot be assessed yet.

BREAKING THE DEADLOCK: COMMITMENTS ON FINANCE

In addition to making progress at home, there needs to be more convergence on ambition with the EU's international partners. Given that many developing countries have conditional NDCs which are based on the provision of financial support, the EU should seek to leverage climate finance to reach more ambitious targets and implementation measures. The USD 100 billion annual climate finance target must be achieved as soon as possible, and there must be progress in the process of finding a New Collective Quantified Goal (NCQG) that is meant to apply post-2025. It is essential that these financing commitments are well-targeted, with a particular focus placed on Least Developed Countries (LDCs). Beyond this, financing should prioritise the greatest potential for emission reductions in mitigation, as well as effective measures for the most important adaptation projects. At the same time, EU negotiators should be conscious of the need for financial support for businesses in the EU as a result of the current energy crisis.

CLOSING THE AMBITION GAP

Closing the often very significant ambition gaps with non-EU countries is without alternative. The IPCC AR 6 report stresses the necessity to halve greenhouse gas emissions by 2030 if the 1.5°-target is to be kept within reach – a level that the EU is already aiming for in its Fit-for-55 package. The minimum goal for COP27 must be for all G20 countries to agree to similarly ambitious 2030 targets and to outline concrete, transparent and reliable strategies for full decarbonisation by mid-century. In the absence of such clear and measurable commitments and legislative actions, the EU will have to continue to rely on measures to counteract carbon leakage. However, carbon leakage protections will always be imperfect and can be cumbersome to implement. Therefore, a higher level of climate ambition around the world is essential. A climate club based on a global carbon floor price is the preferable solution in the long term.



KEEPING THE GLASGOW MOMENTUM: GLOBAL STOCKTAKE, ARTICLE 6, PLEDGES

COP27 will mark the mid-point of the Global Stocktake (GST) process, that will conclude in 2023. In Sharm-El-Sheikh, significant progress on the Technical Dialogues in all three thematic areas must be a priority. This will set the stage for the political level decisions in 2023 – only a commonly accepted, transparent stocktake on the progress the global community has made towards reaching the goals of the Paris agreement will allow for more ambitious NDCs to emerge in the next round of updates until 2025. BusinessEurope welcomes the participation of the business community in the GST up to this stage and looks forward to further engagement opportunities as the GST progresses.

In addition, more progress is needed in the implementation of mechanisms under Article 6 of the Paris Agreement. Building on the agreements reached in Glasgow, as well as on the progress made by the Subsidiary Bodies in Bonn in June, parties in Sharm-El-Sheikh should move forward particularly on the operationalisation of the central mechanism under Art. 6.4. In particular, negotiators should agree on guidance relating to corresponding adjustments, the administrative infrastructure of the market mechanism and the rules for the supervisory body. While all decisions regarding Article 6 must respect environmental integrity and the goals of the Paris Agreement, the decisions should also aim to reduce barriers to the use of the new mechanism and increase its attractiveness for private sector participation.

Beyond the formal UNFCCC process, parties must give an assessment on what measures they have taken to live up to the intergovernmental pledges concluded in Glasgow, such as the Global Methane Pledge, the Leaders' Declaration on Forests and Land Use and the Just Energy Transition Partnership with South Africa (JETP). If sufficient progress on the implementation of the JETP can be demonstrated (e.g. by an agreement on a joint implementation plan) it might be able to serve as a blueprint for similar arrangement with other major emitters among developing economies. With regards to methane, ideally, parties to the pledge should agree on a commitment to direct regulations throughout the natural gas supply chain, such as performance standards based on robust monitoring, reporting and verification frameworks. The transition should be inclusive with efforts distributed in a fair way, whilst avoiding impairing security of supply through such regulations.

INCLUSIVITY OF THE NEGOTIATION PROCESS: INPUT FROM THE BUSINESS COMMUNITY

In order to reach these goals, it is essential that parties and negotiators have access to expertise from a broad range of stakeholders. In addition to a diverse set of voices from civil society, experts from all industries and business sectors should also be able to continue to give their insights in their function as recognised observers. Given the all-encompassing nature of the challenges posed by global climate change and the actions across all sectors that are needed to address these challenges, no industry or sector should be excluded from active participation.