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Climate Negotiations in Times of Multiple Crises

Credibility and trust in international climate politics after COP 27

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The 27th Conference of the Parties (COP 27) to the United Nations Framework Convention on Climate Change (UNFCCC) in Sharm el-Sheikh, Egypt, was marked by multiple crises and the shaken confidence of developing countries in the multilateral process. Nonetheless, an agreement was reached on the critical issue of loss and damage, even though many key aspects still need to be fleshed out. With regard to emission reductions, there is a credibility crisis that threatens to worsen, not only because political priorities have shifted following Russia's attack on Ukraine. In order to strengthen international climate cooperation in the coming years, it will be crucial to honour existing commitments, adhere to agreed processes, and show diplomatic tact in dealing with partner countries.

Energy-supply insecurity, high inflation rates, and geopolitical tensions — Russia's war against Ukraine has affected short-term priorities in many countries. This has had consequences for international climate politics, not only with regard to the availability of fiscal resources. The German government has delayed its coal phase-out and seen it necessary to court new gas suppliers to meet its energy needs. In the political context of the UNFCCC, countries in the Global South see such measures as lacking coherence and credibility.

In addition, there was a considerable degree of frustration that had accrued in the run-up to COP 27 among the developing countries that are particularly affected by climate change. Despite old and new commitments, multilateral negotiations had yielded hardly any progress on important issues. At the 2009 climate summit in Copenhagen (COP 15), developed countries had pledged to mobilise US$100 billion in annual funding for climate change mitigation and adaptation by 2020. Actual finance flows fell short of this target by almost US$17 billion and are now expected to reach US$100 billion in 2023. Funding for climate change adaptation is especially insufficient when measured against estimated needs. Discrepancies between pledges and actual support are hardly a new issue. But the situation has reached a critical point for many representatives of the Global South. As the Bahamian Prime Minister, Philip Davis, put it, "We are

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commitment-fatigued and we are pledge-fatigued.”

Loss and damage: An important first step

Growing frustration was also prevalent with regard to loss and damage, which was expected to become a major issue at COP 27. Countries that have contributed little to climate change but are disproportionately impacted by its effects have, since the early 1990s, been calling for financial support in response to climate-related damages, for example due to rising sea levels or extreme weather events. A new dialogue on loss and damage was launched at COP 26 in Glasgow in 2021, and the new German government showed sensitivity to the importance of the issue for developing countries. In July 2022, the foreign minister travelled to Palau to signal solidarity with those small island developing states that are particularly affected by climate change. The governments of Scotland and Denmark made financial announcements in the run-up to COP 27 that were taken as a sign that the position of developed countries was beginning to change. On the other hand, the Glasgow Dialogue had not made any significant progress in the intersessional negotiations in Bonn in June 2022. Against this backdrop, it was essential for COP 27 to produce a tangible outcome on loss and damage and restore confidence in the multilateral process.

Loss and damage had already been on the agenda in previous negotiation rounds, for example in the context of the Warsaw Mechanism, which emerged from COP 19 (2013). Financial support, however, was explicitly put on the agenda for the first time in Sharm el-Sheikh. This kind of support is not about adapting to environmental change, but about providing finance in response to the destruction brought on by climate change.

Developed countries have been opposed to this idea due to concerns about the legal implications that any formal recognition of responsibility could have. The United States, in particular, has historically been in strong opposition to loss and damage proposals. It accounts for a large share of the global greenhouse gases emitted since the beginning of the Industrial Revolution. Immense financial obligations could potentially be derived from such proposals. In line with the logic already asserted by the US government while negotiating the Paris Agreement, compensation and liability were therefore explicitly excluded from the negotiations at COP 27. Instead, the core demand of the developing countries was to create a dedicated fund for loss and damage from which eligible states could receive payments.

Germany played a prominent role in the negotiations. The German Special Envoy for International Climate Action, Jennifer Morgan, chaired the loss and damage finance negotiations together with Chilean Environment Minister Maisa Rojas. Germany had already launched the idea of a *Global Shield* as an insurance solution for loss and damage as part of a G7 cooperation with the Vulnerable 20 (V20), a group of countries particularly affected by climate change. This Global Shield was intended as a workable solution for the short to medium term. But the political effects of this proposal had been underestimated. From the perspective of many developing countries, the initiative seemed like an attempt to take the wind out of the sails of those demanding a dedicated UNFCCC fund.

As expected, the negotiations on loss damage were difficult. A key point of contention, which the European Union (EU) raised in unusual clarity, was whether China could still be classified as a developing country or whether it should be obligated — as the largest current greenhouse gas emitter — to contribute to loss and damage finance. Considering the tremendous dissimilarities in levels of economic strength and emissions among countries, it might appear nonsensical that countries are still divided into developed and developing countries, according to a principle established in the UNFCCC in 1992. This equates countries such as Burkina Faso or Tuvalu with China, South Korea, or Saudi Arabia. However, the dichotomy is still very much a central principle of the UNFCCC's internal organisation (e.g. for the composition of committees), and it often reflects key political cleavages.

In Sharm el-Sheikh, China was only willing to make voluntary contributions, as it has been in other areas of international climate finance. The United States and the EU relented rather late, but ultimately they signalled their willingness to agree to a dedicated fund for loss and damage. Initially intended as a bargaining move, this concession turned out to be an essential step towards restoring the trust of some of the developing countries in the multilateral process. Although many Western countries would have preferred a different solution, the decision to create a fund for particularly vulnerable developing countries was a crucial concession with great symbolic significance.

The wording agreed in Sharm el-Sheikh is vague on key points — a typical example of the use of constructive ambiguity in UN climate negotiations. Excluding contentious issues may serve to facilitate an initial agreement, but important details now remain to be negotiated. For example, the fund aims to support developing countries that are particularly affected by the negative impacts of climate change. Exactly which countries are eligible for support, however, was left undecided, as was who will contribute to the fund or which financial instrument will be used. A transitional committee will consider these questions and is expected to present initial results by this year's COP 28 in Dubai.

These post-agreement negotiations, which are no less critical, are reminiscent of the *Green Climate Fund* (GCF). Operationalising the GCF after the initial decision to establish it proved a lengthy process. The fund was conceived at COP 15 in Copenhagen in 2009 and agreed upon a year later in Cancún. But it took until 2015 before the first projects could be financed. The GCF's key guiding document had left many critical questions unanswered, such as how the required balance between funding for mitigation and adaptation would be interpreted. The much-anticipated upcoming 2015 Paris climate summit (COP 21) generated political pressure and likely sped things up. Important questions about the GCF's institutional design were nonetheless deferred until well after its launch. The new loss and damage fund now faces a similarly difficult and cumbersome process of operationalisation.

Emission reductions: An increasing credibility gap

The so-called cover decision of COP 26, the Glasgow Climate Pact, was generally well received by observers. After all, it seemed to contain the promise that parties would submit updates of their *Nationally Determined Contributions* (NDCs) for 2030 ahead of COP 27, ramping up their mitigation pledges. By contrast, the *Sharm el-Sheikh Implementation Plan* was met with almost unanimous criticism, despite the fact that the wording in both cover decisions does not significantly differ. This change in perception can be attributed to two main factors: first, the developments in climate and energy policy since COP 26, and second, the extraordinarily cumbersome negotiations at the conference in Egypt.

Multiple crises, which became virulent with Russia's attack on Ukraine, have shifted the short-term priorities of many of Europe's climate policy pioneers. Germany is not the only country where the focus is now more on the security of energy supply and energy prices. Unsurprisingly, the importance of climate policy has diminished, at least temporarily, in view of the enormous energy security challenges. It is doubtful, however, as to whether the lack of progress since COP 26 can be sufficiently explained by the intensification of crises. Numerous G20 members, including the EU, had already signalled shortly after the Glasgow climate summit that they would not add more stringent reduction targets to their NDCs in 2022 (see SWP Comment

2/2022). The only significant increase in ambition that a G20 member has announced for 2030 was made by Australia — a direct consequence of a change of government in May 2022.

There was not much confidence either that the developed countries would actually achieve their national emission reduction targets, whatever their level. Global greenhouse gas emissions have now returned to 2019 levels, the last year before the outbreak of the Covid pandemic. But emissions would need to fall by 43 per cent between 2019 and 2030 to bring the world onto a 1.5 °C path, according to the latest report from the Intergovernmental Panel on Climate Change (IPCC).

With its *Inflation Reduction Act* of August 2022, the Biden administration unexpectedly succeeded in getting a comprehensive climate policy package through Congress. As this package is based on subsidies for climate-friendly technologies — as opposed to carbon pricing or even limiting emissions — its effect cannot yet be precisely quantified. However, it is particularly irritating for developing countries that, on the European side, there has been a shift from natural gas to coal in electricity production and that new infrastructures and supply relationships are being created for gas and oil. Even if the medium- to long-term lock-in effects within the EU should turn out to be limited — due to the emissions trading system and accompanying measures — Europe, which is highly dependent on fossil energy, is acting far more pragmatically here than it has so far conceded to developing countries. At COP 26, Germany and other EU member states pledged to end state co-financing of coal, oil, and natural gas projects abroad by the end of 2022. The Elmau G7 summit in June 2022 indicated a change of course. State-backed investments in the gas sector should, according to the leaders' communiqué, be "implemented in a manner consistent with our climate objectives and without creating lock-in effects". This would not be feasible in the much-discussed case of exploring new gas fields in developing countries such as Senegal.

As the political focus of COP 27 was undoubtedly on loss and damage, there was little progress in the negotiations on mitigation, with positions even hardening. This applies both to the implementation of international cooperation mechanisms (under Article 6 of the Paris Agreement) and to the *Mitigation Work Programme* agreed in Glasgow. The latter was intended not least to support and revitalise the ongoing global stocktaking of progress under the Paris Agreement. The fact that the final cover decision of COP 27 essentially repeats the Glasgow resolutions on mitigation can be considered a success in view of the course of negotiations. In contrast to COP 26, Sharm el-Sheikh did not serve as a stage for launching new sector-specific initiatives beyond the UNFCCC process. At the G20 summit in Bali, held in parallel with COP 27, a *Just Energy Transition Partnership* (JETP) was announced by a number of developed countries with Indonesia, following a similar agreement with South Africa. In December there was another JETP concluded with Vietnam. In all three cases, groups of donor countries — each of which includes Germany — aim to support coal-dependent emerging economies with decarbonising their energy sectors.

Taking stock of Paris

The first Global Stocktake (GST) can be considered the litmus test for the UN climate regime's ability to trigger net emission reductions that are consistent with the 1.5 °C target. The five-yearly process was launched at the 2022 intersessional negotiations in Bonn. Its purpose is to assess collective progress in the areas of mitigation, adaptation, and finance and to assess it against Paris-compatible benchmarks.

So far, however, the process has not progressed beyond technical expert dialogues. It is expected to conclude at COP 28 in Dubai and provide an impetus to significantly increase the ambition of NDCs by the next deadline in 2025. If the largest emitters fail to announce massively ramped-up reduction targets for 2030 and 2035 in the next round, the *pledge-and-review* process legally codified in the 2015 Paris Agreement will inevitably face a deep credibility crisis — and international climate diplomacy with it. A similar outcome, albeit delayed, can be expected if the developed countries fail to actually meet their 2030 pledges or if the recently announced JETPs do not fulfil the hopes placed in them.

Europe has work to do

The EU is comparatively well-placed in terms of target formulation and implementation. With a net reduction target of 55 per cent by 2030 (base year 1990), its NDC is surpassed by hardly any developed country. But the completion of the Fit-for-55 package, expected in 2023, is even more important, as it will actually implement the overall EU target through more than a dozen directives and regulations. Tougher emissions trading could not only limit the impact of the crisis-induced shift from natural gas to coal. During the first week of COP 27, the Council of the EU and Parliament agreed to increase the amount of net CO_2 removal from land use, land-use change and forestry (LULUCF). This enabled Vice Commission President Frans Timmermans to announce in Sharm el-Sheikh that the EU's ambition level would be increased to 57 per cent by 2030.

The approaching debate on the targets for 2035 and 2040 will be far more contentious within the EU. The European Climate Law provides that net zero greenhouse gas emissions be achieved by 2050. To set interim targets, the law requires the Commission to submit concrete proposals for the path to climate neutrality, at the latest within six months after the conclusion of each GST. A decision can be expected in 2024, the year of the European elections. With each five-year step, the question of internal EU burden-sharing will become more vexing — not only because ambition levels in Central and Southeast Europe are still relatively low, but also because the climate neutrality target for 2050 concerns the EU as a whole, that is, it does not necessarily have to be achieved by every single member state, provided that other member states exceed this target. The net emission reduction target of 110 per cent by 2050, announced by Denmark's new government a few weeks after COP 27, could be a significant step here.

National net-negative emission targets for 2050 not only expand the scope for negotiations within the EU. They also signal that, in the long term, climate policy pioneers can be expected to remove more CO_2 from the atmosphere each year than they emit. Methods for this include afforestation or the capture of CO_2 from ambient air with subsequent geological storage (*Direct Air Carbon Capture and Storage,* DACCS — see SWP Research Paper 8/2020). The latest reports of the IPCC show that net-negative emission pathways are indispensable for reaching the 1.5 °C mark by the end of the 21st century after temporarily exceeding the threshold from the 2030s onwards ("overshoot").

Cooperation with diplomatic tact

Because global emissions are still not falling, despite the Paris Agreement, dealing with the consequences of climate change is becoming an increasingly pressing political issue — even in the optimistic scenario that global warming can be halted by mid-century. If the 1.5 °C mark is significantly exceeded, problems will become even more acute. The political dimension of the enormous physical impacts of climate change became very clear at COP 27. Owing to current priorities in the multilateral process, there was a strong focus on loss and damage. By contrast, adaptation to climate-related environmental change as well as international climate finance for adaptation have fallen short. The pledge to provide US$100 billion annually in international climate finance will only be fulfilled after a delay of several years. Moreover, the estimated funding needs for adaptation are not being met.

Meanwhile, delegates continue to struggle to agree on a single definition of international climate finance for the UNFCCC. A *New Collective Quantified Goal on Climate Finance* (NCQG) is being negotiated. Based on the previous US$100 billion target, it is to be adopted by 2024. Both the size of the new target — literally a question between billions or trillions — and the potential sources of funding are on the agenda. Whereas adaptation finance is often not viable without government support and therefore requires public sources of funding, developed countries insist on involving private investors to a considerable extent in view of the amounts required. In this context, there is also the abovementioned conflict over whether countries such as China should be obligated to make contributions, comparable to those from developed countries. These negotiations — as well as those for a *Global Goal on Adaptation* (GGA) — made little progress in Sharm el-Sheikh. Addressing climate impacts is therefore an issue that will continue to put increasing pressure on the international community, both materially and politically.

In view of this pressure, the loss of confidence on the part of developing countries, and the — at least in the short term — conflicting goals between energy security and climate change mitigation, diplomatic tact will be required to continue the multilateral process effectively in times of multiple crises. The German government has repeatedly made assurances that its efforts to replace gas imports from Russia in no way represent a step backwards in Germany's ambition to reduce emissions. However, the very fact that countries of the Global South perceive a lack of coherence in view of the — albeit temporary — measures has emerged as a problem for Germany's climate diplomacy.

With the G7 climate club (see SWP Comment 34/2022) and the *Global Shield*, Germany has proven to be quite resourceful and flexible when it comes to new initiatives and forms of cooperation. However, it will be important to also strategically anticipate the procedural challenges that need to be overcome in order to reach an agreement on such initiatives with specific partners. The loss and damage negotiations in Sharm el-Sheikh have shown this very clearly.

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