A CLIMATE FOR GROWTH

SECURING A GLOBAL CLIMATE CHANGE DEAL IN PARIS

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FOREWORD BY JOHN CRIDLAND

Climate change is one of the most critical issues facing business and society. Both the science and the economics are clear: we must act now, or pay a greater price later.

Business knows that it must be part of the solution, and is already developing new and innovative ideas, products and processes to cut emissions and create a more resilient economy. And we also know that in tackling the climate challenge there is a huge prize to be won, with the global green market worth £3.4trn.

But for companies to act, they need the certainty, confidence and opportunity to do so. And they need to know that we are all in this together. This is why getting the right global climate change deal in Paris is so important. In 2009, expectations for a successor to the Kyoto Protocol were high, but world leaders came back from the negotiations in Copenhagen empty-handed. This time around, all parties are going in with their eyes wide open, but this must not mean dampened ambition. Indeed, the momentum is there – Europe has committed to ambitious emissions cut, while both the US and China have agreed to take action. This must be maintained. If Paris is about what nations can bring to the table, we need to see a race to the top.

With the climate conference in Lima behind us, we now have the best opportunity in years to lay the foundation for a global deal that will create the right climate for growth and ensure a sustainable future for the next generation. We must grasp it with both hands.

SUMMARY

This paper argues that:

- **GLOBAL ACTION ON CLIMATE CHANGE IS BUSINESS CRITICAL**

  Taking action to address climate change is an economic and social imperative. The overwhelming scientific consensus is that man-made climate change is happening, and it must be tackled. But climate change is a global challenge, requiring a global solution – no single nation can solve it alone. In working collectively, the right climate action can stimulate investment, growth and innovation across the globe.

- **A GLOBAL DEAL MUST PUT US ON THE RIGHT PATH TOWARDS GREEN GROWTH**

  Business is central to tackling our climate challenge, but for it to deliver effectively, it requires a clear direction of travel. A global deal can support this at national levels, creating the right conditions for investment, trade and competitiveness. In other words, a successful deal in Paris should:

  - Achieve a robust legal framework for emissions reduction
  - Provide a basis for the implementation and expansion of carbon pricing
  - Facilitate the flow of finance and innovation

- **MOMENTUM MUST BE MAINTAINED TO SECURE A LASTING DEAL**

  Already, nations are demonstrating that they are willing to find ways to cut emissions, while businesses are also pressing ahead with actions to improve their efficiency and sustainability. It is crucial that we build on this momentum to bring more to the table. Once we have achieved a deal in Paris, efforts must continue to implement and enforce the necessary action.

PARIS SUCCESS CRITERIA PARTIES SHOULD:

1. Commit to making ambitious and equitable national pledges which are legally binding in either international or national legislation, with a mechanism by which they can be reviewed and upgraded.
2. Commit to developing a framework for comparing national targets, with a common regime of monitoring, reporting and verification.
3. Demonstrate commitment to enabling carbon pricing schemes, ideally with Parties committing to providing a roadmap and timescale.
4. Provide a framework to assess and accredit carbon pricing schemes, and promote the use of comparable monitoring, reporting and verification systems, with a view to enabling markets to link up.
5. Commit to scaling up climate finance funds and mechanisms, with a specific goal of leveraging private finance (by reducing project risks), and simplifying and consolidating the funding landscape.
6. Commit to supporting innovation at home and developing a framework to share technological innovation between countries, while protecting the intellectual property rights of companies.

GLOBAL ACTION ON CLIMATE CHANGE IS BUSINESS CRITICAL

Climate change is a significant risk to business and society

4°C

Global temperatures have already risen by almost 1°C since the start of the industrial revolution, and could be up to 4°C higher by the end of the century if no action is taken[1].

£277m

This would result in more extreme weather events, which carry a great cost. The estimated cost of the 2012/13 flooding in the UK was £277m[2].

95%

The UK will also be impacted indirectly through disruption to supply chains. Asda estimates that 95% of its fresh produce will be affected by climate change[3].

20%

Acting on climate change now, rather than later, is in our interests, with the Stern Review finding that inaction could result in losing up to 20% of GDP[4].

A global problem requires a global solution, with everyone playing their part

11%

The UK and Europe account for just 2% and 11%of global emissions respectively. Acting alone will not have the impact needed.

20%

In fact, acting alone could be counterproductive and create a competitive disadvantage. In 2012, medium-sized industries in the EU paid 20% higher electricity prices than those in China[5].

60%

While emissions intensity of domestic industry fell from 1993-2010, the UK's emissions imports increased by 60% to over 300MtCO2e[6].

The low-carbon transition presents a huge market opportunity

£3.4trn

The global market in low-carbon goods and services stands at £3.4trn[7].

£128bn

The UK already has a £128bn share of the global green market, and could take an even greater slice by tapping into growing export markets[8].

6%

6% of all UK exports go to high-growth BRIC markets, but low-carbon exports account for a much higher proportion, with 7% heading to China alone[9].

1. IPCC, 2013 "Summary for Policy Makers. In Climate Change 2013: the Physical Science Basis. Contribution of Working Group 1 to the 5th Assessment report of the IPCC"
2. Environment Agency, August 2013 "Managing flood and coastal erosion risks in England"
3. http://www.theguardian.com/sustainable-business/asda-food-waste-risk-climate-change
4. HM Treasury, 2006, "Stern Review on the Economics of Climate Change"
5. Committee on Climate Change, April 2013 "Reducing the UK's carbon footprint"
6. European Commission, March 2014 "Energy prices and costs report"
7. Department for Business, Innovation and Skills, September 2013 "Low carbon environmental goods and services, Report for 2011/12"
8. Ibid
9. Ibid

A GLOBAL DEAL MUST PUT US ON THE RIGHT PATH TOWARDS GREEN GROWTH

British business is clear: taking global action to tackle climate change is a social and economic imperative. The Kyoto Protocol, signed in 1997, established the first global agreement to cut greenhouse gases; this provided a commitment from developed nations to reduce emissions from 2005 to 2012. At Copenhagen in 2009, expectations for a deal that would extend this agreement were high, but politicians failed to meet them. With this in mind, the world met in Durban in 2011 and committed to a new process that would result in a "legally binding" agreement in 2015 that would limit emissions from 2020.
In Paris, it is important that every country shows leadership to realise this aim.

The ultimate goal of any climate agreement is to put the world on a path to reducing, and eventually eliminating, net carbon emissions, building resilience and driving economic growth, as the framework opposite shows.

For British business, a successful deal in Paris should help to boost low-carbon **investment** and **trade** in the near to medium-term whilst also ensuring comparable levels of effort across the global business community to maintain **competitiveness**. These outcomes are most likely to be achievable if the negotiations deliver in three key areas:

- Achieve a robust legal framework for emissions reduction
- Provide a basis for the implementation and expansion of carbon pricing
- Facilitate the flow of finance and innovation

A FRAMEWORK FOR CLIMATE ACTION

ACHIEVE A ROBUST LEGAL FRAMEWORK FOR EMISSIONS REDUCTION

The 2011 Durban Platform set the wheels in motion for a new legal climate change deal to be concluded in Paris in 2015, taking effect from 2020. An agreement that has legal force is an important driver of business confidence – setting an overarching direction of travel and giving a signal that there is political will to put all economies on a shared and managed low-carbon pathway.

The Kyoto Protocol, however, taught us that countries' hands cannot be forced – demonstrated by the fact that the treaty was not ratified in the US, while Canada announced its withdrawal in 2011. As such, rather than seeking a binding treaty with top-down targets in Paris, each nation is expected to bring its own pledge to the table, providing the foundations on which lasting and simultaneous actions to tackle climate change can be built.

But for a new legal agreement to get the buy-in from every nation and send the right message to businesses – that policies will have long-term goals and support investment – it must be underpinned by the following principles:

Ambition and equity: Existing commitments will most likely not put emissions on the path to keep temperature rises below 2ºC. The agreement should therefore provide a timescale for global peak emissions within this context, and a longer-term timescale for their reduction.

Of course, not every country will be able to make the same level of commitment, but every nation should play their part. While developed nations, which are both the richest and have benefited the most from emissions to date, will naturally take on the greatest burden, action is needed by developing countries, whose emissions are now greater than high-income nations. In short, every country must take on their fair share of responsibility.

Long-termism and durability: In the absence of a treaty with top-down national obligations, a commitment from nations to make their pledges legally binding within their own jurisdiction would be a sensible next step – making clear that they are lasting and durable, thus allowing businesses to plan and invest for the future. The UK, along with a growing number of countries, is ahead of the pack on this front, with its domestic emissions reduction targets enshrined in the 2008 Climate Change Act. Furthermore, countries should aim to agree a mechanism whereby national commitments can be ratcheted up on a regular and predictable basis to reflect economic, technological and scientific developments, without the need to return to the drawing board for full treaty negotiations once more.

Comparability and transparency: Not only will national commitments vary in scale, but also in how they are expressed and measured – for instance in absolute terms or relative to economic growth. To ensure that these add up to our shared global ambition, they must be translated to a common language. As such, nations should commit to common monitoring, reporting and verification (MRV) processes established under the UN Framework Convention on Climate Change that will provide transparency and confidence in the targets, timescales and delivery. This will build business confidence and trust over the long-term.

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PROVIDE A BASIS FOR THE IMPLEMENTATION AND EXPANSION OF CARBON PRICING

Emissions reduction targets are of course only as good as the policies that underpin them and, for business, one of the most effective and lowest-cost tools to reduce emissions is putting a price on carbon. By creating a cost to carbon emissions, investment in alternative sources of energy, greater efficiency and new technologies will increase. More widespread carbon pricing will also help level the playing field for energy-intensive industries, whose competitiveness in a global market is reduced where some face carbon costs while others do not.

Momentum for pricing is building. Many companies already set an internal carbon price as standard practice as part of their risk management strategies[10], and there has been a proliferation of pricing mechanisms set up by governments across the world. Indeed, by the summer of 2014, there were almost 40 national and over 23 sub-national carbon pricing regimes either in action or scheduled[11]. And at the UN Secretary General's climate summit in September, over 70 countries and 1,000 companies signed a statement supporting the expansion of carbon pricing scheme. These schemes broadly fall into two camps – carbon taxes or emissions trading schemes – with European businesses favouring the latter due to its market-based principles and focus on least-cost climate action (see box). But whichever system is chosen, it must sustain an effective price that will have real impact.

Carbon pricing and the EU emissions trading system

The EU emissions trading system (ETS) was introduced in 2005 as the world's first carbon trading system. The EU ETS has been refined, and it is now in its third phase, and has been used by other countries as a guide for their own systems. The EU ETS has not been without flaws, and the EU is now investigating how to make it more responsive to economic changes. As a market-based cap-and-trade approach to reducing emissions, it enables those companies and installations that struggle to reduce emissions now to purchase carbon permits from those that can do so more effectively and cheaply. It therefore has three advantages, particularly over a carbon tax:

- It locks in emissions cuts, once a legally binding cap has been set
- It drives the emissions cuts from the lowest-cost options across the sectors covered by the system
- It provides a long-term market signal for making low-carbon investment.

10. CPD North America, December 2013 "Use of internal carbon pricing by companies as incentive and strategic planning tool"
11. World Bank, May 2014, "State and Trends of Carbon Pricing 2014"

While a truly global carbon market may be an unrealistic prospect in the near-term, it should remain our long-term ambition, and one which the Paris negotiations should support. A global carbon price would equalise costs for all businesses, and help find cheapest carbon abatement globally. However, as with emissions reduction commitments, a bottom-up approach may be most effective, building on the progress that is already being made. For instance, different carbon trading schemes are starting to link up, with California and Quebec a recent example. The UNFCCC could support further linkages by creating a structure for interaction e.g. through the Framework for Various Approaches and Clean Development Mechanism, and could look to develop robust MRV requirements and some form of "accreditation" to allow greater comparability and compatibility between schemes.

> *It is crucial that we see a global effort to reduce emissions, allowing companies across the world to compete on an equal footing.*

Tom Crotty, Director, INEOS

PARIS SUCCESS CRITERIA:

3. Demonstrate commitment to enabling carbon pricing schemes, ideally with Parties committing to providing a roadmap and timescale.
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FACILITATE THE FLOW OF FINANCE AND INNOVATION

Getting finance flowing towards climate mitigation and resilience will be absolutely crucial to managing climate change and the low-carbon transition. Developing countries in particular will need significant financial support from the global community for low-carbon energy and adaptation measures, yet currently, only 10% of climate finance flows from OECD countries to developing nations[12]. In Copenhagen, developed countries committed to mobilising US$100 billion per year by 2020 towards low-income nations; pursuing this goal must therefore be a key feature of the Paris negotiations.

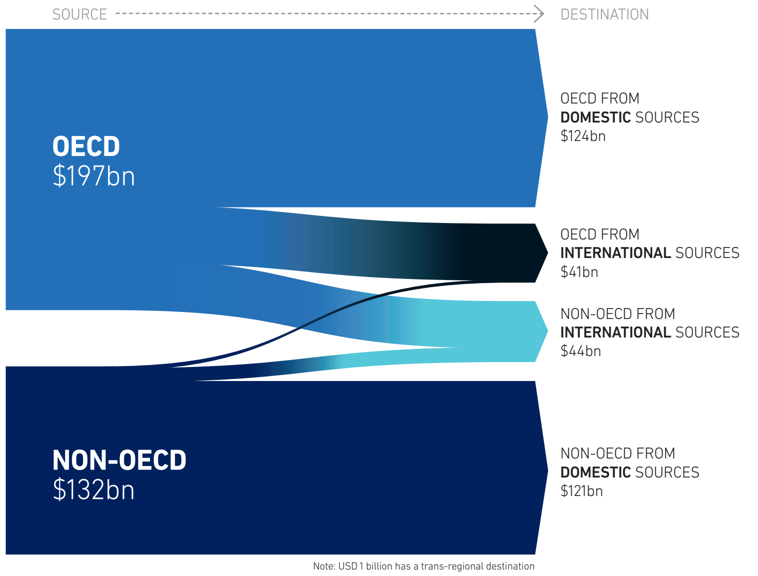
A number of public funds already exist to support this aim – for example, the Green Climate Fund (GCF), which was established under the auspices of the UNFCCC, and received over $1 billion in pledges from governments at the UN's September summit. Finance is also available through multilateral development banks and national funds, such as the UK's International Climate Fund (ICF). Indeed, such government funding is essential to guarantee support for adaptation and mitigation measures in less developed countries and to help them avoid high-carbon development pathways.

But with global public purses still in recovery, the necessary step-change also requires a greater contribution from the private sector. Helpfully, there is no shortage of private capital – there is $97 trillion of conventional funds under management worldwide[13].

There was $331 billion invested in low carbon in 2013[14], but growth has stalled and much of the low-hanging fruit has been picked. The challenge now is finding projects with the right risk profile and maturity horizon for private sector investments. This means there should be a greater emphasis on governments or national development banks using the financial vehicles at their disposal to help de-risk investments of the private sector as well as helping to link international finance with local projects.

In addition to finance, game-changing innovations like Carbon Capture and Storage will be critical if we are to truly transform our global economy while keeping costs down. Such innovations will also enable developing countries to avoid a high-carbon path to economic growth. Of course the cost of these innovations will fall over time but there is a role for governments to help the private sector manage these costs, especially as they are first deployed. Therefore, Paris must shift the dial in this area too. For starters, nations should aim to scale up innovation funding at home, for example by using carbon price revenues (through tax or auction) to support investment in low carbon technology, as is already occurring under the EU ETS NER 300 scheme. Additionally, an agreement in Paris should look to accelerate the transfer of technologies and collaboration between countries, while ensuring the protection of intellectual property rights.

Geographical flows[15]



12. Climate Policy Initiative, November 2014, "Global Landscape of Climate Finance 2014"
13. TheCityUK, September 2014, "UK Fund Management 2014"
14. Climate Policy Initiative, November 2014, "Global Landscape of Climate Finance 2014"
15. Ibid

PARIS SUCCESS CRITERIA:

5. Commit to scaling up climate finance funds and mechanisms, with a specific goal of leveraging private finance (by reducing project risks), and simplifying and consolidating the funding landscape.
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NATIONS ARE TAKING ACTION TO LIMIT EMISSIONS

Mexico passes climate change act, Apr 2012

President Obama introduces emissions controls on power sector, Jun 2014

China commits to peak emissions "as soon as possible", Sep 2014

73 countries and 1000 companies sign World Bank carbon pricing pledge

UK cement industry targets 81% emissions cuts by 2050

Global rail industry initiative: over 100 rail operators commit to cut sector emissions by 75% by 2050

BUSINESSES ARE TAKING ACTION TO LIMIT EMISSIONS

EU agrees 2030 GHG targets Oct 2014

Ban Ki Moon Summit Sep 2014

US-China agreement Nov 2014

Lima Conference Dec 2014

Pledges due from nations Q1 2015

Paris Conference Dec 2015

Continuing refinement and implementation

Deal kicks in 2020

CONTINUING ASSESSMENT AND REVIEW OF COMMITMENTS AND ACTION

MOMENTUM MUST BE MAINTAINED TO SECURE A LASTING DEAL

Following the talks in Copenhagen, the prospects of a lasting global deal reached a nadir. Since then the scientific evidence for both the necessity, urgency and scale of action has become even clearer. Meanwhile confidence in the possibility of an effective climate deal has quietly grown. Many countries and companies, are taking their own action to tackle emissions and climate change. This bottom up approach will be essential to success in Paris; if everyone can show they are prepared to make some effort, the result could be greater than the sum of its parts.
For business to fulfil its potential as part of the solution, it needs to see the right outcomes from Paris to encourage the necessary investment and innovation for a low carbon future.

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