Workshop Report: Negotiating an Agreement at the UN Climate Change Conference COP21

In December 2015 over 180 nations will gather under the auspices of the United Nations in Paris to consider a universal agreement on climate change from all nations.

On October 1, The Whitehall & Industry Group held a workshop at Imperial College London to bring an audience of business and government together to discuss the challenges and opportunities presented by a prospective agreement in Paris.

The majority of participants were representatives from major FTSE and multinational companies, with some participants from government departments who work with the Department of Energy & Climate Change (DECC) on the climate change agenda.

There were two keynote talks: **James Hughes, Deputy Director - International Strategy, Engagement & Analysis, DECC** discussed the political conditions in the lead up to Paris, the mechanisms by which a deal will most likely be made, and the potential risks facing countries aiming to secure a strong global agreement. **Jonathan Grant, Director, Sustainability & Climate Change, PwC UK** gave an overview of some recent analysis from PwC on effective motivators for CEOs to take actions on climate change and the key implications of the COP negotiations on business.

Following the talks, the delegates were invited to participate in round table discussions. Two questions were used to focus these discussions:

1. What would you like to feedback to DECC on the **risks** and **opportunities** of an agreement in Paris?
2. Can an agreement be reached that is **both good for climate change and for economic growth**, and how?

The aim of this report is to summarise the insight and knowledge shared in the two keynote talks, and to give an overview of business responses to the round table questions.

The Road to Paris, James Hughes, Deputy Director, International Climate Change, Department of Energy & Climate Change

Political conditions are currently very favorable for a successful climate deal at COP 21 in Paris in December, with key countries such as the US and China wanting an agreement. There is a clear contrast between the upcoming negotiations in Paris and COP 15 in Copenhagen in 2009. In the case of Copenhagen, there was a high level of ambition but too much was left to be agreed at the COP. In the run-up to Paris, there has been a better balance of ambition and realism, with thorough preparation: countries have prepared emission reduction commitments known as Intended Nationally Determined Contributions (INDCs) and a great deal of work has gone into ensuring that the draft agreement is advanced as much as possible ahead of the COP.

At the time of writing, there have been INDCs from 147 countries, including the European Union member states. In total, these submissions cover around 85% of global emissions of greenhouse gases (GHGs) and 86% of the global population. An up-to-date assessment of mitigation contributions is available at http://climateactiontracker.org/. The submitted INDCs indicate that the deal likely to be reached in December will not put us on a trajectory to 2030 consistent with limiting the global mean temperature rise to below 2°C. However, at best they could close the gap between business as usual and a below 2°C trajectory by up to half. The size of the gap would depend in large part on whether countries delivered at the top end of their ranges and on assumptions around the extent of future growth of some of the major emerging economies (Figure 1).

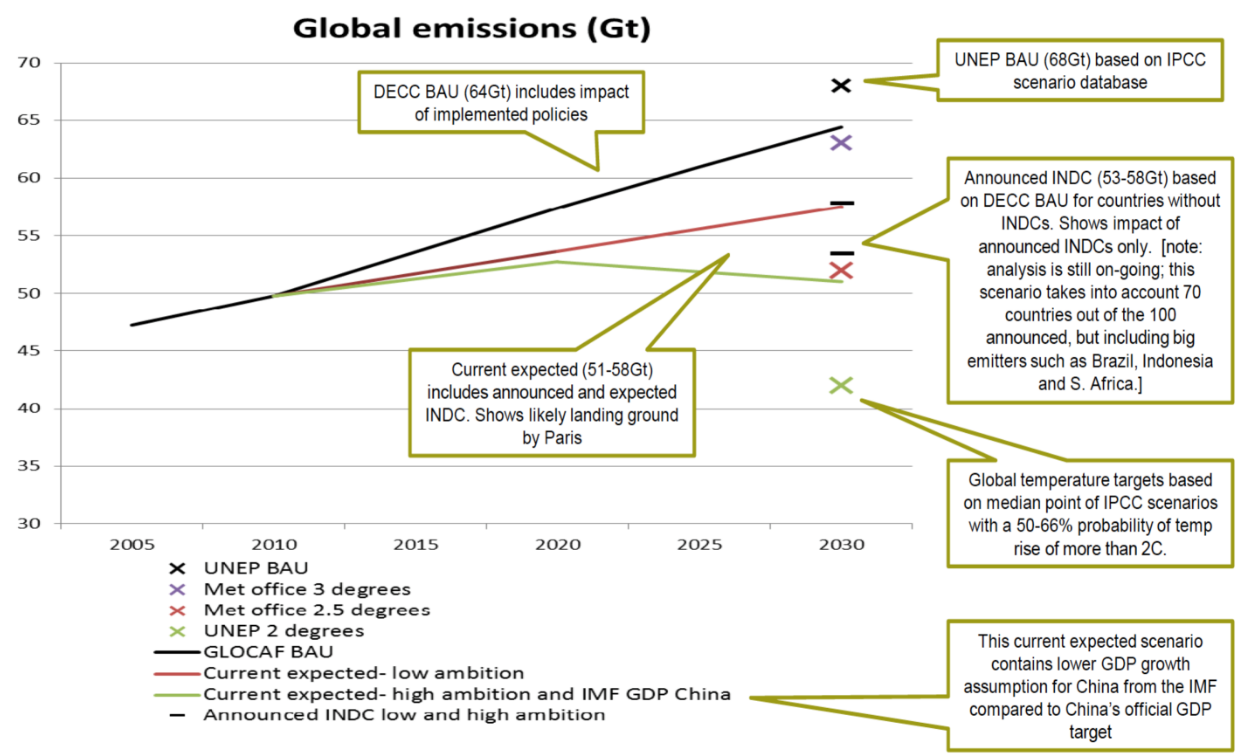

Figure 1: Expected deviations from business as usual (BAU) emissions trajectories

While widely debated, there is currently no objective approach to 'fairness' between the countries' national targets, but one metric is the ratio of GHG emissions per capita against GDP per capita. Most INDCs indicate a decrease in this ratio between now and 2030, with the exception of Russia, China and India – but these countries have a relative low starting point of GDP per capita.

Despite encouraging signs, there are risks to the achievement of a deal in Paris. One key risk is the lack of perceived progress in developed countries mobilising $100 billion a year from all sources, including public and private. This money, which should be in place by 2020, is to support developing countries' efforts to cut greenhouse gases and adapt to the impacts of climate change. Other risks include a failure in the negotiation process itself, or blocking by a major country or group of countries if they do not consider the agreement on the table to meet their objectives. In order for the agreement to be a success it needs to keep the 2°C goal within reach. UK objectives therefore include an effective set of common rules to provide transparency and give confidence about delivery, a long term goal and a regular review process post-Paris, which would provide the opportunity to raise ambition further, taking account of developments in technology and falling costs.

DECC is calling for a more collaborative effort to ensure that a good, if not perfect deal, is welcomed. Progress towards the below 2°C goal in Paris and a clear demonstration of all governments' commitment to a low carbon future can help create a positive environment which will attract more investment in low carbon and help create a springboard to further action.

Business expectations for COP21, Jonathan Grant – Director, Sustainability & Climate Change, PwC

PwC has recently carried out a survey of 142 global CEOs from across Europe, Latin America, Asia Pacific, Africa, North America and the Middle East[1]. When asked what motivates them to take action on climate change, the most frequent reason given by business leaders was a concern for future generations (Figure 2). However, this could be perceived as at odds with the shorter-term day-to-day pressures on CEOs. Shareholder resolutions are key to regularly placing climate change and emissions reductions on the agenda at board meetings. Disclosures from some companies have highlighted the importance of shareholder concern over divestment of fossil fuels and resulting stranded assets.

Although a binding agreement is *not* a key driver for CEO action on climate change, there are ways in which business can connect with the COP. The key implications of the COP negotiations for business are the INDCs of the countries that form part of its supply chains or markets. PwC has analysed a dozen INDCs in detail[2] – it is this detailed, national picture that is most relevant and important for business. Three implications are emerging from this work. Firstly, coal is in the firing line: coal fired power generation is being targeted in countries' decarbonisation pathways and many have put regulation of coal as a key component of their INDCs. Secondly, there are opportunities for business in the shift towards large-scale deployment of low carbon infrastructure, including renewables, transport and the grid. The large-scale deployment of wind energy in China was heralded as an

[1] http://download.pwc.com/gx/ceo-pulse/climatechange/index.htm

[2] http://www.pwc.co.uk/services/sustainability-climate-change/insights/low-carbon-economy-index.html

example of this. Finally, there will be a need for a significant shift in investment flows, with wide-reaching implications for the finance sector.

Businesses will be affected by COP in different ways. The scope of issues being debated in Paris is wide and therefore businesses are likely to follow the debates that matter most to them in very fine detail. The implication of carbon pricing is of growing interest, as more and more businesses and policy makers indicate that a common price on carbon is essential to driving the economy in a lower carbon direction. For others, rules about how intellectual property will be treated as the roll-out of technologies is scaled-up is key, as well as the opportunities and risks offered by the need to transfer technologies around the world urgently and rapidly. Investors and incumbent large firms may be focusing on the risk of stranded assets that may come about through climate policy signals that change the landscape for different sectors. Some businesses will be actively looking for specific new, investment opportunities that can be funded by climate finance and supported by the climate policy environment in different countries. Sectors that rely heavily on ecosystem services will also be keeping a close eye on the details and implications of the UN's REDD+ (Reducing Emissions from Deforestation and Forest Degradation) programme.

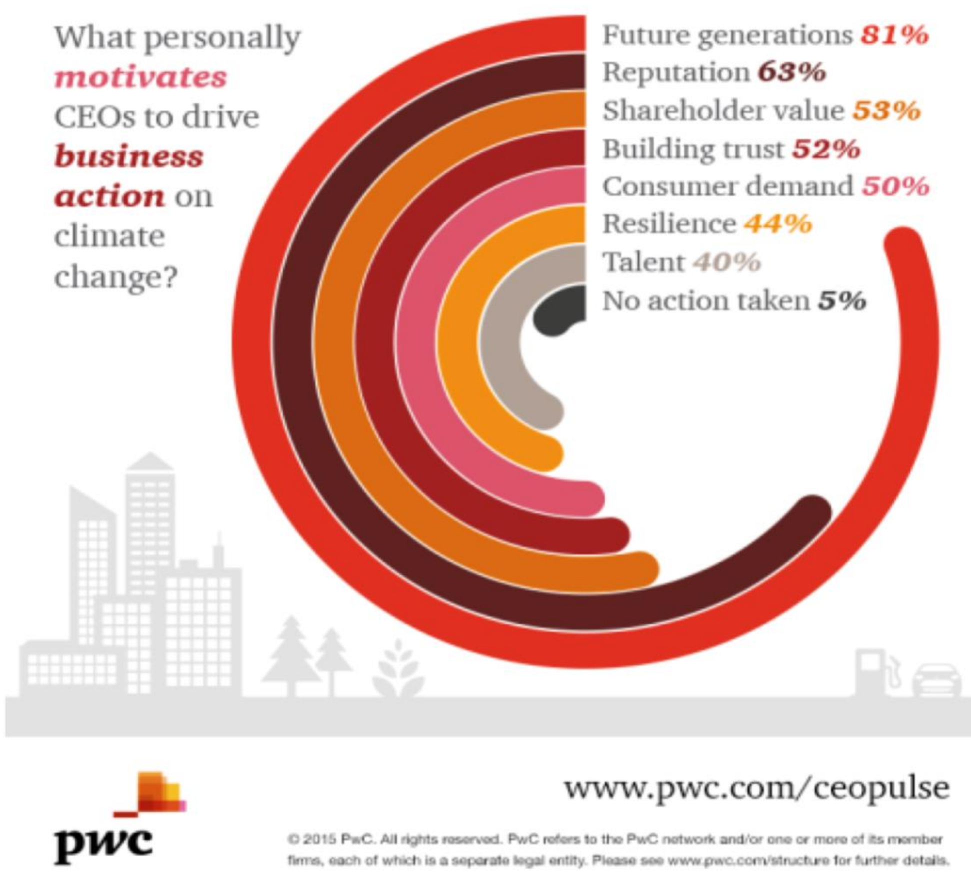

Figure 2: The motivations of CEOs to take action on climate change. Source: PwC

Summary of the round table discussions

Following the keynote talks, the meeting delegates were invited to feedback their views on the opportunities and risks posed by an agreement in Paris and possible pathways to an agreement that is good for both Earth's climate and economic growth.

Four themes of the discussion emerged: the role of communication with the public, the variety of ways in which businesses treat this agenda, the need for consistent and accessible policies and the need for effective collaboration between business and government.

The role of communication

PwC's CEO survey highlighted the importance of consumer awareness in shaping business decisions. Businesses are able to play a strong role in shaping consumer awareness and belief – taken together retailers are able to connect with 85% of the world's population. Business can view this two-way connection as a key opportunity to bring about climate action. The education sector could also play a key role here, and some businesses maintain that our academic institutions' problem-solving abilities are currently underused.

Business leaders argued that they were ahead of government in crafting positive communication messages around lowering GHG emissions. The government could learn lessons from businesses on communicating a positive vision of the future (for example the Tesla car is sold as a desirable product that lowers emissions). In terms of moving to a low carbon economy, the discourse could include a focus on job-creation and improvements in lifestyle. Government could make further use of its behavioural science, or 'nudge', unit, in order to bring about changes in consumer behavior with these aims in mind. Some business leaders also hold the view that NGOs need to craft a more positive, pragmatic and useful dialogue around climate change to foster an atmosphere of cooperation and positive change.

On the other hand, some business leaders contest that action is more important than communication. For some, there is too much focus on crafting communication messages around climate change and the shift to a lower-carbon economy, when governments and business should be focusing on funding and market mechanisms instead.

Different ways in which business approaches the climate change agenda

The focus on COP21 is giving carbon emissions a higher priority in board meeting agendas. This higher profile is an opportunity for the strategic early adopters who can influence the wider business community through leadership. In other companies, however, this shift upwards is still a struggle and most of the activity involved in sustainability planning is out of sight for the majority of board directors, including the Finance Director. Any opportunity to get some profile on the board agenda is a powerful first step. Some attendees also suggested that the standard of carbon reporting needs to be improved to a quality where it can be included in business reports.

The emphasis given to sustainability and climate practice varies not only between businesses, but also within multinational corporations. The culture and practices surrounding sustainability and climate change vary largely between the offices in different countries. This variation is a significant obstacle for the branches of these companies in countries with more stringent climate targets and environmental regulations. Businesses fear that further climate targets in some countries will increase these discrepancies, forcing operations to move to countries with looser environmental regulations.

Industry leaders are especially keen to ensure that policy decisions have a net positive effect across government departments and separate industries. For example, in the automotive sector the shift to battery electric vehicles will only reduce emissions with a decarbonised grid – actions in the transport sector need to be reinforced by a decarbonisation of the electricity supply. The importance of viewing air quality and carbon emissions in a systematic manner is also an important issue here, as there can be some trade-offs required in decision-making. For example, in the drive for zero-carbon buildings, there is a trade off between climate change related issues (mitigation, energy efficiency) and other wider issues (e.g. ventilation and air quality).

Consistent and accessible policies

Business leaders have a sense of frustration around access to green finance in the UK, which could be easier and more transparent. It is often easier to access funding through the open market than through low-carbon initiatives such as the Green Investment Bank. One possible solution to this problem is to create an equivalent to the Green Climate Fund[3] for developed countries. There is also a strong call from business for consistent policies, that make it less risky for businesses to make low-carbon investments.

One key concern of business representatives is the potentiall risks to competitiveness if the UK goes beyond EU requirements to reduce emissions.

Many industry representatives suggested a strong call for a global carbon market. This would allow them to invest in international projects that are more effective at reducing emissions than small-scale initiatives in the UK. The UK government would like to help develop a global carbon market, but recognises the challenges in achieving this goal, and is making incremental steps towards doing this.

Several business representatives would like to introduce a carbon price so that emissions have a clear impact on companies' financing. One representative suggested attaching carbon emission tariffs to VAT and considering carbon as part of the company's value chain.

[3] The Green Climate Fund (GCF) acts within the framework of the UNFCCC and was founded as a mechanism to assist developing countries in adaptation and mitigation practices to counter climate change.

DECC understands that a major risk to climate mitigation outside the UK is business leaders' lack of understanding of the UK's International Climate Fund[4] and Capital Markets Climate Initiative[5], which governs where and how private sector funding is used to fund low-carbon projects internationally. The current COP procedure can leave business with a sense of disengagement from these matters, which in turn increases the risk of no deal being achieved. Some business leaders also feel that current international banking regulation (the Basel Capital Accord) acts to restrict the flow of finance to low carbon infrastructure.

Collaboration between business and government

Both business and government representatives widely agree that building effective collaborations between their organisations is a key aspect to securing economic growth. Lessons can be learned from the REDD+ program, where industry associations and governments have made positive steps towards sustainable palm oil production in the context of deforestation. The important role cities and their mayors can play in business/government relationships was also stressed.

Government is looking to businesses for input on ways in which collaborative coordination on the funding for low-carbon research and development can be achieved. Business emphasised the importance of maintaining funding of long-term research which would benefit UK competitiveness in low carbon technologies. They are keen to ensure that funding for technological breakthroughs is cost-effective and duplication is avoided where possible. This was seen as a key challenge: both governments and businesses are wary of funding policies that effectively 'pick winners and losers'. Market mechanisms are still considered a critical lever to enable the flow of finance to low-carbon initiatives and to encourage change in investor and consumer decisions.

Continuing an effective dialogue

The meeting concluded with James Hughes highlighting government's focus to continue an effective dialogue with business on the topics surrounding climate change. In order to ensure businesses are best informed about the implications for COP 21 on their work, DECC offered to consider identifying a key point of contact within the department for business representatives. DECC is also eager to hear more of business leaders' views on the wide reaching topics of carbon markets, opportunities for growth and meeting climate targets whilst encouraging development.

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[4] The UK government set up the International Climate Fund (ICF) to provide £3.87 billion between April 2011 and March 2016 to help the world's poorest adapt to climate change and promote 'cleaner, greener growth'.

[5] The Capital Markets Climate Initiative (CMCI) was launched by the UK government in September 2010 to establish public-private dialogue and action to help mobilise and scale up private finance flows for low-carbon technologies, solutions and infrastructure, with a focus on developing countries.