# *The real deal: Update on the Paris Climate Agreement*

**22st April 2016**

This Friday (22nd April) leaders of 150 nations gather in New York to sign the Paris Climate Agreement. We've prepared a summary of PwC's analysis and insights following the Paris Climate Agreement in December 2015, with updates on the implications for business, measurement and lesser developed countries. Links to the specific analysis are below.

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# The real deal: signing the Paris Climate Agreement

This Friday (22nd April) leaders of 150 nations gather in New York to sign the Paris Climate Agreement. As our team at the COP21 negotiations in Paris* in December concluded, "the deal is more substantial and, with a 1.5°C temperature goal, more ambitious than many expected."

As a marker of the potential of what's possible, the Low Carbon Economy Index published before the summit last year by PwC UK, analyzed carbon emissions linked to energy use in the G20. It found some of the first evidence of the uncoupling of emissions from growth – one of the long held ambitions of the climate talks.

The real work is underway and must make critical progress this year.

"The key words now are ratification, implementation and integration," says Sam Bicketeth, CEO of the PwC led Climate & Development Knowledge Network, which supports the Least Developed Nations to plan & implement policies that are resilient to climate change.

# What's happening?

55 countries whose emissions total 55% of global greenhouse gases need to sign the Paris Agreement to enable the Treaty to come into effect. The process starts this Friday (22nd) in New York and is open for a year.

So what might look like just a photo call on Friday is actually the next stage in the implementation of a deal whose impacts on finance, economics, industry, energy and government policy are yet to be fully felt.

Over 150 countries, and more than 50 leaders are expected to attend the event. With over a year to sign on the dotted line, not turning up to the photo call does not mean a country does not agree with the deal.

“So far Pacific states on the frontline of climate change  including the Marshall Islands, St Lucia, Fiji and Palau— have acceded,” says Sam Bickersteth.

As Celine Herweijer, partner, PwC UK Sustainability & Climate Change notes following the meeting in Paris, “Those working on climate change in 2016 are focused on the immediate task at hand – ratification -  so that the deal enters in legal force ideally this year, and on implementing the first round of national (and wider business, city, NGO) commitments underlying the Paris Agreement.

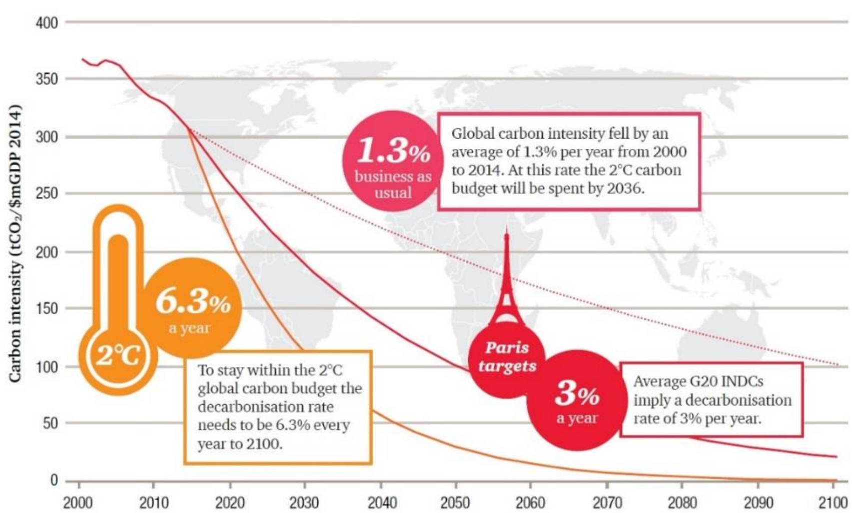
“But with this action and further momentum building, the importance and urgency of building a strong global accountability system in parallel should not be understated. For the climate deal to work, it needs a system that supports, reinforces, and accelerates implementation of the Agreement by all.”

“While the timelines set by the Agreement look pragmatic, the timelines for transition set by the science leave no room for non-performance on country commitments.”

# What are countries trying to do in the deal?

As PwC UK climate policy specialist Jonathan Grant highlighted recently: “At the heart of the deal is the fundamental contradiction between the hugely ambitious global goal to aim for 1.5°C and the rather more feeble national pledges (as illustrated in the PwC UK Low Carbon Economy Index chart below).  If achieved, the national contributions are more in line with 3°C of warming.”

“Underpinning the agreement’s ambitions are individual countries national level commitments describing how they will limit carbon emissions that are linked to climate change. As a result the INDCs describe how countries will increasingly put pressure on coal investments whether through emissions or efficiency standards, taxes or cap and trade programmes.  In the INDCs, countries also outline how they will support investment in renewables, biofuels and other low carbon infrastructure.  It implies huge shifts in financial flows towards low carbon development and governments now need to think seriously about how they and the private sector can achieve this.”




***The Low Carbon Economy Index 2015***

Review individual country analysis of INDCs here.

## Is this deal a burden for business and the global recovery?

The reality of the Paris Agreement is that international agreements on limiting carbon emissions will filter down to business through national and regional regulation (and incentives) irrespective of whether the country the company operates in has ratified the deal.

The Paris Agreement provides business with more certainty around the long term direction of policy. On the regulation side, expect to hear more questions asked of companies and more detailed responses showing investors and others how an organization can thrive regardless of whether there is 1.5-2°C of climate policy or 3-4°C of climate impacts. This applies to both organizations' operations today and the longer term investment decisions they are making today.

The economic prize, and potential is large. Analysis by PwC UK before the Paris Climate Summit showed the significant impact that business could have if it achieved low carbon economic growth. Analysis by PwC UK for The World Business Council for Sustainable Development's Low Carbon Technology Partnerships initiative shows that, if fully achieved, business action to reduce emissions, could cut emissions by around 25% from business as usual and get society 65% of the way to a 2 degrees emissions pathway. This would channel $5-10 trillion of investment toward low carbon sectors of the economy and support 20-45 million person-years of employment.

**Carbon pricing** – paying for the emissions linked to your business - is one of the more contentious issues for businesses with large energy requirements. The reality is however that companies – whether they agree with market based mechanisms or not - are now putting shadow carbon prices and incentives in place so that investment and operational decisions address climate risk. "While many focus on analysing different prices to use in sensitivity analysis, the bigger challenge is likely to be shifting the mindset in the project teams and senior executives to incorporate the cost of carbon into their decisions," says Jonathan Grant.

On the incentives, and opportunity side, building on actions and pledges made in 2015, some financial institutions are now considering whether the Paris Agreement presents new investment opportunities in low carbon infrastructure. We suggested in a blog earlier this year that clean investment may be hampered by low fossil fuel prices. While high prices force companies and consumers to consider alternatives, low prices take the pressure off, they reduce investment in the energy sector broadly and are expected to dampen investment in renewables. But clean investment is set to grow in 2016. According to Moody's, the rating agency, the green bond market will reach around $50bn of issuance with growing interest in China and India.

Ultimately though, business eyes will not be on the UN's signing ceremony says Jonathan Grant noted recently. Despite this, he demonstrated how business was responding to Paris 100 days on recently. "While most in business recognise the symbolic importance of the Paris Agreement and the prospect that it should catalyse action at the national level, the details of the Agreement and its ratification are of less practical relevance. Companies I've spoken to about the implications of Paris are more focused on putting their pledges into action or analysing potential climate risks to respond to concerns from their board or investors. Ratification and entry into force are important to maintain momentum, but companies are not waiting for a starting gun before taking action or focused on the development of rules in the next phase of the negotiations."

## What's next?

The Agreement will only officially enter into force after 55 countries representing 55% of global emissions have signed. In practice, this means that countries with high emissions and a high number of smaller countries are needed for the deal to come into force. The current ratification process in each country is an opportunity to engage a wide cross section of policy makers, public opinion and legislators around each country's climate goals.

"While the deal will not enter into force on Friday in New York, the end of 2016 is possible, if challenging. Ultimately the odds are perhaps stronger that it will happen by 2017." says Celine Herweijer in considering the significance of the UN event for the momentum of the deal.

"The diplomacy has been gaining pace in recent months, with the US and China already committed to signing this year along with another 10 countries. In addition to the US and China, countries representing another 15% of global emissions need to sign on to reach the magic number of 55%. Coalitions are being built, and we are likely to see the dynamics of this play out in New York this Friday as leaders show up, and timetables are unveiled.

Even once we have a deal with legal international force, negotiations will continue over the coming two-three years to finalise the detailed rules and processes of the Paris Agreement. One of the key building blocks of the deal yet to be finalised which will be critical to its long term success is the accountability (ie transparency, review and compliance) mechanism (see below).

"Those working on climate change in 2016 are focused on the immediate task at hand – ratification - so that the deal enters in legal force ideally this year, and on implementing the first round of national (and wider business, city, NGO) commitments underlying the Paris Agreement," notes Celine Herweijer recently. Expect to see significant discussion (or debate) on the accountability and compliance – the legal end of the deal in the ramp up to the first 'stock take' of nations' progress.

"The UN's goal is for the climate deal to enter into force as quickly as possible. Early entry into force will help to mitigate short terms political risks to the deal associated with national elections. Once the deal is signed, withdrawal is prohibited for the next three years. Entry into force will also further spur investor, business and public confidence that governments are committed to emissions cuts, and that an era of low carbon transition has begun. That means governments will be held legally accountable to report their progress on, and increase their efforts, in order to meet the Agreement's overarching goal of greenhouse gas neutrality by the second half of this century."

## How will we know if the deal works?

As Celine Herweijer, partner, PwC sustainability & climate change describes it, "The deal needs a strong referee - in this case a robust accountability and compliance mechanism,"

In 2018 the Paris Agreement requires parties to get together to take stock on progress. Two years later in 2020, countries will be asked to increase their contributions again. It is around this date that global emissions will need to peak in order to meet the Agreement's overarching goal of limiting warming to "well below 2C". By the time the world has its first legally-binding climate health check in 2023 (the global "stock take") we will have a good idea of whether the global climate deal is effective and if countries are indeed on track to tackling climate change."

Countries agreed in Paris to review targets and 'ratchet' them up to higher levels of ambition every five years. "This means that implementing the INDCs are already a pressing issue for developing countries. Review means they have to *progress* their commitments each time," says Sam Bickersteth.

But nothing can happen without the underlying accountability mechanism, warns Celine Herweijer. “Under the climate Agreement, the accountability (ie transparency, review and compliance) mechanism is doubly relevant as it is this part that is the legally binding part of the Agreement, not as many might consider, the achievement of the emissions cuts themselves. Getting this system right from the outset therefore is fundamental to the legitimacy, effectiveness and longevity of the regime going forward.

“As it stands the Paris Agreement has the skeleton of a compliance framework built in, focused on transparency and review, not on enforcement. The deal agreed, loosely outlines a mechanism of self-monitoring, a periodic expert review (and time for improvement), financial and technical assistance to build country’s reporting and compliance capabilities, and a state-nominated committee to address compliance issues in a non-confrontational way. There is enough in the agreed text to give legitimacy to further discussions in 2016 and beyond to flesh out a compliance mechanism fully.”

We’ll also see changes more business action on issues of resilience, reporting, and risk management - already starting as Jonathan Grant outlined when he asked *‘What’s changed since the Paris Summit?”*

Work of related bodies such as Green Climate Fund, and the recently established Taskforce on Climate-related Financial Disclosures (TCFD), led by the Financial Stability Board will also be watched for progress.

“The Taskforce’s role is to make recommendations for enhancing voluntary climate-related financial disclosures to support financial institution’s decision-making.” says Jon Williams, Partner, PwC sustainability & climate change. “At the heart of its thinking, the Taskforce believes that inadequate consideration of climate risk exposures can lead to mispricing of assets, misallocation of capital and potential financial stability concerns. FSB Chair Michael Bloomberg set the context for their work in his opening letter  to FSB head Mark Carney, describing climate change as "one of the most complex issues facing businesses, governments and society."

## And finally…..

As Sam Bickersteth points out “the outcome of the Paris Agreement was better than it might have been. And it sets a very important tone – you cannot turn back from Paris.”

But the wider policy picture for business and governments is critical too because the Paris Agreement on climate change is not the only deal in town they are paying attention to. Last year, 193 member states ratified the Sustainable Development Goals; business will be critical in helping to achieve them.

Action on climate change is just one 17 goals with 169 indicators to help define progress encompass action on the environment, poverty, hunger, economic growth and health. In signing up to the SDGs, governments will look to society, and business in particular, for help to achieve them. Measuring, monitoring and reporting on progress is central to achieving the goals.

“The Paris agreement will frame future economic development pathways for the least developed and most climate vulnerable countries as an element of the Sustainable Development Goals (SDGs),” says Sam Bickersteth, CEO of the PwC led Climate & Development Knowledge Network.

“Critically, it will increase the flow of additional public and private finance for vulnerable countries for both low carbon and climate resilient investments.

“Ambition, including the pathway towards a possible 1.5C is seen as a lifeline to Small Island Developing States and Least Developed Countries which could not survive at two degrees of warming. But the reality is, implementation will need to begin immediately, and ramp up shortly afterwards. While the Paris

Agreement is encouraging, if ambition does not continue to increase in future years, then the achievement of 1.5, or even a 2C target, and many of the Sustainable Development Goals will be in danger."

Ends.

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- See more about PwC analysis on the Sustainable Development Goals: https://www.pwc.com/gx/en/services/sustainability/sustainable-development-goals.html
- Find out more about CDKN's work with the least developed nations : http://cdkn.org/?loclang=en_gb

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*CDKN is a PwC led alliance of specialist development agencies supporting lesser developed countries plan and adapt to climate change through dedicated research and support programmes. www.cdkn.org*

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