Meaning and Implications of the Paris Agreement

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Overview

- Background on the agreement
- Key elements - what do they mean..
- Carbon markets
- Impacts
- Will it be enduring?
The Paris Agreement

• A treaty (under international law) establishing a mix of binding commitments and normative expectations

• Substitutes self-differentiation, within parameters, for stark differentiation between developed and developing countries

• Aims to:
  ▪ Keep warming below 2 °C and “pursue efforts” to keep it below 1.5 °C
  ▪ Peak global emissions as soon as possible
  ▪ Achieve net zero GHGs in 2nd half of century

• Commits countries to undertake and periodically update “nationally determined contributions” (NDCs), which are not themselves legally binding
The Paris Agreement (cont.)

• Establishes an “enhanced transparency framework” applying to all parties with “flexibility” for developing countries

• Establishes 5-year cycles:
  ▪ First, parties take stock of collective progress
  ▪ Then, each party submits an updated NDC reflecting a “progression” beyond its last one and its “highest possible ambition”

• Reaffirms developed country commitments to finance developing country efforts; “encourage[s]” other parties to do it “voluntarily”

• Addresses GHG markets by barring double-counting of “internationally transferred mitigation outcomes” and creating a new mitigation/sustainable development mechanism
Important Characteristics of the Agreement

• Hybrid approach that combines voluntary commitments with binding rules and procedures

• Broad participation

• Allows market mechanisms

• Provides a platform for non state actors – NAZCA (non-state actor zone for climate action)
Key Elements - what do they mean?

• Mitigation
  ▪ Two part goal – emission peaking asap and net greenhouse gas neutrality in the second half of the century
  ▪ Procedural requirements: prepare, communicate and maintain NDC
  ▪ Report information necessary for clarity and transparency on emissions and actions (every 2 years)
  ▪ Update every 5 years and strive to be more ambitious

• Adaptation
  ▪ Global goal of strengthening resilience
  ▪ Requires all parties to plan, implement and report adaptation plans
  ▪ Support vulnerable populations and developing countries
  ▪ Regular "stocktaking" or review of progress (every 5 years)
Key Elements - what do they mean? (cont.)

• **MRV**
  - Transparency
  - Common accounting rules for submitting emission inventories and necessary information for tracking progress on mitigation and adaptation efforts
  - Reports reviewed by experts and other parties

• **Tech transfer**
  - International Solar Alliance supporting solar energy deployment in developing countries.
  - Mission Innovation, pledging to double public investment in clean energy research and development over five years.
  - Private Sector: Breakthrough Energy Coalition
Key Elements - what do they mean? (cont.)

• Finance
  • Reaffirm the commitment of developing countries to support developing countries
  - Mobilize $100 billion per year in public and private finance by 2020

• Capacity building
  • Multiple dimensions
  - New mechanism – a committee of experts – to “facilitate implementation” and “promote compliance.”
  - Finance
  - New market mechanisms including tradable sustainability credits...
INDCs Signal Interest in Market Cooperation

Source: IETA, 2016
• Reducing GHGs in the longer run?
  ▪ Stronger transparency/accountability can build confidence that major players are doing their fair share, which can strengthen will to do more

• Strong accountability provisions

• Broad participation
  • 188 countries, 11,000 commitments by cities and companies

• Provisions to increase ambition over time
  • 5-year cycles will create a succession of highly visible political moments when countries will be under strong pressure to raise their ambition
Potential impacts: the ‘signaling’ effect

• Less tangible but potentially powerful

• Will the signals affect investments, forecasts, boardroom decisions?
  ▪ Bank of America: Paris means half of coal reserves must stay in ground
  ▪ Moody’s cites Paris in forecasting record $50B in green bonds in 2016
  ▪ Blackrock cites Paris in urging CEOs to focus on long-term value creation
  ▪ California insurance commissioner cites Paris in urging coal divestment

• Will the signals affect the political debates around climate change?
Revisiting the business case for a Paris agreement

• Providing Long-Term Direction
  • An aim of progressively decarbonizing the global economy can signal to markets shift long-term investments to efficiency, low-carbon alternatives

• Promoting Transparency
  • Can provide greater clarity on domestic policy landscapes, better enabling companies to anticipate regulatory risks and economic opportunities

• Addressing Competitiveness
  • Can lead towards a greater comparability of effort, easing concerns about potential carbon leakage and competitive imbalances

• Facilitating Carbon Pricing
  • Ensuring the environmental integrity of international carbon trading can help facilitate the growth and credibility of the global carbon market