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Briefing on the “Paris Agreement” reached at COP21

Background

During two weeks between Nov. 30th and Dec. 12th 2015, delegates from 195 countries in the world convened in Le Bourget, Paris, for climate negotiations at the long anticipated COP21 summit under the UN Framework Convention on Climate Change (UNFCCC). The aim of the COP21 summit was to conclude several years of work put into preparing a new global legally binding climate agreement which should be applicable to all parties and take effect from 2020.

After 13 intensive days of negotiations in Paris, at 7:28 PM on Saturday evening, Dec. 12th, the French Presidency of the COP21 summit was finally able to announce that a new global UNFCCC agreement for the post-2020 period has been adopted. The decision is historical in the sense that it is the first time a truly global climate agreement is concluded. The only agreement that comes near in comparison is the Kyoto Protocol from 1997, but in practice this was limited to prescribing only a modest amount of climate action from 38 countries in the world, instead of 195 in the Paris Agreement from 2015.

The COP21 and key elements in the Agreement in short

On the first day of negotiations at COP21, Nov. 30th, a massive line-up of around 150 World Leaders arrived to Le Bourget, jointly manifesting the urgent need of reaching a new global climate agreement in Paris and injecting momentum into the coming negotiation sessions. This new approach, which was very different from earlier COP meetings where the high-level segment has occurred in the final stage of the sessions, certainly served to set the pace for the two weeks of negotiations.

In advance of the COP21 summit all countries were requested to submit their *“Intended Nationally-Determined Contributions*” (INDC) to the UNFCCC secretariat. The national plans outline in particular which quantitative limitations of GHG emissions that each party will pursue in the period after 2020. By the end of the COP21 negotiations, 185 countries (all countries excl. e.g. Libya) have submitted their INDCs.

On the positive side, it means that practically all countries have now formulated climate targets – incl. many large emerging economies and developing countries which have never had or considered any GHG target before, which of course is an achievement in itself. On the negative side, though, the aggregated effect of these national ambitions are clearly insufficient for bringing down the global GHG emissions in line with the 2 °C target (3°C is more likely). Also there were no concrete steps or real attempts taken at the COP21 summit to close this gap by strengthening the INDCs. Instead, a periodic review process was inscribed in the Paris Agreement, aimed at stepping up the ambition levels every five years (see Article 4).

Article 4 (9):
"***Each Party shall communicate a nationally determined contribution every five years*** *in accordance with decision 1/CP.21 and any relevant decisions of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement and be informed by the outcomes of the global stocktake referred to in Article 14.*"

Chapter III, Preamble 23:
*"**Urges** those Parties whose intended nationally determined contribution pursuant to decision 1/CP.20 **contains a time frame up to 2025** to communicate **by 2020** a new nationally determined contribution and to do so **every five years thereafter** pursuant to Article 4, paragraph 9, of the Agreement;"*

Chapter III, Preamble 24:
*"**Requests** those Parties whose intended nationally determined contribution pursuant to decision 1/CP.20 **contains a time frame up to 2030** to communicate or update **by 2020** these contributions and to do so **every five years thereafter** pursuant to Article 4, paragraph 9, of the Agreement;"*

Even though today's INDCs fail to put the world on track to the 2 °C target, the Paris Agreement took a leap forward in strengthening the long-term collective goal, as to keep the increase well below 2 °C and to pursue efforts to limit the increase to 1.5 °C (see Article 2). The EU and other parties also pushed for coupling the temperature (°C) target with a global (collective) GHG emission reduction target (e.g. 40-70 % reduction by 2050 relative to 2010 , but this kind of quantitative formulations were dropped in the final version of the Agreement. Instead it states that a balance should be achieved between GHG emissions and sinks in the second half of the century (see Article 4).

Article 2(1) a:
"This Agreement, in enhancing the implementation of the Convention, including its objective, aims to strengthen the global response to the threat of climate change […], including by:
*(a) **Holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels**,[…]"*

Article 4:
*"In order to achieve the long-term temperature goal set out in Article 2, Parties **aim to reach global peaking of greenhouse gas emissions as soon as possible**, recognizing that peaking will take longer for developing country Parties, and to undertake rapid reductions thereafter in accordance with best available science, so as to **achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century**,* on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty."

On international climate financing - an issue with a lot of weight in the negotiations - a series of additional pledges were announced during the COP21 negotiations (into e.g. the GCF and Adapt. Fund). Apart from that, the Paris Agreement mostly set new expectations of a higher collective goal to be set by

2025 (see Preamble 54). To reach the pledged amount of annually $ 100 bn by 2020, it is clear that a lot must come from other channels than public funding and the Green Climate Fund, e.g. carbon markets.

> Chapter III, Preamble 54:
> “*Also decides that, in accordance with Article 9, paragraph 3, of the Agreement,* ***developed countries intend to continue their existing collective mobilization goal through 2025*** *in the context of meaningful mitigation actions and transparency on implementation;* ***prior to 2025 the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement shall set a new collective quantified goal from a floor of USD 100 billion per year****, taking into account the needs and priorities of developing countries;*”

On the role of international market mechanisms, the Paris Agreement made significant progress by adding new provisions that allow for transfers of mitigation outcomes (see Article 6(1-2)), as well as a new mechanism for supporting mitigation efforts and sustainable development (see Article 6(4)).

> Article 6 (1-2):
> “*Parties recognize that some Parties choose to* ***pursue voluntary cooperation in the implementation of their nationally determined contributions*** *to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity.*
>
> *Parties shall, where engaging on a voluntary basis in cooperative approaches that involve* ***the use of internationally transferred mitigation outcomes towards nationally determined contributions****, promote sustainable development and ensure environmental integrity and transparency, including in governance, and shall apply robust accounting to ensure, inter alia, the avoidance of double counting […]*”

> Article 6(4):
> ***“A mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development is hereby established*** *under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement [...] and shall aim:*
> (a) To promote the mitigation of greenhouse gas emissions while fostering sustainable development;
> (b) To incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party;
> (c) To contribute to the reduction of emission levels in the host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfil its nationally determined contribution; and
> (d) To deliver an overall mitigation in global emissions.”

Exactly how these new market provisions will function and be governed in the future is something that needs to be further elaborated and decided at later COP meetings. But in any case, it should facilitate the development and eventually linking of carbon markets in the world as well as create new international climate financing flows.

The COP21 summit will most likely be remembered for the momentum that was shown. For sure, a great chunk of this momentum will be much needed when more detailed decisions shall be taken at e.g. the COP22 summit in Marrakech, Dec. 2016, in the forthcoming INDC reviews, and when implementing the targets by real policies and measures through the respective parliaments.

Implications in short

- The strong political desire to address climate change on the global level, as manifested by the Paris Agreement, might entail both enhanced and more coordinated policies, as well as less risk of CO_2 leakage depending on how it is implemented.

- Cooperative approaches based on international transfers of mitigation outcomes (Art. 6) provide necessary flexibility for being able to link emissions trading schemes from different jurisdictions with each other. The agreed provisions make it more likely that the EU ETS will be linked towards similar schemes and could reinforce the linking discussions (see e.g. the NZ Carbon Market Declaration).
- The EU's 2030 climate target (currently: "at least 40 %") might at some stage be increased as a result of e.g. 1) The enhanced collective goal, 2) The review of INDCs which is scheduled to take place every five years, in particular if other key players step up their ambition levels, and 3) A potential inclusion of the new UNFCCC mechanism in the EU's climate policy framework for 2030 (EU ETS directive as well as the Effort Sharing Decision). Other factors of relevance include the future costs of RES, etc.
- Any inclusion of the new UNFCCC mechanism in the EU framework is likely to be governed by both qualitative and quantitative restrictions, e.g. ensuring that the 40 % is still achieved domestically.
- Further engaging the private sector in climate action through the new flexible mechanism can also provide new business opportunities in the form of direct engagement in global mitigation projects.
- The Paris Agreement gives only small impetus for pre-2020 action. Though, the already on-going EU ETS structural reform should now be informed by the COP21 outcome, so that the EU's co-decision negotiations can take off in 2016.

Next steps

- Ratification: Before the Paris Agreement can enter into force, it will be subject to a ratification process, meaning that also national parliaments must approve it. As defined in the Paris Agreement, it shall enter into force 30 days after at least 55 countries accounting for in total at least 55 % of the global GHG emissions have ratified it (similar to the thresholds that applied in the Kyoto Protocol).
- Review of the INDCs: The first update of individual INDCs under the prescribed review cycle shall take place by 2020 (i.e. the same year as the Paris Agreement enters into force). In particular, the parties which have set target for 2025 (incl. the U.S. and Australia) need to early on start the work for initiating this INDC update, whereas parties with target for 2030 might have a little more time.
- Next Conference of the Parties: COP22 summit in Marrakech, Morocco, November 7th -18th, 2016.

Annex

- COP21 outcome matrix and brief summary.

Documentation

- The Paris Agreement (link)
- UNFCCC catalogue of submitted INDCs (link)
- Status of financial pledges made to the Green Climate Fund (link)

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Brief assessment of the COP21 negotiation outcome

Element in the negotiations	Content of decision	Comment	Impact on Vattenfall
New post-2020 climate agreement under UNFCCC, incl. its legal status	▪ Paris Agreement, a truly global binding climate deal, reached! ▪ Legally binding on MRV, to send in INDCs, etc., but not individual mitigation targets, financing, etc.	▪ A dynamic platform for global action and general conditions are established. It must now be filled with ambitious mitigation targets, financing, policies and measures.	▪ Strong political willingness to address climate change on the global level. Possibility that it will entail more coordinated policies. ▪ See individual elements below.
Collective long-term goal	▪ 2 °C target reconfirmed and strengthened as to keep the increase *well below* 2 °C and to pursue efforts to limit the increase to 1.5 °C (*new!*).	▪ One of the key achievements! ▪ However, no inclusion of any quantitative collective GHG emissions goal for 2050 (since dropped in the final version).	▪ Higher global collective goal might entail an increase in EU-wide climate targets (currently set for 2030 and 2050) and an associated ETS cap revision.
Mitigation - GHG emissions reduction targets & INDCs	▪ Paris Agreement "welcomes" the 185 INDCs which have been submitted by the parties. ▪ Periodic review of the ambition levels of INDCs every 5 years.	▪ One of the key achievements! ▪ Update of INDCs vital for curbing emissions in time for 1.5 / 2 °C. ▪ But uncertain what reviews will deliver, how avoid free riding, etc.	▪ Regular reviews of INDCs in general might entail also a more ambitious INDC from the EU at some stage. First review by those with 2025 targets as an indicator.
Pre-2020 action	▪ The urgency of pre-2020 action highlighted, but not prescribed. ▪ Parties encouraged to ratify the Doha Amendment (KP's C.P.2) and scale up climate financing.	▪ It is clear that Paris Agreement has focus on the post-2020 period. ▪ Kyoto Protocol's 2nd commitment period (2013-2020) continues with just a limited number of countries.	▪ No direct impact. ▪ EU ETS reforms are being put in place regardless of any policy gap on the UNFCCC level 2013-2020.
Financing	▪ International climate financing to be scaled up. ($ 100 bn figure in decision text, not in any article). ▪ The developed countries shall take lead in the mobilization.	▪ New collective quantified goal from a floor of $ 100 bn / year shall be decided before 2025. ▪ Some additional contributions to GCF and Adapt. Fund in Paris.	▪ Somewhat more likely that the share of auctioning will be fixed at a high level in the on-going EU ETS reform post-2020 and that use of offsets is allowed again.
Cooperative Approaches / Flexible Mechanisms / Carbon markets	▪ Market provisions allowing for international transfers of the parties' mitigation outcomes. ▪ New mechanism for mitigation and sustainable development.	▪ One of the key achievements! ▪ Coop. approach enables linking! ▪ New mech. - resembling CDM. ▪ Detailed rules to be elaborated / decided at a later COP meeting.	▪ More likely that the EU ETS policy can/will be linked globally. ▪ Inclusion of new mechanism can serve as driver for higher target. ▪ New business opportunities.
Transparency	▪ New transparency framework is established (tracking progress towards INDCs in all countries, informing global stocktake, etc.)	▪ Monitoring, Reporting, Verifying (MRV) requirements are a back-bone of any climate agreement. ▪ LDCs are given some flexibility.	▪ No direct impact.