PwC COP22 briefing: bi-polar COP?

24th November 2016

To everyone's surprise the Paris Agreement entered into force so quickly that COP22 was also the first meeting of Parties to the Agreement (known as the CMA[1]). Countries agreed the 'what' in Paris and started developing rules for the 'how' in Marrakech. How to measure progress and scale up ambition, how to raise finance for adaptation and mitigation and how to account for emissions trades between countries. While the themes of the COP were meant to be action and implementation, to everyone's surprise, it was dominated by the result of the US election. It concluded with countries reaffirming their commitment to the Agreement and pledging to finalise the rules by 2018.

The US election

The result of the US election stunned the COP. There were reports of climate negotiators silently shuffling like zombies around the COP venue in Marrakech on the 9th November. But the reaction to it came swiftly, with countries lining up to declare their support for the Paris Agreement and some - notably China - calling on President-elect Trump to stand by the deal. Starbucks, Kellogg and DuPont were among a coalition of over 350 companies and investors that sent a similar message.

Our Low Carbon Economy Index model shows that in quantitative terms, US emissions target doesn't have a huge impact on the global average reductions achieved by the national Paris targets (NDCs). The carbon intensity (tCO2/$m) of the G20 countries needs to fall by 3% per year on average to achieve their targets. If the US reverts to its business as usual pathway, the G20 average drops only slightly to 2.8% per year (see diagram below). This is still substantially higher than the 1.3% per year average fall in carbon since 2000. But it falls far short of the 6.5% reduction rate needed for two degrees.

Critically though, the message is more important than the maths. Some delegates worried about the potential loss of momentum and were reminded of COP6 and the US election in 2000, after which America withdrew from the Kyoto Protocol. But the situation at COP22 was very different with so many more countries and companies committing to taking action on climate. And as with so many other areas of policy, it is too early to tell what the implications of the US election will be[2].

Inside the negotiating halls

Given the planned emphasis on the detail, the Marrakech summit was previewed as a procedural COP or nerd's COP. Countries adopted a series of fairly administrative decisions relating to the ongoing work programmes of the COP, the CMP and the CMA[3]. There were low expectations for progress in the formal negotiation of the rules for the Paris Agreement.

The governing body of the Agreement – the CMA – agreed to continue work to develop the rules with the aim of finalising them by their meeting in 2018 (at COP24). This is the same date the IPCC will publish its analysis of pathways to 1.5°C. But it appears that countries are only just starting to get to grips with the technical detail and practical aspects of what they agreed in Paris.

In the discussion of the rules for the future of emissions trading (Article 6 of the Agreement) the focus was on the need for common standards and the role of accounting principles in transfers between Parties. Not everyone recognises the importance of accounting principles and quantified targets in ensuring environmental integrity. But it was encouraging to see a diverse group of carbon markets

[1] Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement

[2] In a discussion with the New York Times and others this week, Donald Trump stated that he had an open mind on climate science.

[3] The governing bodies of the Framework Convention, Kyoto Protocol and Paris Agreement respectively

fans including 18 countries[4], business (IETA) and an NGO (Environmental Defense Fund) having a common view on these issues. Countries also discussed the future 'mechanism' (Article 6.4 of the Agreement) and the status of the Clean Development Mechanism post-2020.

The COP agreed to a five year workplan on loss and damage which some suggested was kicking the can down the road. The summit concluded with the countries agreeing the 'Marrakech Action Proclamation'. This a political statement of support for urgent action by governments, business and civil society. The proclamation was also a not so subtle show of solidarity for the Paris Agreement given the uncertainty created by the US election.

Marrakesh Action

Outside of the COP negotiating halls the emphasis was on action and long term ambition. The Low Emissions Solution conference held inside the official UN blue zone gathered business, academics, city and government leaders to highlight how they are scaling up action on climate. A group of 48 'Climate Vulnerable' countries pledged to switch to 100% renewable energy by 2050. Over 20 countries launched a 2050 pathways platform and Mexico, the US, Germany and Canada set out detailed low carbon transition plans to 2050.

While countries long term plans can help to bring coherence to their low carbon transition, companies' investment decisions are typically driven by more mundane, short term things. This includes tax law, foreign exchange risk, market expectations (such as for the power price) and incentives for particular technologies. As countries implement their NDCs and raise their ambition, they will need to provide both short and long term signals for business investment.

Climate finance was a theme of many side events, this time with greater emphasis on how best to lever private capital. And the future of carbon markets were of course central to the discussions at the IETA business hub. Within the business community at COP, consumer goods companies typically emphasised the need for greater ambition and highlighted climate impacts on their supply chains (agriculture) and markets. The more carbon intensive business – energy, mining and power companies – focused on the scale and timeframes for low carbon infrastructure investment, technology development and the need for the right regulations (particularly carbon pricing) to support these.

Further beyond the summit, investors are increasingly engaged in understanding climate risk. A survey of 111 Private Equity houses by PwC released this week shows how sustainability issues have forced their way higher up the corporate agenda. Companies are now responding to demand from investors for a better focus on environmental, social and governance (ESG) factors. As many as 40% of investors said poor ESG performance has seen them demand a material discount or even walk away from a deal. It reflects wider shifts in the market and demonstrates a move towards investors' better understanding of climate risk and resilience.

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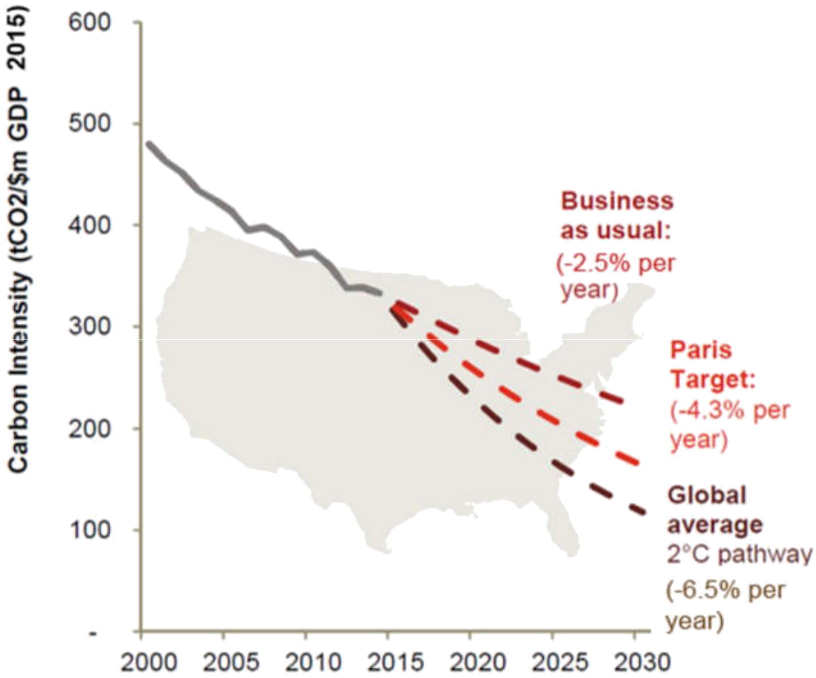
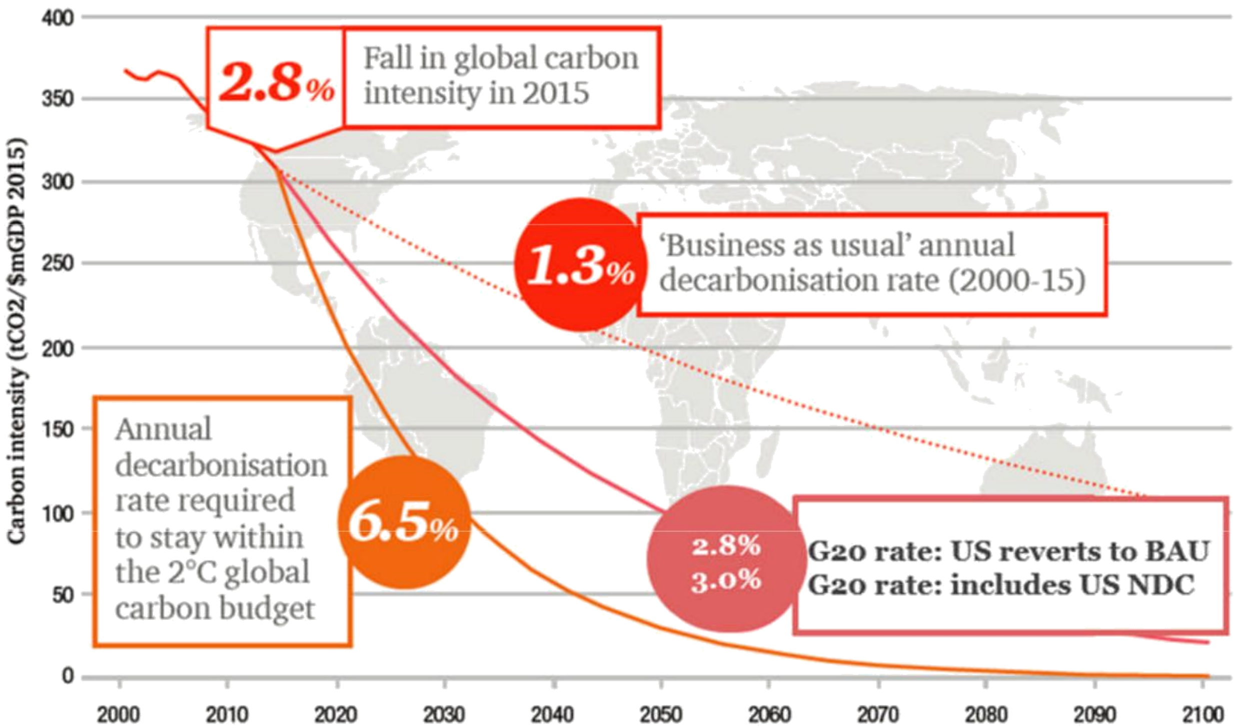
[4] The Government of New Zealand championed a Ministerial Declaration on Carbon Markets at the end of the Paris Summit. This was initially signed by 17 countries including: Australia, Canada, Chile, Colombia, Germany and the US. The UK joined this club by signing the declaration in Marrakech.

LCEI 2016: The US target & 'business as usual' decarbonisation rates



***Sources**: BP, Energy Information Agency, World Bank, IMF, UNFCCC, National Government Agencies, PwC data and analysis.*
***Notes:** BAU is the average annual % change in carbon intensity 2000-2015*

LCEI 2016: Affect on average fall in carbon intensity of G20 countries' targets (NDCs) if the US reverts to 'business as usual'



***Sources**: BP, Energy Information Agency, World Bank, IMF, UNFCCC, National Government Agencies, PwC data and analysis.*
***Notes:** GDP is measured on a purchasing power parity (PPP) basis. The INDC pathway is an estimate of the decarbonisation rate needed to achieve the targets released by G20 countries. INDCs only cover the period to 2030, we extrapolate the trend in decarbonisation needed to meet the targets to 2100 for comparison.*

Notes about the Low Carbon Economy Index calculations

Our methodology for the LCEI modelling is provided online at www.pwc.co.uk/lowcarboneconomy . The NDC trajectory is based on diverse sets of national inventory data and includes assumptions about individual countries BAU baselines where these are not available on a comparable basis. For this reason in our LCEI report we show the NDC line with only one significant figure (i.e. 3%) to reflect this uncertainty. We show the more precise calculations of the historical fall in carbon intensity and 2°C pathway to two significant figures (1.3% and 6.5% respectively) as these are calculated using historic data (from BP & IMF), an IPCC carbon budget and our own projections for GDP growth. In this analysis of the relative importance of the US target to the global NDC pathway we provide two significant figures to illustrate the difference in the two scenarios, however both figures are still within the margin of error in the calculation of the NDC targets.

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