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UN Climate negotiations in Paris – Week two
Why does it matter to business?

PwC's team at the climate negotiations in Paris round up the highlights, lowlights, and jobs to be done to get a climate deal in the final days of the negotiations in Paris, and consider the implications and relevance for the business community. For interviews or further information call the media contacts at the end of this briefing.

- **"Paris has been a tipping point for financial services"** - *Jon Williams, partner PwC sustainability & climate change and specialist in financial services and investment issues.*
- **Private sector investment: "You can be sure the private sector will fund the lion's share of the $1 trillion annual investment needed in clean energy."** *Jon Williams, partner, PwC*
- **Business priorities: "Policies that support technology development and deployment as well as protection of intellectual property"** *Jonathan Grant, climate policy specialist, PwC.*
- **Business could deliver up to 65% of emissions reduction needed, channel at least $5trn-$10trn, and create at least 20-45m jobs –** *PwC analysis for World Business Council for Sustainable Development*
- **Developing Countries: "A myriad of spin-off groups is constraining the ability of**

negotiators to slim down the text in any meaningful way." – *Kiran Sura, development specialist, PwC*

- **It's not all about the negotiations: "Announcements outside the hall often outshone the negotiations particularly on food security, renewables and carbon disclosure"** *Lit Ping Low, PwC climate change economist.*
- **The deal: "It will require all the brilliance that a COP Presidency can find to convert whatever we have at this stage into an agreement**" – Lit Ping Low, PwC climate change economist

Why does it matter? Will it make any difference? A climate deal in Paris is achievable. Whatever the detail, it will be the start of major long term change for economies, business, and embedding low carbon growth in developing nations. **There are three main areas of interest (and impact) for business - Regulation: resilience, and readiness** for a low carbon economic transition in terms of sustaining long term growth. The level of carbon reduction commitments published by individual nations signals widespread policy and regulatory changes ahead. A Paris deal will boost market confidence in delivering the business investment and action needed. Businesses who are not prepared need to brace for significant market, regulatory and technological changes, driven competitors and governments. For developing / lesser developed countries a deal can provide a sustainable framework for low carbon growth and the investment to drive it**.**

- **Regulation**: The process of national voluntary commitments to reduce or manage carbon emissions which were submitted to the summit (known as INDCs) means countries are likely to face policy risks from major governments. And as business will be aware, regulations can impact beyond borders.

- **Risk-resilience** is about how a company, city, country, plans to withstand extremes, and also to adapt to how the things we rely on changes. It's not just about the need to encourage carbon reduction but also the impacts that climate change will bring, even with a 2 degrees world. For business it is not about challenging the science; it is about understanding the scale of the risk and how to tackle the opportunity: where can you invest, how can you protect your infrastructure, how and where you will protect your supply chain; what is the cost and availability of key commodities, what's your plan b?
- **Readiness** means embedding low carbon change, investment and planning for this makes business sense in terms of it supporting efficiency; long term sustainable growth and jobs. Progress is being made – the rate of decarbonisation doubled last year, and in some countries, there is evidence that growth occurred without increasing the emissions linked to energy – a first in our analysis - with the UK topping the G20 performance in our analysis.
  http://www.pwc.co.uk/services/sustainability-climate-change/insights/low-carbon-economy-index.html

Paying for Paris – climate finance

A deal will only be a deal if it's paid for. There's a lot to do on finance, question is whether frameworks to further discuss the issue at a later date will be enough for countries to sign up to a deal. Finance is one of the central blockers to negotiations. The negotiations remain stuck on who pays and how and when the $100bn

annual commitment will be funded. Although this is an important issue for developing countries, everyone know the actual amounts needed run into trillions. So the discussions during the Private Finance day on Friday was about how to mobilise the capital markets to deliver the low carbon infrastructure, jobs and growth needed. It strikes me that bringing the private finance sector and public bodies such as the Green Climate Fund together to come up with the funding models needed would unblock climate finance in developed and developing countries at the scale needed. Yet discussions seem to co-exist in parallel universes here in Paris. More detail on turning the climate finance commitments into funding is needed to enable the GCF to mobilise finance at scale. Although we're unlikely to hear anything here, a recognition of the role of the private sector in financing the transition to a low carbon future in the text would be helpful, as it might lead to action post Paris. After all, who pays? You can be sure the private sector will fund the lion's share of the $1 trillion annual investment needed in clean energy.
For a briefing on finance issues at the COP including the opportunity for London, contact Lynn Hunter Lynn Hunter (+44 7841 570487) lynn.m.hunter@uk.pwc.com. Read our earlier blogs on this topic here http://pwc.blogs.com/sustainability/2015/12/climate-finance-who-pays.html

Impact on financial services & insurance
Paris has been a tipping point for financial services as it is the first COP where a central bank governor has spoken. The Bank of England governor Mark Carney warned about the physical, transitional and litigation risks of climate change and how this could be a threat to financial stability. He also announced that Michael Bloomberg would chair the newly formed G20 Financial Stability Board Climate Disclosure Taskforce. Reporting is the starting point for better climate risk management by the sector this duo promise a focused, efficient and

inclusive process.

The announcement by the G7 of $420m for disaster risk insurance for the most vulnerable countries is significant too. InsuResillience follows on the G7's commitment earlier this year to stimulate climate risk insurance markets in emerging and developing markets, where coverage is either inadequate or non existent. It recognises the vital role of insurance in climate risk management and building economic resilience in countries and will work with international and local private sector agencies and government to develop new products, encourage uptake and address issues blocking development to date including data challenges, lack of risk models, access to and affordability of products, and consumer awareness.

Is business doing enough?

Put simply, the sum of the commitments already made by governments in advance of the Paris summit more than double the global rate of decarbonisation achieved to date with far reaching impacts for business (putting to one side the fact the commitments don't guarantee a 2C limit to temperature rise). Long term mechanisms that are likely to be built into the deal are designed to close the gap between the commitments to date, and what's needed in the future. That's going to present a series of business risks and opportunities. Business are responding – whether through energy efficiency, changing car fleets, R&D, new products and services, or investment in new energy sources. And there eyes won't be on Paris – multi-lateral negotiations like this are not the drivers for corporate action – national policies, and the regulations that follow are. Together with rising energy prices, this was cited as the top short-term concern by business in a recent PwC CEO survey on climate change.

Priorities for business

The business community was actively engaged on the side-lines of the talks. Their priorities are policies that support technology development and deployment as well as protection of intellectual property. The reason that business is here is that the whole purpose of the Paris agreement is to boost clean infrastructure investment. A successful deal in Paris will shape business decisions over the next 15 years and touch on all sectors of the economy not just the energy system. In many respects the Paris summit has already succeeded, given the numbers of companies here, the actions they're taking and commitments they're making.

The energy industry is one of many business groups attending the climate summit. Oil and gas companies will continue to play a critical role in meeting the world's growing energy needs during the low carbon transition. This is particularly over the next 15 years, the timeframe set out in the national plans at the talks. In this shifting and uncertain future, energy companies will need a clear strategy and ensure they have the capabilities and business models to enable them to compete. While the immediate focus is on reducing costs to withstand a period of prolonged lower oil prices, medium and longer term investment plans are also being revisited. To support these plans, shareholders and lenders will need to understand the strategy, and risks, as companies navigate the transition.

Business could deliver up to 65% of emissions reductions needed but needs the right policy environment to achieve its ambition.

Analysis by PwC for the World Business Council for Sustainable Development released for COP21 shows that the ambition of the Low Carbon Technology Partnership initiative is to achieve deliver 65% of the reductions needed to limit warming to 2C. This would need widespread adoption going far beyond the 140 companies involved in the initiative. It's clear from our analysis that business has both a critical role to play in achieving national level targets, and has a major opportunity to grasp. It also underlines the scale of the industry – wide transformation that will be created by national and international plans to shift to low carbon economies.

If it achieves its ambition for 2030, the Low Carbon Technology Partnerships initiative could channel at least $5-$10trillion investment into low carbon sectors and create at least 20m-45m jobs around the world as a result over the next 15 years. More than 140 companies and 50 partners have joined the initiative to lead action plans for the development and deployment of low-carbon technology, with the aim of achieving ambitious emissions reduction targets. With half of investment expected in non-OECD countries, LCTPi would be of particular benefit to developing countries. For their target to be met however, the report warns that the right policy framework needs to be created by governments around the world.

Limiting global warming to below two degrees is expected to have substantial economic benefits in the long term, but smart, targeted policies at a national level are needed to help achieve this ambition. The deal in Paris must give business the certainty and ambition to invest in these opportunities for the long term.

Developing countries – are they being heard?
The disconnect between the political statements made by heads of state on Monday and the process that has ensued in the talks thereafter has stood out, but this was to be expected to some degree. It’s meant the leaders’ attendance hasn't delivered the momentum the French Presidency was hoping for and the all too familiar negotiating dance has prevailed. Testament to this has been the lengthy interventions restating long-standing positions on issues such as differentiation, finance and

loss & damage. The needs of developing countries are being heard in some quarters with some developed countries coming forward with additional financial pledges (to the Least Developed Country Fund for example) and support for a 1.5C goal, but it has clearly not been sufficient to build trust in the process and encourage parties to move towards some common ground.

The Process

The process itself – it's creating a myriad of spin-off groups that is fragmenting or constraining the ability of negotiators to slim down the text in any meaningful way. The key landing points exist between issues, where trade-offs and synergies can be identified. But little time has been given to this, and when cross-cutting issues have been discussed the usual grandstanding has ensued. Paris will deliver some form of a deal, but clearly there will still be much detail to be agreed after the gavel comes down. It will therefore be critical for any deal to provide sufficient hooks post-Paris to review and scale up ambition over time in a just and equitable manner, and a clear process and framework for establishing the rules of the deal. A lot will depend on the Like Minded Developing Countries (including India, Malaysia, China, Argentina) and what their ministers do. India in particular one to watch.

It's not just about the negotiations:

The commitments announced this week by groups outside of the negotiating teams that tackle not just climate change but other megatrends for example issues around urbanisation, food security are significant. It's usually viewed as the supporting cast in a COP, but these groups have really stepped it up, significantly outshining the main acts in the negotiation hall. Commitments to grow more food with less emissions will address critical issues in food security and climate change.

Commitments to set up a Climate Disclosure Taskforce is not just about climate but as Carney's intervention at the summit showed, financial stability too. Scaling up renewables also improves energy access in rural communities. These commitments are likely to be taken seriously whether or not there is a solid agreement, and critically we can't underestimate the implications - both in terms of growth opportunities but also the need for investment and change - for business.

The Copenhagen curse?

All our analysts agree that Paris is different to Copenhagen because the political momentum in the lead up to, and now during Paris has been unprecedented. This has been bolstered by and also catalysed a groundswell of activity by non-state actors such as the private sector, cities etc. Ultimately however, regardless of the strength of the scientific, economic and moral arguments for action, it is only with political will, that a positive outcome will be reached.

Ultimately, a deal will only be a deal if it includes elements that boost actions on climate change when everyone returns home. These include commitments to monitor and report against INDCs with review cycles – eg five years - mechanisms to encourage the ratcheting up of ambitions over time, some reaffirmation of a long term goal (preferably quantifiable) and finally confidence to developing countries that financial flows will be scaled up.

There is always the risk of a Copenhagen-style collapse, with 195 countries participating, it only takes a few to scupper the talks. But many well-seasoned commentators are positive that there will be a deal at the end of the COP, even though it might not be a particularly ambitious one, and some of detail may be lacking But even this as a result is likely to accelerate the low carbon transition, giving national legislators the confidence that other countries are also taking action, and the licence to make decisions themselves. Leaving Paris, whatever deal is done, it needs to be durable, to be able to withstand shifting national politics, and it will need to support financial and technical cooperation, gradually raising ambition by all countries. Success or not will only really become clear late in the next decade.

What we don't want is.....
If a lack of progress leads to a complete rip up and rewrite of the negotiation text in week two, many may question the legitimacy of the final agreement. It will require all the brilliance that a COP Presidency can find to convert whatever we have at this stage into an agreement that keeps the essential elements on mitigation, adaptation, finance, transparency and crucially addressing the issue of differentiation.
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About PwC UK's Sustainability & Climate Change team

PwC UK's dedicated sustainability & climate change team was established over 15 years ago. The UK team is part of a global network of 800 specialists with expertise in international policy and the UN negotiations; carbon emissions, policy and trading; climate change economics; climate risk modelling; deforestation; natural resources and ethical supply chains; finance, insurance and green investment; renewables and clean tech; environmental regulation and taxation; biodiversity; agribusiness; sustainable development goals; measurement & reporting. Clients include policy makers, NGOs, private & publically listed companies and philanthropic foundations. Find out more at www.pwc.co.uk/paris2015

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