FICCI PERSPECTIVE ON THE PARIS AGREEMENT AND EXPECTATIONS FROM UNFCCC COP22





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The Paris Agreement achieved at COP21 provided a clear signal on the intent of the global community, especially the national governments, to address the enormous climate change challenge, collectively and individually. Following the ratification and entry into force of the Paris Agreement, it is time for real action on the ground. COP22 will need to provide a clear direction on the implementation aspects of the Paris Agreement. Successful implementation will need the clear articulation of policies, strategies, and action plans, enabled by a global policy direction and implementation outlook. Business and industry has been a proactive and willing partner with governments to address the challenge of climate change and devise innovative and efficient solutions and mechanisms. Policy certainty and market visibility would be key to enabling businesses to scale up their mitigation and adaptation actions. Businesses stand committed to find ways to address climate change. The implementation of the Paris Agreement would be successful if the potential of business and industry is harnessed and their contribution to the effort is solicited with the right approach. Business and industry can lend their support and expertise of project management and innovation.

Scaling up innovation and sustainable business models

The Paris Agreement's implementation framework must devise mechanisms for business and industry to help scale up innovation in projects, technologies, solutions, and financial models. Providing scale is an imperative for a growing and vast country like India where scale of operation will enable economies of scale in cost and prices. Harnessing the power of scale would enable widespread and deeper mitigation action across the country and across different sectors and stakeholders of the economy. Enabling scale in projects, solutions, business models would help drive down costs of mitigation action, provide inclusiveness and spread the benefit of positive action down to the bottom of the pyramid. For a country like India with a huge development deficit that has a vast section of the population lacking access to basic needs of electricity, water and sanitation, the need to scale up innovations and business models under a paradigm where addressing the development deficit is the imperative, would be crucial to addressing the climate change problem.

Market based mechanisms to support scalable, replicable business models

It would be important to devise market mechanisms that help to reward innovation, enable scale-up of sustainable projects and business models, provide the capacity to replicate, and importantly provide the price signals for businesses to make the desired investments in low carbon projects and initiatives. Market based mechanisms would help to provide the price for climate change mitigation action, thus catalyzing enhanced engagement of business and industry. Such mechanisms would serve as incentives for business



and industry to invest in a low carbon growth trajectory and to make investments in transformational projects that enable an accelerated transition to low emissions reductions scenario. These would also help technologies to find replicable and scalable projects, financiers to find investable and bankable projects, and products and solutions to find profitable and sustainable business models.

Technology accessibility, affordability and availability

The implementation plan for the Paris Agreement must ensure that technologies to address the challenge of climate change are made available, accessible and affordable. Cost effectiveness of technology applications is necessary to ensure enhanced mitigation action by business and industry, especially in countries like India, where scale of operations is vast, opportunities are abounding, the need to bring better quality of life to a vast section of the population is a development imperative, and the transformational impact of technology applications mammoth.

The potential to unlock existing technologies to a larger section of the economy will be huge. There are tried and tested technologies that need to be pushed with cost effective financing options that can address huge number of both demand side measures and supply side challenges.

Supporting research and development in new technology that can especially provide transformational change and can help accelerate mitigation and adaptation action at scale should be a priority in the implementation framework.

Encouraging wider deployment of climate friendly technologies through enabling climate change policies that enhance access to low cost and efficient technologies, while rewarding innovation, incentivizing research and development, would be a crucial catalyst of climate change mitigation and adaptation action.

Technologies can be deployable and scalable through market based mechanisms, through enhanced trade and business linkages. FICCI believes unilateral trade measures should be strongly discouraged.

Linking the Technology Mechanism with Financial Mechanism of the Convention: The Paris Agreement contains strengthened provision on technology development and transfer with a new technology framework being established. The emphasis on R&D and innovation in the Paris Agreement is a critical step in furthering the implementation of the provisions of the Convention. In addition, there is now a line established between the Technology Mechanism and the Financial Mechanism to allow for collaborative approaches in Research and Development (R&D), and for facilitating access to technologies to private sector.

Financing frameworks and mechanisms to channel public and private finance effectively

Financing would be the backbone of the global effort to curb climate change, and the successful implementation of the Paris Agreement. Future low carbon infrastructure, majority of which is yet to be built in a country like India, would require trillions of dollars of financing. Mechanisms to channel the vast pool of financial resources, from public and private sources, would be critical to unlock capital in the direction in which it is needed. The financial sector needs to be aligned towards this global priority.

Policies to support the financial sector in its redesign towards the needs of sustainable development would play the most important role in channeling finance to climate change and overall sustainable development priorities in the medium and long terms. Sources of long term funds from international as well as domestic sources can be tapped only if enabling regulatory frameworks are designed and implemented with speed backed by the effort to galvanize the global investor and financier community, to educate them about the vast opportunities available, to catalyze bankable and investable projects and build capacities in the financial sector. All this would need a supporting international financial mechanism that provides the architecture and framework for galvanizing funds, building capacities and skills, and helping channel funds to projects that would provide transformational impact and scale on the one hand, and address the needs of small and medium scale projects on the other hand.

USD 2.5 trillion is required to meet India's climate change mitigation targets by 2030 and approximately USD 1 trillion worth of investment in infrastructure every 5 years to satisfy demand.

Earmarking funds for Climate Change Mitigation and Adaptation by Multilateral Development Banks:

Earmarking a certain percentage with a clear focus on climate change from MDBs would be a step forward in mobilizing grant public finance for climate change in developing countries. Aid money meant for development purpose should not be counted as climate finance. With reference to funds provided for multiple purposes, only the share provided solely for climate change should be included under climate finance. For example, the New Development Bank ("Brics Bank") has approved renewable energy projects from India, Brazil, China and South Africa entailing a bank financing of USD 811 million. India was among one of the first countries to receive a USD 250 million funding for a renewable energy project. The project will result in generation of 500 MW of renewable energy and savings of about 800,000 tonnes of carbon emissions (The Economic Times, April 2016).

MRV of tracking climate finance and support

The Paris Agreement mandates that transparent and consistent information on support provided and mobilized through public interventions for developing country Parties be provided by developed countries.

It is crucial the commitments on Finance, Technology, Capacity Building committed to developing countries so far in the UN climate summits must be tracked and monitored regularly to ensure compliance within stipulated time-frames. And finally, one must identify what these commitments are expected to translate into, in specific terms, when it comes to realizing climate goals. This needs to be done in a manner that enhances inter-sectoral and country focus, while strengthening recipient country leadership and ownership, bringing in more transparency and accountability.

Unlocking Private Capital Markets

Private sources represent the largest potential stream of funding available for climate change objectives. Even a marginal change in the size and direction of flow of funds from private sources in line with climate objectives would go a long way in closing the existing gaps.

Supporting innovative approaches towards sustainable finance, including green finance can help to integrate the financial sector in transformational processes towards a low-carbon and resource-efficient

economy and to facilitate the adaptation to climate change. Targeted financial products can, for example, be provided to foster investments into resource-efficient technologies or to offer weather-based insurances. FICCI has taken a step in this direction and launched the Indian Green Bonds Market Development Council jointly with the Climate Bonds Initiative to facilitate exchanges between issuers and investors looking to get exposure to the green infrastructure space. Over 60% of Indian labelled green bonds' proceeds are allocated to renewable energy.

Green Climate Fund (GCF)

The role that private sector can play to help economies follow low carbon trajectory is immense. This is very well recognized by the Green Climate Fund and its Private Sector Facility. The GCF is mandated to provide $100 billion to developing countries committed to mobilize from both public and private sources by 2020. The Private Sector Facility enables this Fund to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels. The facility will promote the participation of private sector actors in developing countries, in particular local actors, including small- and medium-sized enterprises and local financial intermediaries.

Partnerships for bringing scale and sustained effort

At the heart of all action lies the power of partnerships that can help leverage the strengths of different stakeholders, parties, organisations and make the effort to find and implement solutions to address climate change more sustained. The implementation framework of the Paris Agreement can provide the contours to catalyse partnerships globally at an international level through a Partnership Framework that enables governments and private sectors of countries to collaborate on larger efforts that can have a global dimension and can harness the power of the multiples to provide transformational change, accelerated pace of action, and widespread dissemination of knowledge and practices to provide inclusive, sustainable and scalable impact.

Capacity Development & Institutional building

There is a consensus that institutions matter and that they make a difference in all policy domains. There is also general recognition that institutional building is essential for building a national climate resilient economy. In the absence of good institutions there is a much higher probability of dis-functional policies and ineffective expenditure of national and international resources.

Policy and administrative capacities are critical bottlenecks in efforts towards economic, social and environmental progress. Capacity deficits may vary in terms of their context, scale, and intensity. Financing for climate change and using resources in a way effectively contributing to nationally established priorities requires strengthening autonomous administrative capacities. Capacity development initiatives are essential in this context to improve public policy making processes, management and implementation and can have a catalytic role and impact positively on policy effectiveness.



Role of Markets: Article 6 of the Agreement

The Agreement, in its Article 6, provided room to nations to pursue the market approaches though the term "markets" did not appear in the Agreement. The Agreement anchors carbon market provisions in broad terms and is a good start for post 2020 actions. The provisions anchored in Article 6 of the Paris Agreement, broadly states a new market mechanism to provide opportunities for voluntary cooperation in the implementation of the Nationally Determined Contributions (NDCs) using international transfer of mitigation outcomes.

Two fundamental outcomes in the whole Paris Agreement that add significantly to the momentum for markets are: (i) An ambitious global goal, in which nations agreed to hold warming to "well below" 2 degrees Celsius above pre-industrial levels, and "pursue efforts" to limit warming to no more than 1.5 degrees Celsius, (ii) Nations will have to come back to the table every five years to strengthen their individual pledges, in order to achieve their collective goal over time.

Essentially, the provisions pave the way for a process to be devised for the creation of carbon markets rather than establishing the carbon market itself. In other words, it provides an opportunity for Parties to design carbon markets in the way they desire thereby offering an opportunity for countries to develop domestic and regional carbon markets to meet their international mitigation commitments.

Considerable thought will have to be applied for elaboration of these concepts by Parties. This would involve intense discussion and exchanges. The most important issue in this regard could relate to developing an operational accounting guideline that could answer the basic questions – what to count, how to count and how much to count. Therefore, operationalization of the provisions of carbon markets anchored in Article 6 would entail a great deal of dialogue and consideration among Parties, who will have to find answers to many questions especially those relating to robust accounting and double counting concerns. However, it has the potential to create a vibrant carbon market involving both within UNFCCC and outside.

Success of the process would also depend on enhanced ambition by countries and making requisite domestic policy adjustments given the strong voluntary and bottom up approach envisaged in the Agreement. This can be strengthened given that several INDCs submitted by countries have elements of market approaches in realizing their NDCs.

As of now, increasing numbers of countries are coming up with domestic carbon markets which promise to the world that a viable carbon market would indeed be a reality. According to a World Bank Report (2015), there are at least 19 major emissions-trading schemes under implementation at national and regional levels across the world. ■

Based on views of industry members of FICCI
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