

GDF SUEZ Answer to the Consultation on the 2015 International Climate Change Agreement: Shaping international climate policy beyond 2020

1. How can the 2015 Agreement be designed to ensure that countries can pursue sustainable economic development while encouraging them to do their equitable and fair share in reducing global GHG emissions so that global emissions are put on a pathway that allows us to meet the below 2°C objective? How can we avoid a repeat of the current situation where there is a gap between voluntary pledges and the reductions that are required to keep global temperature increase below 2° C?

An equitable global climate regime which is capable to promote sustainable development requires close cooperation between all developed and developing countries.

Key elements of such a regime are

- **globally consistent and reliable price signals for Greenhouse Gas (GHG) emissions and emission reductions for all parties¹,**
- **consistent and comparable calculation of emissions reductions, monitoring, reporting and verification (MRV) principles and**
- **a systematic approach to eliminate market failures and distortions which prevent investments in climate resilient and cost-efficient GHG mitigation infrastructure and technologies.**
- **the recognition and support of the domestic policies and progress made by many countries.**

A fundamental element for any effective climate policy regime is to recognize that emerging and developing countries need to make use of their natural resources to expand their economy and address the essential needs of their population. Without an adequate global framework to support, finance and implement the most efficient technology mix, rapid escalation of GHG emissions in these countries will continue as the development of GHG intensive installations is a result of capital constraints and other more immediate social demands. Likewise, it is fundamental to understand that industrialized countries need to pursue a decisive, but gradual reform of their existing energy infrastructure in order to minimize the economic burden in times of budget constraints.

Europe will need to optimize its policies to ensure that industry and the economy in general can meet mitigation objectives at least cost, that transformational investments occur and that new technologies are being developed as a basis for sustainable competitiveness and welfare. On the energy side, the market will deliver the required changes, but the market design must be favourable to new investments, which is currently not the case.

Effective global carbon market mechanisms address both realities as they engage the private sector in supporting immediate clean growth in emerging and developing countries and allow smooth transition in industrialized nations. This allows reducing the economic burden and improving the development prospects for all members of the global community. The 2015 Agreement should be designed to build on, and evolve from, the current architecture in order to foster continuous cooperation on the basis of an increasingly global and efficient carbon market.

¹ i.e. consistent prices between Emissions Trading Systems, and the project-based systems (like CDM or JI)

Gradual progress shall close the ambition gap and pave the way to such an efficient global framework. Gradual mitigation in industrialized countries and disconnecting the emission pathway from economic growth in developing countries are a key priority in order to meet the objective of limiting climate change to +2°C at the least economic cost. To meet this challenge, increased ambition for mitigation in the short term must revive carbon markets, and the Clean Development Mechanism (CDM) must be reformed to ensure continuous private sector engagement and international cooperation. Failing in this challenge would not only mean losing valuable skills and resources, but would also contribute to the technological lock-in increasing future cost of GHG emissions mitigation.

Carbon market instruments in combination with appropriate funding, efficient regulation and risk mitigation policies are ideal to identify and implement the most cost effective mitigation opportunities, regardless of their geographic location or technology requirement. The development of advanced mechanisms is necessary to ensure global GHG mitigation in the long term. Crediting Nationally Appropriate Mitigation Actions (NAMA) or sectoral benchmarks and crediting are good examples of intermediate mechanisms. In addition, the further development and expansion of sectoral, national or regional Emission Trading Schemes (ETS) and their indirect linking with the CDM is a first step towards directly linked ETS and therefore a global carbon market.

2. How can the 2015 Agreement best ensure the contribution of all major economies and sectors and minimise the potential risk of carbon leakage between highly competitive economies?

To ensure globally cost effective GHG mitigation and to avoid carbon leakage and undue distortion of competitiveness, globally consistent and reliable price signals for GHG emissions and emission reductions are needed. At the same time, other related policies need to be coordinated to ensure consistency with the climate change objectives.

In particular, an operational implementation of the enforcement mechanism for national emission reduction commitments is required. Moreover, suitable mechanisms and funding must be put in place to support the higher upfront cost of GHG efficient and climate resilient infrastructure and to avoid constraining other essential needs of the population. In this regard, the Technology Transfer Framework and the Green Climate Fund as well as the role of national and multilateral development banks and technical cooperation agencies should be reinforced. Economic shifts might occur as a consequence of the internalization of carbon prices and impact certain countries, their population and industrial sectors, warranting adequate economic development programs to foster the necessary adjustments.

Building on the integration of existing national and international GHG mitigation policies into a new international agreement would allow a seamless transition towards an harmonized global regime which is capable to spur global economic growth, meet the ultimate objective of mitigating climate change on the basis of international cooperation and reduce the risk of carbon leakage.

To achieve such progress, the following principles are crucial:

- Prevent competitiveness distortions: all countries should adopt appropriate long term reduction objectives in line with the Intergovernmental Panel On Climate Change (IPCC) recommendations defined on the basis of their development status, resource endowment, and social demands and capabilities;
- Coordinate other relevant policies ensuring consistency with the GHG mitigation objective;
- Efficient and increasingly connected global market mechanisms with sound regulation, low transaction costs, substantial demand, liquidity and long term price signals are necessary to reduce investment risk. They will bring about measurable and verifiable long term emissions reduction in all countries and sectors;

- Where capital constraints or investment risks represent barriers for private sector investments these shall be mitigated by adequate funding or policy risk insurances from national and multilateral development banks and/or the Green Climate Fund.
- Non-financial barriers should be addressed and tackled to foster technology transfer processes and mechanisms for capacity building are essential to catalyse the development of adequate regulation and enabling policies in developing countries.
- The international linking of comparable markets based on transparent rules can prevent international carbon leakage and distortions of industrial competitiveness; and
- An efficient mix of all effective and climate resilient mitigation technologies and activities have to be covered under the 2015 framework, such as all forms of renewable energies, including large eco-efficient hydropower plants, energy efficiency, smart grid technologies, carbon capture and storage (CCS), LNG & Gas infrastructure, sustainable bio-fuels, nuclear energy, improved agricultural practices and REDD (Reducing Emissions from Deforestation and Degradation). The UNFCCC Technology Mechanism should be built up to play a decisive role to promote development and transfer of mitigation technologies.

Based on the experience and infrastructure of the CDM, more efficient principles and procedures reducing administrative burden can be further developed and implemented to assure globally recognized consistent and comparable MRV principles.

3. How can the 2015 Agreement most effectively encourage the mainstreaming of climate change in all relevant policy areas? How can it encourage complementary processes and initiatives, including those carried out by non-state actors?

Climate Change mitigation goes hand in hand with the building of a sustainable economy where environmental and social aspects are adequately taken into account by investors and consumers. The States and the international community are responsible for defining the mechanisms which ensure that environmental and social costs are adequately factored by market prices and regulation. Policy makers should reduce regulatory uncertainties and risks, as GHG efficient and climate resilient infrastructure usually depends on a sound, stable and predictable investment climate.

To establish a successful climate change and sustainable development trajectory, private sector and state actors have to work together on the basis of sound science, economic principles, constant consultation and institutional learning. A continuous and deepening engagement of the private sector on the basis of solid and predictable global market mechanisms is crucial to assure gradual adjustment progress. Building carbon market awareness, competence and trust is essential to foster international cooperation and development of sound knowledge and mechanisms. Analysis and benchmarking of results and the promotion of best practices is important for institutional learning and regulatory progress. The current situation of lack of ambition, low carbon prices and uncertainty are to be addressed urgently in order to allow a gradual economic adjustment preventing future radical economic shifts and ruptures.

To achieve such progress, the following principles are to be taken into consideration:

- The engagement of capital markets to finance the economic transition in developed countries, and a rapid development in developing countries.
- Market signals and regulation have to be consistent, transparent, solid and ambitious in the long term.
- Market failures and investment barriers have to be addressed in sound and rational manner. Mitigation of political and regulatory risk is fundamental to spark investment and to curb capital costs.

- Where private investors and capital markets are not able to overcome investment barriers and political risks, these have to be leveraged by policy guarantees or support funding from the GCF or national and multilateral development banks.

4. What criteria and principles should guide the determination of an equitable distribution of mitigation commitments of Parties to the 2015 Agreement along a spectrum of commitments that reflect national circumstances, are widely perceived as equitable and fair and that are collectively sufficient avoiding any shortfall in ambition? How can the 2015 Agreement capture particular opportunities with respect to specific sectors?

Achieving the necessary GHG mitigation at least cost and an equitable distribution of the economic burden are to be seen as related but separate elements of the global climate regime. Policies based on well-designed markets and adequate financing can allow the deployment of mitigation opportunities at the lowest possible cost, regardless where they are located in the global economy.

To achieve this objective, mature economies, regions or sectors shall be covered by Cap & Trade systems while regions and sectors which are not yet mature enough can be bound in by project based mechanisms with sufficient demand.

Harmonized and sound Monitoring, Reporting and Verification (MRV) systems are the primary building blocks to achieve certainty about the environmental integrity and ultimately to build the confidence needed for the market to operate.

Global emission limits need to be defined in line with the IPCC recommendations and then broken down to national level on the basis of key economic indicators such as population, population growth, GDP, resource endowment and carbon intensity.

The gradual establishment of deep and broad carbon markets which generates a comparable price signal in all regions and sectors of the global economy is key to reduce cost of, and to enhance ambition for GHG mitigation. The allocation of the cap on each country, region or sector will define the specific economic burden according to the principle of common but differentiated responsibilities and capabilities and thus is a political discussion which in all cases has to respect the aggregate global GHG emission limit as defined by the IPCC. Based on such fundamentals financial markets and investors will achieve the necessary GHG mitigation at least global economic cost, allow developing countries to progress towards a GHG efficient future and industrialized countries to gradually reform their infrastructure.

5. What should be the role of the 2015 Agreement in addressing the adaptation challenge and how should this build on ongoing work under the Convention? How can the 2015 Agreement further incentivise the mainstreaming of adaptation into all relevant policy areas?

Taking into consideration the priority role of the mitigation efforts, the focus must be to identify actions that together address adaptation and mitigation by building climate resilient and GHG efficient infrastructure which is able to ensure long term GHG efficiency as well as livelihood and well-being of population in all regions.

Given the resource constraints and the fact that postponing mitigation investments increases the costs for future action, the focus must be on projects which address both mitigation and adaptation. Promising sectors for combined adaptation and mitigation investments are:

- Development of a GHG efficient and climate resilient energy infrastructure with an emphasis on renewable sources as well as their integration into the economic necessities and opportunities of cities and rural areas. Energy generation assets such as hydropower shall address necessities for flood control, transport and water supply management. Wind, solar as well as biomass and waste based energy production assets can be combined with agricultural production or with urban architecture to enhance efficiency and resilience. Gas power generation also offers multiple benefits: low GHG emissions, flexibility and back-up for variable renewable energy.
- Development of GHG efficient and climate resilient cities, preferably in least vulnerable locations, with adequate and resource efficient infrastructure to offer sustainable livelihood to growing populations.
- Development of GHG efficient and resilient transport infrastructure which is capable to address the specific necessities of the economies and citizens in rural and urban areas. A combination of change in modal, technological shift, energy efficiency, economic planning and zoning as well as change in human behaviour is needed.
- Development of integrated agro-forestry schemes where objectives of agricultural productivity, biodiversity, resource efficiency, sustainable forest and crop management, maintaining carbon stocks and enhancing sequestration as well as fixing population in rural areas can be combined as a fundament for climate resilience.

6. What should be the future role of the Convention and specifically the 2015 Agreement in the decade up to 2030 with respect to finance, market-based mechanisms and technology? How can existing experience be built upon and frameworks further improved?

Political will for comprehensive carbon market mechanisms and adequate burden sharing among all countries should deliver appropriate emission targets and well designed market mechanisms with global scope that can allow for sustained and cost effective mitigation and responsible economic growth. At the same time, in the short-term, meaningful mitigation efforts are paramount to avoid technological lock-in and high future mitigation and adaptation costs.

In response to climate change, in the last 10 years or so, innovative policy tools as Cap & Trade and project based mechanisms, as well as financial instruments such as those used by national and multilateral financing institutions were put in place. Competence and capacities for MRV, investment appraisal, project implementation and regulatory response have been developed around the world. In addition more countries are currently developing and implementing NAMA policies and some of them are even testing and implementing new cap-and-trade systems. Other countries are considering alternative approaches, ranging from direct investment incentives such as feed-in tariffs, tax exemptions and attractive financing conditions for GHG mitigation activities, carbon taxes or other types of regulatory instruments such as technology standards. Taking into consideration the necessity to support this positive evolution as a basis for increasing ambition and economic effectiveness, the 2015 Agreement should be based on:

- Recognizing and catalyzing a country specific and decentralized bottom-up approach to foster diverse and locally optimized solutions while safeguarding comparability on the basis of accepted MRV principles and practices;
- Promoting institutional learning, exchange of experiences and bilateral and multilateral or regional cooperation and agreements;
- Building on coordinated domestic/regional policies and measures striving to achieve complementarity and coherency with the global emission reduction targets;
- Where and when possible gradually integrate the bottom-up results in globally agreed frameworks and promote harmonization and linking of policies and efforts;

- Ensuring the maintenance of the existing carbon market infrastructure (such as the CDM and JI institutions and procedures) as a basis to develop a more advanced, comprehensive and efficient global carbon market architecture;
- Supervision for the Monitoring Reporting and Verification (MRV) and Environmental Integrity of the different national and regional policies;
- Coordinating the action with other international institutions (such as the IRENA, IMO, ICAO, IBRD, IFC, etc.) involved in policies relevant to the achievement climate change related objectives.

Within this context, the reform, continuation and expansion of the CDM is of immediate necessity. The CDM can play an important role as a global carbon market instrument to be used in any existing or developing regional, national or sub-national carbon market, including those that emerge in developing countries. Such an extended scope can diversify and enhance demand for Certified Emission Reductions and catalyze progress towards an integrated global carbon market. The CDM is the only existing global market mechanism to support emerging and developing countries in their national mitigation efforts and offers important concepts and principles for Monitoring, Reporting and Verification (MRV) and Environmental Integrity. If applied in synergy with the emerging NAMAs as well as multilateral or bilateral funding mechanisms, the CDM can prompt significant cost effective global mitigation and sustainable economic development in the short term and avoid high costs in the long term. In addition, this experience provides robust foundations for more efficient and comprehensive New Market Mechanisms.

7. How could the 2015 Agreement further improve transparency and accountability of countries internationally? To what extent will an accounting system have to be standardised globally? How should countries be held accountable when they fail to meet their commitments?

An efficient climate regime must be based on globally consistent and comparable pricing of GHG emissions and emission reductions which are in line with the global mitigation objectives. The intricate discussion of baselines must be substituted by negotiated and agreed emission caps which take into account the realities of industrialized, as well as the economic growth needs and prospects of developing countries. Adopting targets and commitments has to be promoted by global carbon markets, funding & technical support. Moreover, globally consistent MRV is necessary to warrant transparency, global comparability and fungibility in carbon markets. The negotiated and agreed emission caps should take into account the realities of industrialized countries, as well as the economic growth needs and prospects of developing countries.

Current climate policy instruments are based on different kind of baselines which were defined on the basis of assumptions such as historical figures, least cost approaches or economic projections and in each case the result depends on the underlying assumptions. Due to their hypothetical nature baselines are per definition abstract and their suitability cannot be demonstrated. A more constructive alternative would be to define emission cap on the basis of the global GHG reduction trajectories as derived from the IPCC 450 ppm mitigation scenario, which is in line with the global agreement to limit climate change to 2°C. The allocation of this global cap must then be broken down to individual nations and sectors. This must be the result of a rational political negotiation which takes into account the current reality as well as future development prospects, necessities and circumstances of developed and developing countries.

Once agreements are achieved, emission reduction commitments would require a more effective enforcement mechanism.

8. How could the UN climate negotiating process be improved to better support reaching an inclusive, ambitious, effective and fair 2015 Agreement and ensuring its implementation?

Taking into account the new bottom-up approach (pledges, national commitments, regional ETS, ...) the UN climate process should focus on maintaining and improving MRV practices, reforming and complementing mechanisms which are capable of enabling policies and private sector investments. To consolidate achievements, bilateral or regional agreements should be fostered and where pertinent, multilateral agreements could be defined in subgroups until they can be approved and ratified by the UNFCCC process.

9. How can the EU best invest in and support processes and initiatives outside the Convention to pave the way for an ambitious and effective 2015 agreement?

The EU has been a pioneer in developing its domestic climate change policy as well as in kick-starting the global carbon market through its demand for the CDM. Consolidation of both achievements is key to address the demand crisis in the EU ETS and the CDM. Tangible measures are needed in the short term to avoid that those past achievements, competences and capacities are lost and that prospects for future evolutions are compromised. Though the EU cannot move alone it must focus on recognizing and supporting the efforts of key partners in order to raise ambitions where possible. Bilateral or regional agreements are necessary to illustrate benefits to the international community.