Shades of Green: Reflections on COP25

Madrid, 2019

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The 25th Conference of the Parties (COP) - the annual meeting of the signatories to UN Framework Convention on Climate Change (UNFCCC) - concluded last week in Madrid, Spain. While signatories deferred the decision on emissions trading system, they reemphasised the need for enhanced emission reduction targets from all countries.[1]

The backdrop

Rising temperatures, the failure of the Kyoto Protocol, collapse of carbon markets and the sluggish pace of climate negotiations formed the backdrop against which 196 nation states came together and signed the Paris Agreement at the 21st COP of the UNFCCC in 2015. Representing the largest consensus and agreement on an issue at an international level, the Paris Agreement aims to limit global warming to less than 2°C (maximum limit) and aspires to curb the rise in temperature to 1.5°C. Under the Paris Agreement, each country voluntarily determines its own contribution, i.e., Nationally Determined Contribution (NDC) to reducing emissions in order to mitigate global warming by disclosing its plans and regularly reporting progress on execution of the plans.[2]

Intergovernmental Panel on Climate Change (IPCC) 1.5C report[3] estimates that even if the current NDCs are fully implemented, the earth will get warmer by 3°C by 2100. It also predicts that the global carbon budget of 420GtCO2e[4] estimated by IPCC for limiting the temperature rise to 1.5C will be significantly depleted by 2030. This could lead to extreme temperatures and climatic events such as storms, droughts and floods in many parts of the world and pose risks to health, livelihood, food security, water supply, human security, and economic growth.

As per the Carbon Budget Report 2019, emissions in China, India and the US increased the most in 2018. In 2019, China's emissions continue to increase, India's is less, while emissions in the US are down.

Key highlights of COP25

- A draft text on a global emission trading scheme (Article 6) has been released but the sticking points remain – **what will happen to the carbon credits generated in the Kyoto era? How to avoid double counting? How to achieve overall mitigation across the globe? What will be the role of the private sector?**
- **Deferral** of an agreed emission trading system creates uncertainties around the possibility of such a system even in 2020. It also necessitates that countries have a robust domestic mechanism as a means for climate finance.
- **A comprehensive review[5] of the** Warsaw International Mechanism for Loss and Damage has been undertaken. This emphasises inclusion of slow onset events (e.g. drought) in the loss and damage estimation, identifies lack of mitigation efforts as the main reason for climate induced losses, and recommends scaling up of Green Climate Fund by 2020.
- **631 investors[6]** urged the global leaders to strengthen the NDC targets, increase private sector investment for achieving NDC goals, and called for greater commitment towards disclosure of climate risks by 2020, according to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.
- **India, China and Brazil** maintained their stand that the developed nations need to take up responsibility for shortfall in their targets in the pre-2020 era and bridge the gap by setting more ambitious targets.

Article 6: What's in store for India

Transition from Kyoto to Paris

In all likelihood, Article 6 will not allow Clean Development Mechanism (CDM) credits to be transferred under the Paris Agreement regime. In such a scenario, India will stand to lose around 400 million[9] accrued credits under CDM till 2020. This will have significant financial implications on the country's private sector, which invested heavily in the implementation of CDM projects in India. In the post 2012 era prices of Indian credits have gone down significantly, but private sector players have been able to recover their costs by transacting in the compliance and the voluntary markets even if that may not have generated revenues. Now if the credits suddenly lose their values that may cause a setback. More importantly, in such a scenario, the private sector will lose faith in market mechanisms.

India could consider developing a robust domestic emission trading system where the private sector could participate and sell retroactive, current and future credits. For the retroactive credits, a suitable cut-off may be decided upon review of the vintage of the available credits in the market vis-à-vis the NDC commitment period. However, going by past experience, market regulations need to be stringent enough to ensure good quality credits and prevent market saturation. Quality of credits may be ensured based on the principles of additionality and sustainable development.

Corresponding adjustment of credits

It is probable that Article 6 will mandate that the country that sells will have to take increased target under NDC to avoid double counting. Following is an illustration:

All in tCO2e	Target	Achievement	Remaining target presale	Sale	Adjusted target
Selling country	1500	500	1000	(-) 300	1300
Buying country	1500	200	1300	(+) 300	1000

In view of the above, India will have to decide if it will take on the role of a buyer country or a seller country by critically assessing the following:

- Possibility of committing to additional cuts based on modelling of emissions scenarios for different sectors till 2030, and assessing the emission reduction potential of initiatives committed under NDC and other sectoral policies in energy efficiency, renewable energy etc
- Availability of climate finance (private sector investment, budget allocation, National Adaptation Fund for Climate Change, domestic carbon market etc.) for mitigation projects
- Barrier to implementation and options to enhance and de-risk private sector investment in mitigation.

Achieving 'overall mitigation':

Countries may eventually agree to take "additional cuts in emissions targets" using the proceeds from sale of credits to other countries. This will ensure that there is net reduction of atmospheric emissions of CO2e. However, India, Brazil and China are perceived as the makers or breakers of this decision.[7,8]

Averting, minimising and addressing loss and damage: A comprehensive review

A comprehensive review of the Warsaw International Mechanism for Loss and Damage (WIM) was undertaken at COP25. The review underpins the following issues in the WIM and encourages fast resolution by WIM's Executive Committee through a five-year workplan to be submitted at its first meeting in 2020[5]:

Preserve human rights

Climate actions (adaptation and mitigation) must consider basic human rights that climate change impacts - the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities, the right to development, gender equality, empowerment of women and intergenerational equity.

Recognise impacts other than disasters

Loss and damage estimation must consider slow onset of events (not only acute disasters), non-economic losses, human mobility as climate change impacts.

Ensure sufficient and reliable flow of funds

Financing under the Green Climate Fund needs to be expedited and scaled up for vulnerable, developing and least developed countries and easy access to all available funding sources needs to be ensured for all.

Not only finance, build capacity

Capacity gap assessments must be carried out at national and international levels in relation to finance, technology and capacity-building, and modalities need to be decided to address the gaps.

India will benefit if the recommendations are implemented

- India still remains a largely agrarian economy with more than 58%[10] of the population dependent on agriculture and its associated sectors. 65%[11] of India's cropped area is rain-fed. Consequently, slow onset events such as drought are taking a toll on India's economy in terms of crop failure and declining farmers' income. However, there has been no standardised framework to quantify these losses. Hence these events have not as yet significantly influenced policy and financial decisions of the country, leaving a lacuna in climate policy making and adaptation financing.
- India was home to around 340 million children affected[12] by floods during 1995-2011.[12] Due to the monsoons, around 3.6 million migrant population yearly[13] are in need of tailor-made adaptation strategies that focus on preservation of human rights.
- Adaptation finance contributes to only 5%[14] of the tracked climate finance globally. The situation is no different in India, and systemic capacity gap assessment is required to bridge the financing gaps.
- Availability of a reliable database for financial and policy decision-making is an issue that remains unaddressed in the review recommendations. This needs to be taken up at the level of WIM's Executive Committee.

Questions pertinent to India

Who will take the responsibility of pre- 2020 emissions gap?	Can the countries trade old credits to meet the pre-2020 emissions gap?	At what interval can the targets be adjusted under Article 6 for selling countries?
Can the baseline be adjusted while adjusting the targets (i.e. additional cuts)?	Will trading be at project level or national level?	How can private sector participation be ensured?

Way forward for India

A clear takeaway from COP25 is that in order to achieve the NDC targets, India needs to consider the following:

De-risking private sector investment

There is a need for continued efforts to de-risk and encourage private sector investment in low-carbon technologies. Risks may arise owing to cancellation of tenders, import duties, land acquisition-related uncertainties. Policy interventions (e.g. standardisation of bid criteria) and financial instruments (e.g. loan guarantees) are required to ensure increased private sector participation.

Development of a suitable carbon pricing instrument

India has thus far experimented with different mechanisms such as carbon tax, Perform Achieve and Trade scheme, and Renewable Energy Certification. None of these yielded the desired results. The existing mechanisms and inherent challenges may be critically reviewed and a cross-sectoral trading mechanism may be developed in which private sector companies that are interested in investing in clean energy, climate smart agriculture and waste to energy may participate effectively.

Implementation of TCFD recommendations

Indian companies (barring a few service sector companies) have not yet started identifying climate change risks and acting upon them. A policy instrument is required that would prompt private sector companies to start disclosing as per TCFD. One such instrument could be the inclusion of TCFD recommendations in the SEBI guidelines for Business Responsibility Reports.

End notes

1. Decision 1/CMA.2, Decision 1/CP.25, Decision CMP.15 www.unfccc.int

2. Paris Agreement

3. https://www.ipcc.ch/sr15/

4. IPCC1.5C report estimates a global budget of 420GTCO2 to achieve the 1.5C rise target under PA. The report assumes that there will be 66% chance of limiting the temperature rise to 1.5C with a budget of 420GTTCO2 which is equivalent to 10 years of current emissions. IPCC also states that if a 50% chance of limiting the rise to 1.5C is considered, then the budget will increase to 580GTCO2e i.e. 14 years equivalent of current emissions.

5. Draft text on SBI item 9 / SBSTA item 4 Report of the Executive Committee of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts and the 2019 review of the Mechanism Version 09/12/2019 01:38

6. Global Investor Statement to Governments on Climate Change

7. https://www.carbonbrief.org/cop25-key-outcomes-agreed-at-the-un-climate-talks-in-madrid

8. https://www.climatechangenews.com/2019/12/02/article-6-issue-climate-negotiators-cannot-agree/

9. OECD Climate Expert Group Paper No. 2019 (3) - https://www.oecd.org/env/cc/Markets-negotiations-under-the-Paris-Agreement-a-technical-analysis-of-two-unresolved-issues.pdf

10. Census 2011

11. Chapter on Climate, Climate Change, and Agriculture of The Economic Survey 2018 http://mofapp.nic.in:8080/economicsurvey/pdf/082-101_Chapter_06_ENGLISH_Vol_01_2017-18.pdf

12. UNICEF and WRI analysis, 2015

13. http://www.internal-displacement.org/countries/india#

14. Global Landscape of Climate Finance 2019, Climate Policy Initiative

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Contact us

Yasir Ahmad
Partner, Responsible Business Advisory
PwC India
ahmad.yasir@pwc.com

Madhura Mitra
Associate Director, Responsible Business Advisory
PwC India
madura.x.mitra@pwc.com

pwc.in

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