



Political Economy of the Paris Climate Agreement

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Introduction

This analysis offers an outline of the shifts in the political debate and the real-economy since Copenhagen regarding the value of multilateralism in addressing climate change.

The paper outlines the significant and profound challenges and opportunities posed by the 2015 climate agreement. However, it also demonstrates achievements made to date in the international climate regime, which includes the United Nations Framework Convention on Climate Change (UNFCCC), as well as other political venues such as the United Nations Security Council (UNSC), the Group of Eight (G8), and others to empower stakeholders and embed confidence that an ambitious global agreement is not only necessary, but possible.

This political framing draws upon the extensive outreach and analysis undertaken by the ACT 2015 consortium and aims to provide a backdrop to the ACT 2015 conclusions.

The Significance of the 2°C Limit

In 2009, many global leaders at the Copenhagen 15th Conference of the Parties (COP-15) agreed to an objective of reducing emissions in order to have a 50% chance of limiting global warming to below 2°C.¹ This was subsequently established by all countries as part of the Cancún Agreements made in COP-16.² Analysis suggests that limiting climate change to this risk level would avoid the most catastrophic and irreversible changes to the climate system.³ However, it would still result in significant economic and social costs in all parts of the world. Hence, under the UNFCCC, parties have also agreed to review the adequacy of the 2°C target.

The primary institutions of the international system, including the United Nations General Assembly⁴ (UNGA) have identified limiting climate change to below 2°C as a necessary condition for sustaining global security and prosperity.⁵ The UNSC⁶ has also reiterated that uncontrolled climate change poses a threat to international peace and security. In addition, a range of analysis shows that global poverty reduction and development goals will be increasingly unattainable – and current gains unsustainable – in an above 2°C world.⁷

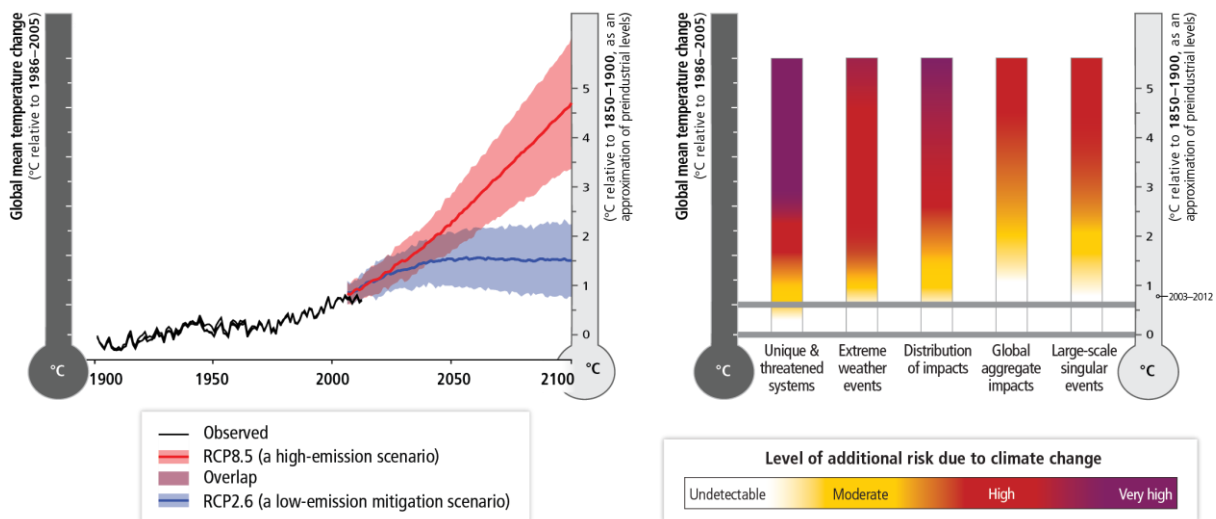


Figure 1: A Global Perspective on Climate-Related Risks⁸

Risks associated with increasing levels of climate change are shown at right. The colour shades indicate the additional risks due to climate change when a temperature level is reached and then sustained or exceeded. Undetectable risk (white) indicates no associated impacts are detectable and attributable to climate change. Moderate risk (yellow) indicates that associated impacts are both detectable and attributable to climate change, with at least medium confidence, also accounting for the other specific criteria for key risks. High risk (red) indicates severe and widespread impacts, also accounting for the other specific criteria for key risks. Very high risk (purple), introduced in this assessment, is indicated by specific criteria for key risks. For reference, past and projected global annual average surface temperature is shown at left. Based on the longest global surface temperature dataset available, the observed change between the average of the period 1850–1900 and of the AR5 reference period (1986–2005) is 0.61°C (5–95% confidence interval: 0.55 to 0.67°C), which is used here to approximate the change in global mean surface temperature since preindustrial times, referred to as the period before 1750.

1 United Nations Framework Convention on Climate Change. (2009). “Copenhagen Accord”.

2 United Nations Framework Convention on Climate Change. (2010). “Cancun Agreements”.

3 Council of the European Union. (2008). “Climate Change and International Security”.

4 United Nations. (2014). “Millennium Development Goals and Beyond 2015”.

5 The Group of Eight (G8). (2009). “L’Aquila Declaration”.

6 United Nations Security Council. (2007). “Provisional records of the 5667 meeting of the Security Council”.

7 United Nations High Level Panel of Eminent Persons on the Post-2015 Development Agenda. (2013). “A New Global Partnership: Eradicate poverty and Transform Economies through Sustainable Development”.

⁸ Intergovernmental Panel on Climate Change. (2014). “Climate Change 2014. Impacts, Adaptation, and Vulnerability: Summary for Policy Makers”.

Whilst the 2°C obligation exists, Figure 1 demonstrates it will not be without consequence. Temperature rises of 2°C will have exponential risks, destroying livelihoods, societies, species, and countries. Furthermore, the risks will not be symmetrical. Some geographies and constituencies will be disproportionately impacted; in particular, those most vulnerable and poorest in society. Critically, the 2°C threshold is predicted to prevent unmanageable climate change.⁹ Whilst a 2°C increase may be perceived as manageable to many non-experts, it only took a 5°C decrease in global temperatures to bury large swathes of the Northern Hemisphere under deep sheets of ice, launching the world into an ice age.¹⁰

‘Business as Usual’ does not Exist

Temperature rises above 2°C will have a significant material impact globally. The authors of the Fifth Assessment Report (AR5) of the Intergovernmental Panel on Climate Change (IPCC) state that climate change will “create new poverty pockets in countries with increasing inequality, in both developed and developing countries”.¹¹ The future middle classes – on whom national and corporate growth strategies depend – will not exist if climate change is left unmanaged. Across the world, food and water are the two most critical components of basic living expenses. As the cost of food rises, the knock-on effects on discretionary income and purchasing power will be felt even where direct impacts like floods, droughts, and extreme weather events do not occur. According to Chatham House, the globalised nature of food production has exacerbated the speed and scope of contagion in the event of shocks and slow motion events.¹² For example, Oxfam analysis on the 2011 commodity price shocks demonstrates that these events “work to increase and perpetuate inequality, producing consistent patterns [with significant numbers of] ‘weak losers’ and ‘strong winners’”.¹³ The poorest in society are faced with “working harder, eating less, living more frugally, drawing down resources and assets, and managing on a day-to-day basis”. However, the poorest also respond politically. They identify political issues, such as a lack of responsiveness to their needs, and corruption and collusion among powerful politicians and business interests, as among the sources of the problems they face.

In exposing the threat of climate change to not only the existing poor and marginalised, but also to existing and emerging middle classes, the IPCC’s AR5 is calling into question the prosperity of the very people earmarked as the future basis of global economic growth. Any business and investment decision that depends on spending from discretionary income – which includes sectors as diverse as fast-moving consumer goods and fashion, technology, and transport – will need to reassess the foundations of its consumer base and business opportunities.

⁹ Lenton, Timothy M. et al., (2008). “Tipping Elements in the Earth’s Climate System” Proceedings of the US National Academy of Sciences

¹⁰ Earth Observatory. (2014). “Global Temperatures - 1880-1889”.

¹¹ Intergovernmental Panel on Climate Change. (2014). “Climate Change 2014. Impacts, Adaptation, and Vulnerability: Summary for Policy Makers”.

¹² Lee, Bernice et. al., (2012). “Preparing for High-impact, Low-probability Events: Lessons from Eyjafjallajökull”. Chatham House.

¹³ Hossain, Naomi and Duncan Green. (2011). “Living on a spike: How is the 2011 food price crisis affecting poor people?”. Institute of Development Studies and Oxfam Great Britain.

Interpretations of the New Climate Economy Report suggest there is no such thing as business as usual.¹⁴ Yet a political choice does exist, all countries face a choice between continuing on a high carbon development path with increasing costs from extreme events and climatic changes, and undertaking an orderly transition to a low-carbon, climate resilient economy. Not choosing a low-carbon pathway has economic consequences. Countries that fail to put in place a credible pathway to manage low-carbon development and climate risks will see investors become reluctant to commit towards long-term investments.¹⁵ A lack of clear and robust policy frameworks will bring with it the risk of costly retrospective policy changes and stranded assets.¹⁶ Lack of investment in climate resilience will increase the risk of shocks to supply chains and damage to infrastructure installations. At best, this will result in higher costs and lower growth. At worst, it will create a significant shift of capital to less productive but more liquid assets, or to lower risk investments.

Limiting temperature rises to below 2°C will preserve civilisation as it currently stands. Currently, there is a significant mismatch between the analysis of the severity of climate risk, and the political, diplomatic, policy, and financial effort countries expend to avoid the consequent risks.

The Value of a Global Agreement on Climate Change

No country can control the climate risk it faces alone. Climate change is more challenging than many other global issues because it is a race against the clock; delaying action makes lower climate risk levels unattainable. It also requires profound choices that impact broad national interest debates such as development, energy, urbanisation, production, and consumption.

Without agreement to a major increase in mitigation ambition pre- and post-2020,¹⁷ the chance to limit climate risks to below 2°C will disappear. A successful climate agreement requires synergies between national and international action. The transition to a low-carbon economy that ensures resilience to delivering a 2°C trajectory will require major structural reforms at national and international levels.

Copenhagen forced climate onto domestic political agendas, meaning governments had to take a position. European renewable energy targets would not have been agreed in 2007 without the prospect of global climate negotiations at Copenhagen. Chinese renewable energy targets mirror Europe's own targets, with China's growing solar industry initially dependent on Europe for the majority of its demand. Global investment in renewable energy resources grew by 32% during 2010 to reach a record level of US\$211bn (£132bn).¹⁸ This is not enough to put the world onto a 2°C trajectory, but it is the most tangible economic impact that any other global diplomatic process has achieved in the last decade. Recent announcements from the US and China demonstrate how international agreements inform and catalyse domestic levels of ambition.¹⁹

¹⁴ The Global Commission on the Economy and Climate. (2014). "Better Growth, Better Climate".

¹⁵ Lee, Bernice, et. al., (2012). "Resources Futures". Chatham House.

¹⁶ Carbon Tracker Initiative. (2013). "Unburnable Carbon 2013: Wasted capital and stranded assets".

¹⁷ The new climate agreement will come into effect after 2020.

¹⁸ Webb, Tim. (2010). "Global investment in renewables to total \$1.7 trillion by 2020" The Guardian. December 2010.

¹⁹ White House. (2014). "FACT SHEET: U.S.-China Joint Announcement on Climate Change and Clean Energy Cooperation".

This global progress has also been led and supported by national action, such as Costa Rica's aim to be the world's first carbon neutral country.²⁰ This should not be surprising as global action – whether on human rights, environment, trade, or gender issues – has always involved reciprocity between global, regional, national, and local activity. Leading countries show what can be done. Global treaties agree to what needs to be done while mobilising political leadership. And a range of international, regional, and local institutions drive implementation to build the national political support to make sure promises are delivered and input for further strengthening international action is provided.

Expectations and certainty are central to the effectiveness of a global agreement. In some countries, businesses and investors lack confidence that government targets will be met or that policies will be sustained.²¹ Weak and inconsistent policies send mixed signals about governments' own commitments, creating "policy risks" and raising the cost of capital.²² This results in lower investment overall and leads investors to hedge their bets between high- and low-carbon assets.

An international agreement has the potential to act as a powerful macroeconomic policy instrument²³. Credible international agreements, which show that decarbonisation is inevitable, are required to convince those whose capital allocation decisions shape the real economy. Further, they serve to drive the point home that high-carbon business models will expose investors and their companies to greater risks and hit their future returns harder than betting on low-carbon technologies now.²⁴ The interplay between national and international actors can create the reinforcing momentum and dynamism required to secure higher ambition delivered by an international legal agreement.

Corporations and investors whose business models will be impacted by efforts to address climate change will look to both the contents of the agreement to decipher its clarity and political intent. Companies and investors will need to interpret these political nuances and policies into meaningful real-economy implications for their boards, executive committees and shareholders. While Copenhagen wasn't an outright failure, it did not send sufficiently strong signals to real economy actors that decarbonisation was inevitable and imperative. Partially, this was due to the levels of ambition on offer, and also because it raised the question; if governments really are serious, why won't they bind themselves in some form?

Demonstration of simultaneous political intent is the key to convincing those who run the real economy that agreements will be acted upon and enforced. Political intent can be delivered through a combination of policies, like countries committing to national legislation, robust transparency, and accountability measures to name a few. There is no single fixed set of policy solutions or 'silver

²⁰ World Watch. (2007). "Costa Rica Aims to Become First "Carbon Neutral" Country".

²¹ United Kingdom Energy Research Centre. (2014). "UK Energy Strategies Under Uncertainty".

²² The Global Commission on the Economy and Climate. (2014). "Better Growth, Better Climate".

²³ Ibid.

²⁴ Ibid.

bullet' that can achieve a successful outcome. *For more information, please refer to the ACT 2015 Legal Options paper.*²⁵

Global agreements drive domestic ambition, but also rest upon it. Therefore, a global agreement should deliver a collective, simultaneously reinforcing signal to those who will create future economic and political transformations, while managing the risks posed by climate change. Only strong and simultaneous action can hold open the goal of limiting warming to no more than 2°C.²⁶

Achieving a Successful International Climate Agreement in 2015

COP-21 and the post-2015 development agenda (Millennium Development Goals (MDG) and the Sustainable Development Goals (SDG) processes) combine to deliver a political moment, making 2015 a year of opportunity to reshape development pathways.

As the impacts of climate change become increasingly evident to the public, governments will be forced by the prospects of a 2015 deadline to adopt climate positions, targets, and policies.²⁷ The nature of the agreement ensures that the positions of governments will be informed by an international, legal, and multilateral context.

COP-21 in Paris has the opportunity to refresh and reorient the speed and direction of travel toward a low-carbon and resilient economy. Whatever happens at COP-21 in December 2015 will not be 'the' ultimate conclusion. Implementation of any agreement will go on beyond 2015 both within the negotiations and, more importantly, in the real economy. An agreement at COP-21 will signal 'the beginning of a solution' for tackling climate change on a global scale.

Critically, the process and the outcome for the 2015 agreement must give confidence to decision-makers in the real economy including, infrastructure planners, financial regulators, corporate boards, and others that decarbonisation at the scale required is inevitable and that they have the opportunity to transition now and adapt their business models to the low-carbon economy. The 2015 outcome (which includes the process and the agreement) must be a turning point that encourages a transformational global shift to a low-carbon world that limits warming to 2°C and builds resilience to the impacts of climate change.

An agreement at COP-21 needs to speak to all constituencies that will secure implementation. The ultimate function of the COP-21 agreement is to:

- **Send a clear signal to policy makers, businesses, investors, and the public that the low-carbon economy is inevitable** – governments, the world's largest private- and state-owned companies, and their investors must be convinced of the sincerity and seriousness of governments' intent to decarbonise in line with the agreed 2°C goal and scientific recommendations.

²⁵ La Viña, Antonio G. M. and Guiao, Cecilia T. T. "The 2015 Climate Agreement: Concepts and Considerations on Its Legal Architecture" Working Paper. Washington, DC: Agreement for Climate Transformation 2015 (ACT 2015).

²⁶ The Global Commission on the Economy and Climate. (2014). "Better Growth, Better Climate".

²⁷ United Nations Framework Convention on Climate Change. (2013). "Report of the Conference of the Parties on its nineteenth session, held in Warsaw from 11 to 23 November 2013".

- **Link science with a sense of urgency** – the agreement should be informed by and respond to the latest scientific information and should create platforms to maintain such links.
- **Connect the global agreement to the “real economy” and “real people” while enhancing sustainable development** – governments and organizations responsible for infrastructure, planning, and development must incorporate the risks of climate impacts and the risks of policy changes that created stranded carbon assets, or rather carbon bubbles into their future planning and portfolios. People must see that the shift away from dirty to clean energy is going to be accelerated, the agreement should give a sense of agency and momentum to real people in their efforts to address climate change.
- **Demonstrate fairness, equity, and justice in climate actions** – the agreement must integrate equity throughout to address historical responsibilities and responsibilities to future generations, as well as current and future capabilities.
- **Provide transparency and accountability for country commitments** – the 2015 agreement must build confidence and trust amongst governments and stakeholders on the delivery of each country’s respective commitments.
- **Accelerate the investment shift to low-carbon and climate-resilient economies** – the 2015 agreement must mobilize and align broader financial flows to the long-term goals, while providing support to developing countries to help them address climate change.
- **Protect the most vulnerable** – the agreement must be able to ensure that vulnerable communities have the capacity to build resilience, and manage and adapt to the impacts of climate change.

How Global Trends are Shaping the Political Space to Take Action

The broader environment for delivering international cooperation is more challenging than it was before the Copenhagen Summit. The global power balance is in flux, emerging economies are on the rise, Western countries are increasing austerity, and interdependences between countries all serve to challenge the operating space for those seeking an agreement in Paris. In addition, the recent onslaught of geopolitical crises such as unrest in Ukraine, the rapid spread of Ebola, and insurgency movements across the Middle East and Africa reduce the scope of political elite to address long-term systemic challenges that contribute to climate change.

Copenhagen seems to have reinforced perceptions in some quarters that climate change is too complex to solve, particularly among some foreign policy and economic commentators.²⁸ The economic crisis has further contributed to a broader and systemic decrease in global cooperative capacity, significantly undermining the conditions for carrying out effective multilateral negotiations. In addition, the continued shift of economic and political power towards emerging economies is challenging to effective international cooperation. The political landscape is more complex, leadership capacity has been diluted, and effective coalitions have become harder to form.

²⁸ Wolf, Martin. (2013). “Martin Wolf: Why the world faces climate chaos”. The Guardian.

However, the recent climate and energy announcements from the European Union (EU),²⁹ US, and China³⁰, coupled with the slow re-emergence of the World Trade Organisation negotiations are beginning to show an uptick in optimism regarding the value of international cooperation in addressing global challenges.

The growing interdependence and globalisation witnessed over the past few decades has challenged the international governance system in how it responds to systemic risks in areas such as financial stability, resource trade, and food prices. This has significant implications for whether governments seek to manage such risks through cooperation or through unilateral approaches including, but not limited to, national self-sufficiency and direct resource investment abroad.³¹

Despite a context that is generally unfavourable to multilateralism, there are other trends which provide potential opportunities and momentum for greater international cooperation to tackle climate change. Critically, there is now a strong and growing global low-carbon sector. According to Renewable Energy Policy Network for the 21st Century (REN21), “most mainstream projections did not predict the extraordinary expansion of renewables that was to unfold over the decade ahead. Scenarios from the renewable energy industry, the International Energy Agency (IEA), the World Bank, Greenpeace, and others all projected levels of renewable energy for 2020 that were already well exceeded by 2010”.³² The 2014 Bloomberg New Energy Finance (BNEF) report states that the drop in costs of solar PV led to record amounts of capacity, with increases up to 39GW of PV capacity constructed in 2013, and for less money than the previous years’ construction of only 31GW.³³ Additionally, renewable energy, excluding hydropower, composed 43.6% of the new power capacity added in all technology during 2013, and raised its share of total generation worldwide to 8.5% from 7.8% in 2012, resulting in a savings of 1.2 billion tonnes of CO² emissions.³⁴

As resource prices will likely continue to fluctuate, resource efficiency will become more critical to national economic strategies. Many emerging economies are beginning to see the benefits of resource efficiency. For example, China’s 12th Five Year Plan introduced a raft of binding measures to improve energy efficiency and reduce fossil fuel use.³⁵

Climate impacts are becoming increasingly material to both the developed and developing worlds. With scientific confidence underscoring the growing potential for increased frequency, severity, and incidence of extreme weather events linked to climate change. Such evidence helps to connect discussions at the international level to impacts on the national economy, thereby animating new voices and messengers to push for greater ambition domestically. In October 2012, Superstorm Sandy hit many highly urbanized areas along the East Coast US, and proved to be the second costliest hurricane in US history. The impacts of Sandy had a profound political impact in the run up to the US-primary elections and helped to re-launch domestic political discourse on climate change by the Obama Administration. Two years later, hundreds of thousands of US citizens, a number of

²⁹ European Commission. (2014). “2030 framework for climate and energy policies”.

³⁰ White House. (2014). “FACT SHEET: U.S.-China Joint Announcement on Climate Change and Clean Energy Cooperation”.

³¹ Lee, Bernice, et. al., (2012). “Resources Futures”. Chatham House.

³² Renewable Energy Policy Network for the 21st Century. (2014). “Renewables 2014: Global Status Report”.

³³ Bloomberg New Energy Finance. (2014). “Global Trends in Renewable Energy Investment 2014”.

³⁴ Ibid.

³⁵ Ng, Shin Wei and Nick Mabey. (2015). “Chinese Challenge or Low Carbon Opportunity? The Implications of China’s 12th Five-Year-Plan for Europe”. Third Generation Environmentalism. .

who were directly impacted by Sandy, self-organised a march in New York. This realization of the impacts of climate change, can empower atypical actors to become more politically engaged

Many emerging economies are undertaking economic transitions over the coming decade as they continue their urbanization processes, rebalance their economies, and move to higher value industries. The New Climate Economy report notes that even before accounting for climate action, the global economy will require substantial investments in infrastructure as populations and middle classes expand in size. Just to catch up to population growth, investments are estimated at US\$89 trillion by 2030 across cities, land use, and energy systems. Many are recognizing the vulnerability of their economic models and are developing goals to fit growing resource price volatility and scarcity, fossil fuel dependency, and climate change impacts on food and water.³⁶ For example, China is explicitly incorporating these issues into its assessment of 2030 development paths.³⁷ The European Union's (EU) recent climate and energy package was driven predominately by focusing on securing greater energy security in light of the Ukraine crisis. This proposal included a political focus on energy efficiency and grid interconnection as key features of the package. These issues might well have been marginalized if it was not for wider geopolitical forces at work. The drive to decarbonise can afford these countries a new industrial development model; creating a historic political opportunity to leapfrog traditional energy-intensive development models and move towards a modern, efficient, and resilient economy. These drivers and trends are shaping the perceptions of climate change in relation to national interests, especially in emerging economies with modernization ambitions.

Increasing Dynamism amongst International Climate Actors

Increasingly, tackling climate change requires effective engagement with broader processes and issues across infrastructure, energy, development, and finance sectors, as well as the institutions that govern them. The 2015 climate agreement will need to engage a variety of other ministries in order to create a sustainable solution.

Many initiatives have embarked on engaging non-climate focused political actors into the climate policy debate. International discussions on the security implications of climate change were first held at the UNSC in 2007, and have been followed up regularly in the UNSC and UNGA.³⁸ These discussions push climate change onto the agenda of non-traditional environmental arenas, such as the security and defence communities. Empowering new actors and advocates is essential to broadening the legitimacy and credibility of climate threats. Additionally, the effort to realign financial flows to address sustainable development has become a core discussion area in debates over post-2015 development agendas, and offered an opportunity to engage finance and development communities. More recently, non-state actors, such as cities and legislatures, have taken more prominence in the climate debate. The GLOBE Climate Legislation Study highlighted that

³⁶ The Global Commission on the Economy and Climate. (2014). "Better Growth, Better Climate".

³⁷ World Bank and the Development Research Center of the State Council, P. R. China. (2013). "China 2030: Building a Modern, Harmonious, and Creative Society".

³⁸ United Nations. (2007). "SECURITY COUNCIL HOLDS FIRST-EVER DEBATE ON IMPACT OF CLIMATE CHANGE ON PEACE, SECURITY, HEARING OVER 50 SPEAKERS".

since 1997, almost 500 national climate laws have been passed in 66 countries.³⁹ Additionally, C40, a global network of megacities, has collectively taken more than 4,700 actions to address climate change.⁴⁰

The increasing multiplicity of new international institutions and initiatives that are addressing climate change demonstrate the evolving and dynamic nature of international climate politics; including, the Clean Energy Ministerial and the Major Economies Forum. The international climate regime has become far broader than just the UNFCCC through the incorporation of these institutions and initiatives. However, the UNFCCC remains the keystone institution in terms of setting goals, aligning efforts, mobilising assistance, and assessing risks.

The Benefits of Cooperation

In order to secure an ambitious outcome in 2015, countries will need to realise that climate change is a core strategic priority for their national interests. There are a variety of existing agreements that at face value, appear to infringe sovereign rights, but countries perceive these agreements as within their core national interests, and encourage participation on a nearly universal scale. For example, the International Atomic Energy Agency (IAEA) has a mandate to conduct and verify routine and ad-hoc on-site inspections, visits, and ongoing monitoring and evaluation. Additionally, states are obliged to provide information about their nuclear fuel cycles.⁴¹ This arrangement is only possible due to signatories understanding the importance of non-proliferation as core to their national interests, and through collective effort.

The New Climate Economy report argues that reducing emissions aligns with broader economic reforms to increase productivity, improve infrastructure, drive industrial modernisation and exports, and raise quality of life.⁴² Actions that result in immediate economic, health, and productivity gains would deliver up to 80% of emission reductions needed by 2030. This economic pathway requires less overall investment and will be more resilient to extreme weather events and global economic shocks.

Climate change is not a zero-sum game. Early and collective action can benefit both actors and peers. International co-operation can help countries overcome transitional challenges. Working together, countries can increase the benefits from reform and reduce domestic political resistance. Ongoing integration of global supply chains for clean, efficient energy has reduced costs and created new export opportunities. Growth in renewables has surpassed all expectations.⁴³ Globalisation and increasing integration of low-carbon supply chains in goods like solar power components have seen a dramatic reduction in their costs over the last decade.⁴⁴ Dynamic wind power markets are now located throughout the world, rather than in just a few countries in Europe and the United States, as

³⁹ GLOBE Legislators Initiative. (2014). "World's most comprehensive analysis of climate laws published by GLOBE International".

⁴⁰ C40 Cities Climate Leadership Group. (2014). "History of the C40".

⁴¹ International Atomic Energy Agency. (2014). "Safeguards Overview: Comprehensive Safeguards Agreements and Additional Protocol".

⁴² The Global Commission on the Economy and Climate. (2014). "Better Growth, Better Climate".

⁴³ Renewable Energy Policy Network for the 21st Century. (2014). "Renewables 2014: Global Status Report".

⁴⁴ The Pew Charitable Trusts. (2013). "Advantage America: The U.S.-China Clean Energy Trade Relationship".

they were back in 2004.⁴⁵ Solar PV has been the fastest growing energy technology, with global capacity experiencing an extraordinary 53-fold increase between the beginning of 2004 and the end of 2013.⁴⁶ As costs have fallen, markets have expanded and supply chains have become more international, thereby spreading innovation and more efficient operating methods.

According to REN21, ten years ago most deployment and manufacturing of renewable energy occurred in Europe, the United States, and Japan.⁴⁷ Since then, markets, manufacturing, and investment have shifted to other regions. China, having increased investment in the sector nearly every year for the past decade, has become a world leader in renewables manufacturing and installed capacity. In response to rapid growth in energy demand and growing interest in renewables, increasing amounts of money are now flowing to developing and emerging countries across Africa, Asia, Latin America, and the Middle East. International financial support is helping countries design national economic and financial reforms by supporting the creation of new clean energy markets and resilient infrastructure. International financial instruments are helping countries lower costs, attract private investors into new sectors, and modernise their infrastructure.

The Climate Summit recently held in New York demonstrated that the international spotlight can encourage and incentivise actions from national and sub-national actors. In response to the hundreds of thousands of citizens who marched in capitals across the globe, countries big and small are now acting, not waiting.⁴⁸ Dozens of developing countries announced ambitious actions that they will finance themselves, from renewable energy deployment to disaster risk reduction. In Bangladesh, nearly US\$400 million has already been spent to adapt to climate change.⁴⁹ Additionally, companies are also addressing the climate challenge more seriously. The insurance industry committed to double its green investments to US\$82 billion by the end of 2015, increasing the 'climate smartness' of other investments.⁵⁰ The Rockefeller Brothers Fund, born from oil revenues, announced before the Summit it would divest US\$50 billion of its fossil fuel investments.⁵¹

International pressure and momentum can help to unlock untapped potential, and demonstrate in a synchronised manner that a low-carbon future is not only unavoidable, but also achievable, and cost effective. A strong international climate agreement in Paris can give confidence to national stakeholders that all countries are playing their fair part and delivering on their promises to manage climate risk. Further, such an agreement will give investors clear expectations of a continuing low-carbon investment path, reduce perceptions of political risk, and lower the cost of investment.

The Counter-Factual – Consequences of Failure

In order to understand the benefits of international cooperation on climate change, exploring the counter-factual is important to understanding the consequences of inaction – what happens if we fail to secure an ambitious agreement in 2015?

⁴⁵ Renewable Energy Policy Network for the 21st Century. (2014). "Renewables 2014: Global Status Report".

⁴⁶ Renewable Energy Policy Network for the 21st Century. (2014). "Renewables 2014: Global Status Report"

⁴⁷ Ibid.

⁴⁸ Morgan, Jennifer, et. al., (2014). "Analyzing Outcomes from the UN Climate Summit". World Resources Institute.

⁴⁹ Ibid.

⁵⁰ Hope, Mat, Simon Evans, and Christian Hunt. (2014). "UN Climate Summit: What's new, what's old". Business Spectator.

⁵¹ Crooks, Ed, and Pilita Clark. (2014). "Rockefellers join anti-fossil fuel drive". The Financial Times.

At stake is the future of an international rules-based regime. Failure to secure an agreement in 2015 could remove faith and confidence in political leaders, international institutions, and the capacity of international political regimes to address the global challenge of climate change. Failure could also politically undermine current and future actions to reduce emissions. Failure could inhibit collaboration between countries and others like cities, corporates, and investors to decarbonise at the pace and scale required to deliver a below 2°C reality.

Failure could illustrate the limits of global cooperation. It could reduce political and financial investment in international institutions, which would in turn limit verification and enforcement of existing agreements. Failure might also have complex ramifications upon existing alliances and bilateral relationships. If the agreement were to collapse, then recriminations and megaphone diplomacy are likely to be rife. Key geopolitical powers could require a scapegoat – and point the finger at each other, further undermining the effectiveness of the global community.

Subsequently, as climate impacts become more material, leading to increased volatility of resources, the absence of international rules and frameworks may not protect countries from these political and physical disruptions. International rules exist to protect countries from a world in which ‘great powers’ prevail and limit ‘free riders’. International rules in the majority of countries represent strategic interests to cooperatively manage volatility and insecurity. The economic benefits of international cooperation on climate are numerous. That said, critically binding international agreements protect those signatories against unfair discrimination from powerful countries as they provide a redress and demonstrate fairness.

In addition to the diplomatic consequences of failure, collapse of an agreement might lead to paralysis of investment, pausing subsequent emissions reduction efforts. Investors and planners require certainty in order to assess risks of proposed investments. Without credible signals, some investors could revert to high-carbon investments, but many are likely to become paralysed with indecision. Investment paralysis could cost governments, who will increasingly become responsible for subsidising large infrastructure projects in the absence of confident private sector financial engagement.

Finally, the non-linearity of climate impacts cannot be underestimated. Climate change is often characterized as a slow, linear process of gradual warming. However, scientists agree that temperature rise brings with it a higher probability of breaching certain tipping points in the climate system that will be irreversible. These events could lead to accelerated and unpredictable climate change. Failure to secure an international agreement could result in unmanageable climate risks, accompanied by an ungovernable international system with an absence of international rules and norms – wreaking havoc on an already uncertain geopolitical reality.

Therefore, the benefits of international cooperation on climate change lie in a rules-based regime that manages the level of climate risk by establishing a fairer system for cooperatively sharing in opportunities and risks. The alternative is not politically or physically viable, and would create a world lacking in international rules to protect countries from increasingly volatile and insecure realities.

Why Domestic Actions do not Always Translate into Political Ambition

It is common to assume that countries have well-defined national positions based on a mature understanding of their underlying national interests, and of the interests of others. However, this is seldom the case in complex and rapidly evolving areas like climate change. Across many developed and developing countries, climate change is not yet central to the national interest debate. As in all other areas of policy, the process of forming national interests is politically contested, may be dominated by unrepresentative and narrow interest groups, and often depends on less than perfect information.

In many countries, the climate debate, in relation to the broader national interest, is in its formative years. Addressing climate change requires reform, which is in many cases difficult to achieve. The impacts of climate change are often poorly understood at the national level, with affected constituencies like farmers and coastal communities often less powerful than many incumbent high-carbon industries, maintaining the status quo. Despite evidence that suggests business as usual is not a sustainable option, the political debate is often framed as a trade-off between current economic growth and future prosperity.

In some countries, low-carbon actions are often carried out in isolation from the political discussion on growth and development, and therefore are failing to translate into negotiating positions that call for more ambition. Actions announced by sub-national actors like the C40, International Council for Local Environmental Initiatives (ICLEI), and Covenant of Mayors demonstrate that progressive actions on the ground are often not reflected in the politics at the national and international level. Low-carbon actions in the real economy need to be understood in the context of the political forces that shape national decision-making.

Clearly, some key constituencies and sectors outweigh and dominate others in the political system. Often, high-carbon vested interests dominate access to decision-makers given their power, capacity, and incumbency within the political system. These actors shape how national interests are interpreted through self-serving arguments that often overlook the reality on the ground and serve to sustain myths that climate action is too expensive or can be delayed, and construct narratives of national interest that seek to lock in 'business as usual' growth and derail a low-carbon transition.

Many countries are faced with diplomatic legacies and agendas that influence and shape how national interest debates are projected in international and domestic arenas. National willingness to act is strongly shaped by perceptions of how seriously other countries are addressing climate change, their delivery of past promises, and the willingness to pool sovereignty in pursuit of joint objectives. However, countries generally have very poor information on what others are actually doing, and often overestimate their own degree of leadership potential.

Climate change is a political problem, and finding a solution will require decision-makers to make profound choices beyond the electoral cycle that will shift how energy is produced and consumed, and how natural resources and ecosystems are managed. These shifts require difficult decisions to

be made on cross-generational priorities and compromises. The art of politics is to manage these inevitable tensions. International cooperation will be required in order to help build political support for bold action inside countries.

What Does this Mean for Paris 2015?

Despite elite perceptions, the evolution of the international climate regime is evolving in a more sophisticated and richer understanding of how international politics can interact and animate actions at the national level and vice-versa.

Scientific advancements underpinned by economic analysis have shown that there is no such thing as business as usual. The overwhelming climate action and impacts on the real economy is delivering a compelling story of a new normal about the necessity and feasibility of decarbonisation to build a more resilient world. Since no country can control the climate risk it faces on its own, international cooperation and rules are essential to safeguard our prosperity.

Developments at all levels have refined our understanding of how the Paris agreement can act as a turning point towards a more resilient and cleaner future. In 2015, this real economy action will need to be reshaped into political outcomes and progress at the international level and conversely, use the international momentum to drive and stimulate domestic ambition and implementation.

The New York Climate Summit demonstrated that international pressure creates momentum. Climate change is a truly global endeavour that will require the participation of governments, citizens, planners, investors, and businesses. The international climate regime must empower these actors in the run up to the 2015 agreement and beyond – capitalising on this historical political opportunity to create positive international change.

Glossary

ACT 2015 – Agreement for Climate Transformation 2015
AR5 – Fifth Assessment Report
BNEF – Bloomberg New Energy Finance
COP – Conference of the Parties
E3G – Third Generation Environmentalism Limited
EU – European Union
GLOBE – Global Legislators Organisation
G8 – Group of Eight
IAEA – International Atomic Energy Agency
ICLEI – International Council for Local Environmental Initiatives
IEA – International Energy Agency
IPCC – Intergovernmental Panel on Climate Change
MDG – Millennium Development Goals
NGO – Non-governmental organisations
REN21 – Renewable Energy Policy Network for the 21st Century
SDG – Sustainable Development Goals
UNFCCC – United Nations Framework Convention on Climate Change
UNGA – United Nations General Assembly
UNSC – United Nations Security Council

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About ACT 2015:

The Agreement on Climate Transformation 2015 (ACT 2015) consortium is a group of the world's top climate experts from developing and developed countries that have come together to catalyse discussion and build momentum toward reaching a global climate agreement at the forthcoming UN Framework Convention on Climate Change (UNFCCC) summit in 2015.

About E3G:

E3G is an independent, non-profit organisation operating in the public interest to accelerate the global transition to sustainable development.

E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change.

E3G works closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere.

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