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Consultation on the 2015 International Climate Change Agreement: Shaping international climate policy beyond 2020

AFEP and Cercle de l'Industrie's reply

France recently offered to host the international Conference of Parties on climate change (COP 21) in Paris in December 2015. The purpose of this meeting is to attempt to reach a new international agreement on climate change beyond 2020.

Afep and Cercle de l'Industrie first would like to thank the Commission for giving them the opportunity to submit comments in the context of the public consultation on the 2015 International Climate Change Agreement.

Afep and Cercle de l'Industrie consider that reaching an international agreement with all competing economies emitting large amounts of greenhouse gases (GHG) is the best solution in order to combat global warming and create a global level playing field between economic operators who are subject to GHG constraints and those who are not.

In order to achieve this goal, the European Union (EU) must shift its strategy towards a more integrated approach by considering relevant aspects of trade negotiations and energy efficiency. It is also necessary to use prior negotiations under G8, G20 and the Major Economies Forum and build a stronger and more comprehensive diplomacy.

1. Goal: Reaching a binding international agreement including all major GHG emitters

1.a. The necessity for a binding and representative agreement *(question 2)*

The Parties at the Durban Conference in 2011 decided to adopt a universal legal agreement on climate change as soon as possible, and no later than 2015. This decision would not have been possible without the commitment of the EU to a second commitment period from 1 January 2013 to 31 December 2020. However, the current Kyoto Protocol II covers only emissions of the EU and 9 other States, among which the largest emitter is Australia, and represents less than 15% of the global GHG emissions. Furthermore, major emitters commit themselves to a wide diversity of pledges: binding, voluntary, and for some, conditional. This creates large distortions of competition between EU companies and their major competitors, especially in the USA and in China.

EU "leadership by example" must not mean leading by being isolated from the rest of the world. It is of utmost importance that any future agreement be binding, include major emitters and represent the major part of global emissions.

Without undermining the principle of common but differentiated responsibilities and capabilities, it is also necessary to **smooth the distinction between the categories of 'developed countries' and 'developing countries'. China** is indeed nowadays a major emitter and can no longer be considered as a developing country. It indeed became the largest national emitter of GHG in 2006. This year, Chinese emissions are more than double of those of Europe in absolute terms and Chinese emissions per capita exceed those of Europe.

In the current context, where the **United States** has not yet stated a clear position, companies consider that the EU should engage in international negotiations with great caution with regard to the environmental objective to be achieved beyond 2020. The European Union must maintain pressure on the United States, which has not yet committed to a significant reduction target in the framework of the UNFCCC, and has a considerable margin for progress.

The recent bilateral agreement between the USA and China on a phase-down of hydrofluorocarbons (HFCs) under the Montreal Protocol shows that these countries can commit themselves at international level to combat climate change. This political will should be extended to all GHGs.

Furthermore, the EU should engage in negotiations with **pledges expressed in absolute terms only if all other major emitters do so**. If the EU is the only major economy ready to commit itself to ambitious GHG reduction targets, the EU should consider committing itself to relative pledges taking into account the intensity of its economic activity. Otherwise, the costs and the social acceptability of such pledges would be severely undermined. In any case, the EU may reconsider its energy and climate long-term policy in the light of the international agreement. Should commitments in carbon intensity be agreed, an option would be to complement these commitments by creating globally consistent and reliable price signals for GHG emissions for all parties.

1.b. A strong and credible Measuring, Reporting, and Verification (MRV) system as a prerequisite *(question 7)*

In order to facilitate links among different national approaches and carbon systems, and to build an international carbon market, it is necessary to set up a **reliable harmonised system of measurement, reporting and verification of GHG emissions.**

The required contents and level of detail of national reports, and the timetable for their submission are different for developed and developing country Parties. This is in accordance with the principle of "common but differentiated responsibilities" enshrined in the Convention.

The Durban Conference made welcome progress on formulating transparency rules concerning the implementation of actions in developed and developing countries. However, companies believe that the current classification of emitters along two rigid categories (developed/developing countries) does not reflect any longer real economic and emission levels of emerging economies such as China or India. The transparency requirements imposed on those growing economies should be reviewed to be more in line with the much stronger rules that developed countries must abide by. If these countries are not to be considered as developed countries, appropriate MRV requirements must be applied to them, in order to ensure the actual implementation of measures and the reliability of the system as a whole.

All Parties should commit to comply with their obligations in terms of measurement, reporting and verification of GHG emissions. To help less developed countries to do so, Parties benefiting from expertise should share it at global scale. Furthermore, enforcement should be strengthened by applying credible sanctions to the Party that has failed to fulfil its obligations. Suspending such a Party from international emissions trading (as suggested by the Commission) does not seem however the appropriate sanction as it might disturb transactions and have consequences on market stability. These sanctions should thus rather be discussed at international level.

It is also required to create an environment conducive to Research and Development as regards MRV and emission accounting, to enhance accuracy and transparency. This will help to build reliable strategies not only on mitigation, but also on adaptation.

1.c. Adaptation: The need to “bridge the knowledge gap” (*question 5*)

Afep and Cercle de l’Industrie share the broad consensus on the need to complement mitigation measures by adaptation efforts. However, it is of utmost importance to « **bridge the knowledge gap** », as acknowledged by the Commission in the Strategy on Adaptation[1] (Action n°4), and by the EU Environment Council[2]. Indeed, there is still a lack of long-term assessment models on adaptation and adaptation-related knowledge for decision-making. The link between natural events and the impact of climate change can currently not be sufficiently based on quantitative data and scientific evidence.

It is therefore necessary to:
- develop economic models, academic research and precise data;
- build skills and expertise and transfer this expertise to developing countries, while ensuring the enforcement of intellectual property rights;
- improve knowledge management and data sharing on the likely impact of climate change and of the costs of different adaptation scenarios;
- ensure a better coordination between national action plans.

In addition, adaptation measures will be implemented only if an appropriate **funding** is provided. At international level, the Green Climate Fund - agreed at the Durban Conference - is a major tool: “*The Fund will strive to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two”* [3]. It is now necessary to specify which kind of funding could be provided, under which rules and in which direction.

[1] Communication from the European Commission - An EU Strategy on adaptation to climate change COM/2013/0216 – 16 April 2013
[2] Conclusions of the EU Environment Council, 18 June 2013.
[3] Durban Conference, Decisions adopted by the Conference of the Parties, 15 March 2011 - Decision 3/CP.17

2. Strategy: Widening the negotiation process while maintaining incentives

2.a. Considering trade negotiations and energy efficiency in the EU negotiation strategy on climate change *(question 1)*

Convincing major emitters to sign for climate constraints is by no means an easy task. In this context, Afep and Cercle de l'Industrie strongly believe that an international deal can be reached in 2015 only if relevant aspects not directly related to climate change such as trade negotiations and energy efficiency are taken into account. The EU should consider those aspects in its negotiation strategy on climate change.

On trade issues, it is clear that the European market is increasingly open whereas most of the third country markets remain closed. However, European markets must not be open at any cost. The EU should have recourse to diplomatic instruments as "carrots and sticks". Notwithstanding the issue of third country market access for European companies, the EU should make clear that the opening of its market could be reconsidered, if major emitters do not progress in the climate negotiations. The EU should for instance take into account:

- the relevant issues at stake in the ongoing discussions on **trade agreements**, especially between the EU and the USA (intellectual property rights, technical regulations, standards and certification…);
- the question of the **market-economy status (MES)**[4] at international level and at European level of new nations. Should those countries not progress in the field of climate change, this could be taken into account in the annual EU report.

Moreover, the opportunity to set up **complementary commitments in terms of energy efficiency should be considered.** Energy efficiency involves reductions of energy costs; it thus could be a more positive tool for reluctant Parties in the negotiation. However, the correlation between energy efficiency and emissions reduction targets should be assessed and a strong MRV system should be considered.

2.b. Developing negotiation opportunities through UN and non-UN processes *(questions 6, 8, 9 and 3)*

The UNFCCC legitimacy mainly relies on its ability to build agreements based on a formally valid multilateral process and consistent with international law. Thus it must remain the **endorsement process** of agreements, even if those agreements are built upon other platforms. The UN process gathering 195 Parties is indeed too wide to initiate projects and build strategic coalitions.

In order to reach a global agreement, companies believe that **prior negotiations** between political leaders are essential under G8, G20 and the Major Economies Forum on energy and

[4] The 'market-economy status' is a technical classification to be used in Trade Defense Instrument proceedings to determine whether local prices could be used for calculations. The criteria are: "absence of barter trade" and "absence of State-induced distortions in the operations of enterprises linked to privatization", the degree of government influence, including through tax discrimination; adequate corporate governance, especially regarding accounting European standards; transparent rule of law to ensure property rights and operation of a bankruptcy regime; and a financial sector that operates independently of the state.

climate. These non-UN meetings should be conducted in connection with the UNFCCC and Climate talks in order to avoid gaps at the end of the process. Afep and Cercle de l'Industrie also support UN Secretary General's will to develop negotiation opportunities through non-UNFCCC processes, such as the World Leaders' climate summit during the 2014 General Assembly meeting.

Throughout the whole process, public and private stakeholders should be better involved. Among them, major groups (inter alia economic actors and NGOs) should be consulted so that they can bring expertise and share their pragmatic vision of how to tackle climate change.

2.c. Building a stronger and more comprehensive EU climate diplomacy

The European Union has made substantial efforts to lead international negotiations. However, these efforts were not rewarded by major emitters, which have sometimes put the EU aside at the end of the process. In this regard, lessons need to be taken from the Copenhagen negotiations, where the essential points of the deal were brokered by the USA with the representatives of China, India, Brazil and South Africa.

Consequently, the EU should use all available instruments to build, in view of such an agreement, a stronger and more comprehensive climate diplomacy, especially through the European External Action Service (EEAS). Current tools (for instance, the EU Green Diplomacy Network) must not only work towards a better integration of the EU environment policies into external relation practices, but also support the Commission strategy within the UNFCCC process and other negotiation platforms on climate change.

2.d. Maintaining the existing incentives for developing countries

Project-based mechanisms must be maintained as it succeeded in driving investments all over the world. The use of Clean Development Mechanisms (CDMs) should be allowed not only for Least Developed Countries (LDCs), but also for low emitting developing countries. If the continuation of CDMs can undermine the will of developing countries to commit themselves to quantitative reductions in the context of a global agreement, it has to be reminded indeed that a global agreement on quantitative global and national targets should be reached in priority by gathering the major emitters, not only the small ones. In this context, carrying on CDMs for LDCs and low emitting developing countries appears a pragmatic and efficient measure to curb emissions.

The European Union is the largest contributor of climate finance to developing countries. The **long term climate finance ($100 billion a year by 2020 from developed countries)** should be used as a bargaining tool for negotiation with these countries. The Green Climate Fund, which is designed to support projects, programs and policies in developing countries, should also be used in this direction.

However, while technology transfers towards emerging economies should be encouraged, they should not be made compulsory. Afep and Cercle de l'Industrie insist on the necessity for the European Union to guarantee the enforcement of European companies' IPRs according to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).***

About AFEP (French Association of Large Companies)

The purpose of Afep is to present the views of large French companies to the European Institutions and the French authorities, mainly with regard to the drafting of non-sectoral legislation (on the economy, finance, taxation, company law, financial information and markets, competition, intellectual property rights, consumer affairs, social protection, employment legislation, environment and energy, corporate social responsibility, etc.).

In 2013, Afep represents more than 100 of the top private sector companies operating in France. The companies which belong to Afep have 6.7 million employees and a combined turnover of 1 700 billion euros. Their market capitalisation amounts to 1 100 billion euros.

As a major force for analysis and proposals, Afep is also a prime forum for contacts between member firms and public authorities, which consult the Association when considering plans for reforms or regulations. Senior officials in the European Union and French administrations regularly take part in meetings organised at the head office of the Association, enabling direct and constructive dialogue to take place.

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About Cercle de l'Industrie

Based in Paris and Brussels, Cercle de l'Industrie is a forum for dialogue and exchange. It brings together the Chairmen of large businesses in all industrial sectors and policy-makers. In 2011, member companies of Cercle de l'Industrie had a turnover of around 850 billion euros; they employed 2,5 million people.

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