Insight Briefing

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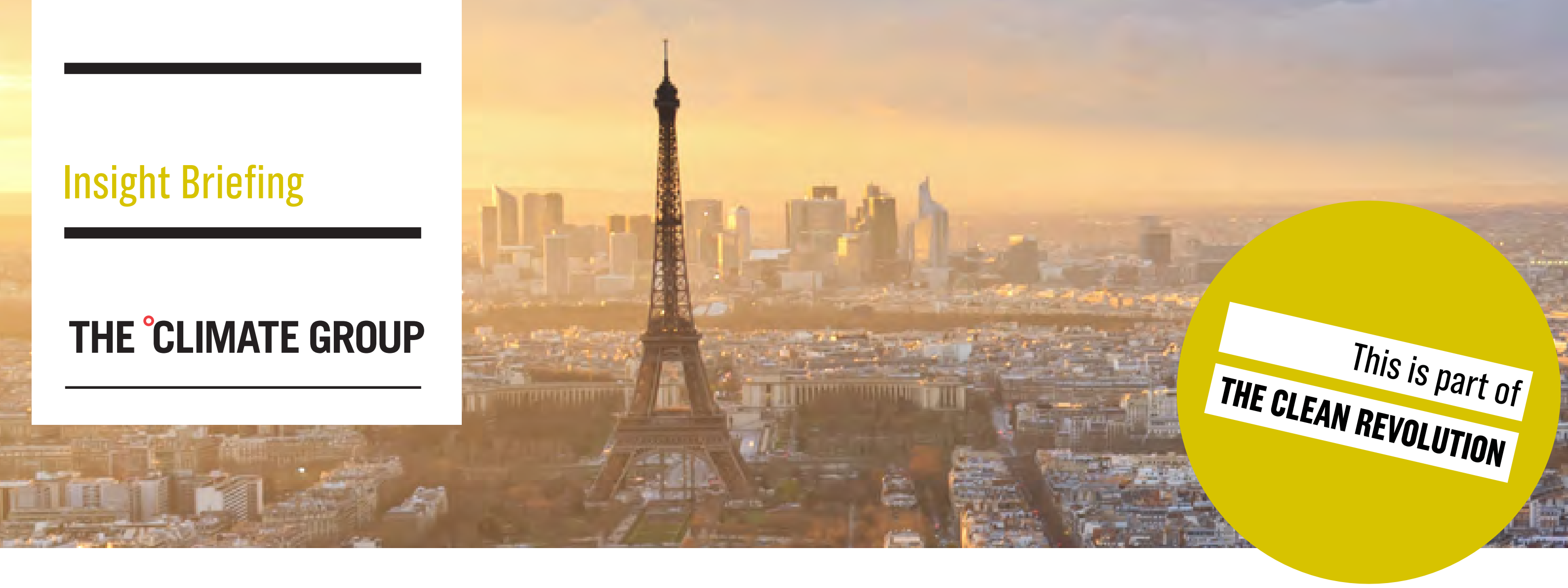

INDCs – INVESTMENT PLANS FOR LOW CARBON GROWTH

March 2015 | Analyzing critical issues of the global low carbon economy

ABOUT

This Insight Briefing takes an in-depth look at INDCs. It examines what they are and what impact they are likely to have at the upcoming climate talks in Paris and beyond.

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KEY POINTS

- In the coming months countries will submit their 'Intended Nationally Determined Contributions' (INDCs) to the UN, which set out how they plan to address climate change beyond 2020.
- INDCs will form a central part of the new global climate deal to be agreed in Paris this December. In particular, INDCs will set the total emission reduction ambition of the global deal.
- As 'bottom-up' based commitments, INDCs are not expected to collectively deliver the full scale of emission reductions required to address climate change.
- But early submission of INDCs does provide the opportunity for review and – in theory – the ability to increase ambition and close the emission gap before or at Paris.
- INDCs, however, are more than a list of emission reduction actions, because they provide the template for national low carbon investment strategies.
- Understanding INDCs from this perspective offers a chance to reframe the Paris deal as the starting point for a prosperous low carbon transformation of the global economy.
- As well as pushing for greater ambition to close the emission gap, in the lead up to Paris, businesses and sub-national governments have a critical role in communicating INDCs as investment plans for low carbon growth.

INTRODUCTION

Over the next nine months, the 190-odd countries engaged in UN climate talks are required to submit their intended domestic plans for addressing climate change beyond 2020. Many of these, especially those from the world's major emitters, are expected before June.

These so-called Intended Nationally Determined Contributions, or INDCs, will form a critical part of the new global climate deal to be agreed at COP21 in Paris this December. In particular, they will set the overall level of global emission reduction ambition. The content of INDCs will therefore provide an early indication of what a climate deal in Paris could deliver.

But INDCs are more than just an early indicator for Paris. Perhaps as importantly, INDCs will also highlight which countries are embracing the economic opportunity that comes from bold climate action and which are not. In this sense, INDCs should be seen not as climate actions lists, but instead as strategic investment plans for low carbon growth.

This Insight Briefing takes an in-depth look at INDCs. It examines what an INDC actually is, the impact they are likely to have on the road to Paris and beyond, and what can be expected in the months ahead.

WHAT EXACTLY IS AN INTENDED NATIONALLY DETERMINED CONTRIBUTION?

In very simple terms, an INDC lays out the climate targets and actions a country is willing to commit to beyond 2020, as part of a new global climate deal. Such targets and actions could include economy wide emission targets, fuel efficiency standards, improved building codes or policies that support low carbon investment.

While the product of a long and difficult negotiating process, INDCs are not a final or binding commitment. As the word 'intended' underlines, they are a conditional offering from countries ahead of the Paris climate conference. In this sense, they represent a floor for climate action ambition, rather than a ceiling and – in theory – allow for upward adjustment before and in Paris.

But INDCs differ in important ways from previous commitments made under the 1992 UN Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol in 1997. Under these treaties, commitments were hammered out by top-down negotiation. In other words, an objective was set and negotiators then went to work to decide how responsibility for achieving it should be shared out. Commitments were also agreed according to the 'common but differentiated responsibility' (CBDR) principle, meaning that developed countries took on more ambitious and – in the case of mitigation action under Kyoto – quantified commitments.

INDCs to a large extent turn this commitment process on its head. As the phrase 'nationally determined' stresses, commitments will be determined through a bottom-up process based on domestic considerations of what is possible. CBDR will still figure strongly in INDCs, but not in the binary way established by the UNFCCC that splits countries into two distinct groups – 'developed' and 'developing'. Instead, commitments from all countries are likely to be a mix of both quantified targets and unquantified policies, measures and regulations, representing a spectrum of capabilities and ambition levels.

BOX 1. FORMAT OF INDCs

Parties first agreed at COP19 in Warsaw in 2013 that they would aim to submit their INDCs by March 31, 2015 (or at least "for those in the position to do so"). Through 2014, negotiators spent much of their time trying to decide on the form and content of INDCs. Going into COP20 in Lima last year, a number of broad options were on the table reflecting the spectrum of country views on what INDC submissions should entail.

Negotiations in Lima proved tough. Parties were unable to agree on a common, standard approach to completing and submitting INDCs. Instead, a list of possible information sources and types were identified that countries "may include" in their submissions. In effect, this amounts to an 'anything-goes' approach, which will make comparison of INDCs in coming months more difficult. On the positive side, parties did agree that INDCs must "represent a progression beyond the current undertaking of that Party", a phrase which locks in the current, minimal level of ambition around the world.

INDCs SHOULD BE SEEN AS STRATEGIC INVESTMENT PLANS FOR LOW CARBON GROWTH.

WHAT IMPACT ARE INDCS LIKELY TO HAVE?

The submission and publication of INDCs over the coming months is likely to have a number of impacts. The most immediate of these relate to the negotiation process through to Paris. Medium and longer term impacts will depend on the ambition and scale of action that emerges from INDCs.

PARIS IMPACTS

In terms of the road to Paris, INDCs are likely to have a number of beneficial impacts:

- Help avoid a 'Copenhagen crisis': In 2009 world leaders didn't understand each other's intent to decarbonize, leading to a chaotic, hastily prepared Copenhagen Accord. By putting their offers on the table months ahead of Paris, countries can avoid similar misunderstandings.
- Increased transparency: The early submission of offers also means that for the first time there is an opportunity for countries and observers to review and assess potential commitments. This can help to increase trust and create a more open, informed negotiation.
- Increase ambition: Transparency in turn leads to the potential for extra ambition. The role of observers, particularly businesses, sub-national governments and expert groups can play a critical role in highlighting what else is possible and by drawing attention to today's successes.

The need to increase ambition is a particularly important point. There is general agreement that the bottom-up nature of INDCs means the aggregate level of ambition will fall short of the global emission reduction pathway required to avoid the worst impacts of climate change. This has been a key criticism of INDCs by those who favor the top-down approach and its ability to set clear scientifically based targets. However, countries have been willing – some more than others – to trade the lack of emission reduction certainty inherent in INDCs in return for the far greater guarantee of engagement and action they bring.

MEDIUM AND LONGER TERM IMPACTS

Perhaps understandably, INDCs are seen very much through the lens of the Paris deal and the ambition (or not) they bring to the final agreement. But this is a narrow, short-term view. In reality, INDCs represent an opportunity and decision point for every country about the shape of its future development and economic pathway. INDCs are in fact national low carbon investment templates.

Approached from this angle, INDCs change from being an exercise in minimizing the perceived cost of climate action, to a low carbon growth strategy pitch to the international investment community.

The timing for such a pitch is opportune. Unlike the lead up to the Copenhagen Conference in 2009, the appetite for low carbon investment is strong and growing, while the cost of clean technologies continues to fall. The green bond market, for example, is on track to be worth US$1 trillion by 2020 [1], while major investment banks such Citigroup[2], Goldman Sachs[3] and JP Morgan[4] have all announced billion dollar funds for low carbon investment in recent years. The investment policies of the multi-lateral development banks and agencies are also firmly swinging behind green growth.

It is unclear at this stage how many governments see their INDCs and the investment opportunity in this light. For those that do, however, the medium to longer term benefits from cleaner, more energy efficient and healthier societies – as a result of greater business and foreign direct investment (FDI), and increased overseas development assistance (ODA) – is likely to be self-evident.

The potential for such positive impact can best be appreciated by comparison to country actions in the lead up to Copenhagen. Although not obvious at the time, the flurry of national announcements that preceded COP15 laid the basis for significant domestic actions in the years after, despite the failings of the negotiation process itself. INDCs are more sophisticated and detailed versions of these earlier announcements, and so by extension should drive even greater change as a result.

[1] http://reneweconomy.com.au/2015/green-bonds-poised-to-be-1-trillion-market-by-2020-2020

[2] http://fortune.com/2015/02/18/citi-climate-change-100-billion/

[3] http://www.reuters.com/article/2012/05/23/goldman-green-idUSL1E8GMDPR20120523

[4] http://newsroom.bankofamerica.com/press-releases/corporate-and-investment-banking-sales-and-trading-treasury-services/bank-america-ann

BOX 2. GOOD, BAD OR UGLY?

What exactly will make an INDC good or bad? The failure in Lima to agree what should be included in an INDC makes answering this question challenging. The lack of a standard format also hampers comparison. That said, there are some fundamental elements that any long-term low carbon national investment strategy (aka an INDC) should contain. These include:

- Commitment to a long term emission reduction target – such as net zero emissions by 2050.
- For all developed countries, an absolute, economy-wide emission reduction target for the commitment period that aligns with the long term goal.
- For developing countries, an economy-wide intensity based emission reduction target that would ensure peaking of emissions within the commitment period.
- Policies and instruments that put a meaningful price on carbon.
- Additional policies and measures that support the price on carbon in key emission sectors, e.g. transport, buildings, industry, agriculture and forestry.
- Commitment to remove perverse incentives e.g. subsidies for fossil fuel production and consumption.
- Clear timetables for implementing all commitments made.

The net effect and objective of an INDC must be to move investment. INDCs should send clear signals across the economy that unequivocally shift investment and consumption decisions away from high carbon options, to low carbon alternatives.

WHAT HAPPENS NEXT?

Publication of INDCs began in early March with submissions to the UNFCCC Secretariat from the EU and Switzerland. The US has indicated it will submit its INDC by the end of March, a deadline that all industrialized countries will also hopefully meet. Most other major economies, including China and India, are thought to be aiming for submission by or before June 30. Although some INDCs are expected to be delivered as late as October, the end of June will provide the first opportunity for assessing the overall level of ambition in the lead up to Paris.

It had been hoped by some countries and many observers that a formal review of INDCs would occur prior to Paris. But in Lima, countries could not agree to an 'ex-ante' analysis. The UNFCCC Secretariat has, however, been tasked with presenting a synthesis report on "the aggregate effect of INDCs communicated by Parties". This will not be published until November 1 – just a month before COP. This means it will have little impact on individual INDCs, but it could play a role in influencing the political deal-making among ministers that happens in the final days in Paris.

Yet lack of a formal review does not mean that analysis and comparison of INDCs won't take place. NGOs, research institutions and certainly individual governments will crunch numbers and sift through policies as INDCs are submitted and posted on the UNFCCC Secretariat's website. This work is certain to highlight the leaders and the laggards. Countries may have wanted to avoid such scrutiny but as analysts from PwC have noted "…if a country has a weak plan it will be criticised; if it has a bold plan it will be celebrated. A UN review process of the INDCs is unlikely to add much"[5].

[5]http://pwc.blogs.com/press_room/2014/12/pwc-post-conference-of-parties-cop-report-un-climate-summit-lima.html

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