The Paris Agreement and the financial stakes

LIMA MEETING, 9 OCTOBER 2015
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COP21 is scheduled to take place in Paris in December 2015. The goal is to achieve a bold and binding agreement to limit the increase in temperature to no more than 2°C.

President Hollande, 10 September 2015:

“There is urgency because we have to act now, and the time factor is because what we decide there, at the end of 2015, will commit the world for the next 20 or 30 years.

So, what are the stakes involved? First, we need to reach a universal, lasting, binding agreement. That's for the legal aspect. Second, we need to secure funding. Both stakes are interrelated. If we don’t make the expected announcements, but not just announcements, if we don’t provide the proof that we will raise $100 billion from 2020 – every year – then we will fail to reach a conclusion at COP21.”

President Hollande at his press conference on 7 September 2015:

“There will be no agreement, particularly because countries, namely emerging countries in the southern hemisphere will understandably refuse it if there is not a binding commitment on funding.”

Laurent Fabius, Chair of COP21, in his speech at the United Nations General Assembly High-level Event on Climate Change in New York on 29 June 2015:

“The Paris agreement is essential and is only possible upon one condition: that it respects what is generally called justice. We know that justice is also about financial solidarity, and I would add technological solidarity. A commitment was made by the developed countries: every year, $100 billion of public and private financing should be raised by 2020, for the poorest and most vulnerable countries as a priority. That commitment must be kept. That is why further efforts are required in terms of financing and the transfer of technologies.”
Why involve finance ministers in this issue?

Ministers in charge of climate negotiations will be responsible for laying down the rules of the new Agreement, including on funding. That is why Laurent Fabius brought together ministers from around 40 countries for a meeting with particular emphasis on this issue on 7 and 8 September. The meeting confirmed the desire of all participants to be informed of the actual progress made towards the goal of raising $100 billion by 2020, the high expectations of developing countries for a continuation of this effort after 2020 and the special focus on the financial efforts to be devoted to helping poor and vulnerable countries adapt to climate change.

Nevertheless, it is important for finance ministers to be involved in climate issues given the underlying structural economic and financial stakes. To keep global warming below 2°C, all investments will need to factor in climate issues.

Furthermore, the European finance ministers are scheduled to meet to define the position of the European Union on these subjects in November.

With the international negotiations focusing on post-2020 funding, the credibility of past commitments on financial flows from developed countries to developing countries must be demonstrated in order to win the trust of countries in the southern hemisphere.

Michel Sapin in his opening speech at Climate Finance Day in Paris on 22 May 2015:

“The question of financing will be fundamental as we work toward our agreement in December, and to ensure that the transition to resilient and low carbon economies is implemented world-wide, effectively and massively.”
The “Climate finance” meeting, Lima, 9 October

The financial aspect is a critical part of negotiations in the lead-up to COP21 in Paris, which will set the overall framework for the fight against climate change in the post-2020 period. To facilitate talks, it is vital that trust be established between the Parties upstream of COP21, as well as a shared understanding of the ongoing marshalling of public and private financial stakeholders to support climate change mitigation and adaptation actions in developing countries.

Peru and France, as the current and future hosts of the COP, are holding a meeting of finance ministers and heads of major international financial institutions on climate finance in Lima on 9 October 2015, in conjunction with the Annual Meetings of the World Bank Group and the International Monetary Fund. The meeting will be opened by its organisers, Michel Sapin and his Peruvian counterpart Segura Vasi, and concluded by Laurent Fabius and Peruvian Environment Minister Manuel Pulgar-Vidal, Chairs of COP21 and 20.

Michel Sapin in his speech at the OECD Ministerial meeting on 4 June 2015

“Together with my colleague Arturo Alonso Segura Vasi, we have set out a strategy to facilitate all negotiations […]. What will be the arrival point be? In October, in Lima, on the sidelines of the Annual Meetings of the International Monetary Fund and the World Bank Group, we plan to hold a high-level meeting that will take stock of the work that has been conducted. My hope is that we will be able to send a clear message, an encouraging and motivating message, ahead of the Paris Conference.”

Laurent Fabius in his closing speech at Climate Finance Day in Paris on 22 May 2015

“No effective action will be possible, however, if we do not engage very strongly our private stakeholders from the financial community, both private and public.”

This meeting will review all the work conducted this year and, if possible, will announce new financial commitments for the fight against climate change, to strengthen the positive trend sparked by announcements made on the sidelines of the UN General Assembly, notably by France. Ban Ki Moon, the Secretary General of the UN, will open the meeting. The heads of major international financial institutions (World Bank, IMF, Financial Stability Board, African Development Bank, Asian Development Bank, EBRD, EIB, Green Climate Fund) and a large number of finance ministers will also attend. Two initiatives, one on energy in Africa and the other on early warning systems, will also be presented.

To promote discussion, France and Peru asked the OECD and Climate Policy Initiative (CPI) think tank to produce a report on climate finance available in 2014 compared to the target of $100 billion (see datasheet on this subject). The report, to be presented by the Secretary-General of the OECD, Angel Gurría, should provide a technically sound and transparent assessment. The Secretariat of the United Nations has also agreed to submit a report on the engagement of the private financial sector, a little over a year after the New York Climate Summit, which was marked by several announcements in this area.
The strategy is built on three pillars

**COP21, THE FINANCIAL COMPONENT**

**FOR A LOW-CARBON ECONOMY**

**THREE PILLARS TO SECURE FINANCIAL COMMITMENTS**

Give credibility to the financial commitments made by developed countries: in 2009, in Copenhagen, developed countries undertook to channel $100 billion in public and private sector climate funding into developing countries every year by 2020.

195 countries (plus the EU) will be required to make commitments on reducing greenhouse gas emissions. This is the essence of the Paris agreement.

Achieve a transition to a sustainable, low-carbon and resilient economy in response to climate change. This will require public policy consistent with the transition (energy transition, carbon tax, etc.) as well as financial oversight that takes climate issues into account.
The Paris Agreement

The aim of the universal agreement is to lay down the rules and determine the instruments to progressively achieve the goal of capping global warming at 1.5°C or 2°C. To this end, 195 countries (plus the EU) will be required to make commitments on reducing greenhouse gas emissions, consolidating actions already underway.

The objective is to achieve:

- a **universal** agreement signed by all and applicable to all countries
- a **bold** agreement that allows us to limit global warming to 1.5°C or 2°C and to send economic stakeholders the signals needed to begin the transition to a low-carbon economy
- a **flexible** agreement that takes into account the respective national circumstances, needs and capabilities of developing countries and the specific features of some countries, particularly the least developed and small islands
- a **balanced** agreement that provides adequate resources for its implementation, to fund climate change mitigation and adaptation projects, access to technology and capacity building
- a **proactive** and **credible** agreement that includes not only a periodic process to compile countries’ goals on climate change, but also a robust transparency framework for monitoring the implementation of emissions reduction commitments in order to cement trust between countries

The issue of funding will naturally be addressed in the Agreement; there can be no agreement without solidarity, and governments must have the resources required to implement their commitments.
Press Kit – The Paris Agreement and the financial stakes

Backing up the pledge made at Copenhagen to raise $100 billion a year by 2020

At the 2009 Copenhagen Summit, the developed countries jointly pledged to commit $100 billion a year by 2020 to assist developing countries in funding their initiatives to fight climate change. The funds would come from a mix of public and private sources, including some innovative ones.

Although the parties systematically recalled the need for a single definition of climate finance, no accounting methodology was approved when the commitment was made.

In July 2015, Michel Sapin and his Peruvian counterpart asked the OECD, together with the CPI, to draft a report providing a sound estimate of the funding paid in 2013 and 2014. The report is based in particular on the donor countries’ work on the definitions and methods carried out in 2014 and 2015, which should allow a more precise estimate.

The OECD will present the report at the meeting on the financial stakes of COP21 in Lima on 9 October.

The Steps

2009 - COP 15 COPENHAGEN
Collective commitment (no commitment by country) of the developed countries to raise $100 billion, from public and private sources, a year by 2020 to help countries in the southern hemisphere reduce their greenhouse gas emissions (mitigation) or adapt (adaptation) to climate change.

LATE 2014
First biennial assessment by the Standing Committee on Finance of the UNFCCC. It was published during COP20 in Lima (approximate range: $40 to $75 billion).

31 March 2015
Agreement on accounting for mitigation funding at the meeting of the multilateral and bilateral development banks (such as the AFD or KFW) held at the French Economy and Finance Ministries.

June 2015
Agreement on the accounting principles of adaptation funding and leverage.

9 October 2015 LIMA
Presentation of the report by the OECD
The latest “Copenhagen commitment” figures

A number of States and multilateral development banks have announced their intention to increase their climate funding by 2020:

- In June 2015, Germany announced it would double its climate funding by 2020
- The United Kingdom announced it would raise its financial contributions to the fight against climate change in the poorest countries by 50%, representing a total of £5.8 billion ($8.8 billion) over the 2016-2021 period
- At the United Nations General Assembly, France announced a €2 billion hike in its climate funding by 2020, from €3 to €5 billion euros;
- The Asian Development Bank will more than double its climate funding (reaching $6 billion by 2020) through the overall increase in its activity and a significant rise in the proportion of its portfolio devoted to climate (30% compared to 18% today)
- The EBRD will boost the share of its “green finance” activity from one-third to 40%. Its annual commitment will then be $4 billion.

The French contribution

In 2014, France’s international funding for the climate in developing countries stood at €3 billion. At the United Nations General Assembly on 28 September 2015, President Hollande announced that our international climate funding would exceed €5 billion by 2020, an increase of over €2 billion. This significant effort is part of a broader increase in our development assistance, which will rise by €4 billion between now and 2020. The increase will begin next year. It will come from loans and grants.
The Green Climate Fund

The participants in the 2009 Copenhagen Summit decided to set up the Green Climate Fund (GCF), which will eventually become the cornerstone of a more effective financial architecture in the fight against climate change. The long-term goal is to allocate resources in a more balanced way between mitigation and adaptation, with 50% of the adaptation resources being earmarked for the most vulnerable countries.

The GCF currently has $10.2 billion in capital. France’s contribution is approximately $1 billion.

Key dates
- 2009: COP15 Copenhagen, political will to set up the Green Climate Fund
- 2010: COP16, official creation of the GCF
- 2014: initial endowment of $10.2 billion
- November 2015: approval of the first projects by the GCF Board

The GCF is a key mechanism in funding the fight against climate change, but only a part of the $100 billion will move through it directly. The rest of the public funds is comprised of bilateral commitments and the action of multilateral development banks, including the World Bank, African Development Bank, Inter-American Development Bank and Asian Development Bank. In France, the Agence Française de Développement earmarks over €2.5 billion to climate actions in developing countries and has set the goal that 50% of its commitments will have co-benefits in the global fight against climate change.
Moving towards a sustainable, low-carbon and resilient economy to cope with climate change

The goal is for the entire economic and, especially, financial system to mainstream climate change (climate risks as well as policies to fight climate change) in its operations.

Michel Sapin on Climate Finance Day, 22 May 2015:

“The financial system as a whole must take account of climate risk in its activities.”

The private financial sector has stepped up its involvement since September 2014

The private financial sector’s involvement began at the New York Summit in September 2014, when several coalitions of players made commitments:

- The Montreal Pledge: investment funds begin dialoguing with the companies in which they own shares on shrinking their carbon footprint over the long term; one of them is France’s Caisse des Dépôts et Consignations
- The Portfolio Decarbonization Coalition: investment funds and businesses commit to decarbonising their portfolios and to selling their stakes in companies that produce the highest carbon emissions. In France, they include Amundi-Crédit Agricole, the Fonds de Réserve des Retraites and EFRAP. Axa is also making moves in the same direction.

The financial sector has stepped up its involvement since then. Fresh commitments were made on Climate Finance Day, which took place in Paris on 22 May 2015. The coalitions represented announced that their members had made new pledges:

- Broadening of the Portfolio Decarbonization Coalition, which now involves $45 billion in assets
- Publication of an updated version of the Green Bond Principles on 27 March 2015 (effort to standardise and define green bonds)
- Insurers made commitments at the Third UN World Conference on Disaster Risk Reduction in Sendai, Japan (Sendai Framework for Disaster Risk Reduction)
- The Standard & Poor’s rating agency announced its decision to take account of climate risk in its ratings

Two platforms were also rolled out on Climate Finance Day: one by institutional investors (meeting within the framework of the Investor Group on Climate Change, IGCC), the other by insurers (as part of the coalition Principles for Sustainable Insurance, PSI). Their aim is to coordinate and increase the private financial sector’s involvement.
Declaration on Climate Change by the Paris Financial Marketplace:

“It is the responsibility of regulators to create a framework of incentives aimed at developing financing and investments for businesses and individuals. At the same time, we would like to stress the role that financial operators have to play in responding to climate change issues, as lender, arranger and asset manager, investor and insurer.”

Governments also have a part to play to speed up this transition.

In April 2015, at France’s request, the G20 tasked the Financial Stability Board (FSB) with examining the ways in which the financial sector takes climate change issues into account. The FSB is expected to put forward a proposal asking the G20 Summit to adopt a working programme on this matter this November.

France is leading the way

Article 173 of the Energy Transition Act requires institutional investors to spell out, in their annual reports, how they take their exposure to climate risk into account. They are also asked to provide information on their contribution to the energy transition.

Putting a price on carbon

Putting a price on carbon is necessary to guide the economic players in their decisions. Successfully making the shift from a high- to a low-carbon economy requires cutting fossil fuel subsidies (a policy we support at the G20 and IMF) and taking various steps allowing a carbon price signal to be set, in other words, integrating the cost of polluting emissions into the decision-making processes of businesses and investors as a way of stimulating the green economy’s sectors (renewable energy sources, clean transport, etc.): a carbon market, as in the EU and other places (California, Quebec and Chinese pilot projects and the Chinese national market by 2017), a fuel tax (as in France and many other countries), etc.
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