

Major Economies Business Forum



on Energy Security and Climate Change

www.majoreconomiesbusinessforum.org



Major Economies Business Forum: Intended Nationally Determined Contributions: From Good Intentions to Implementation

KEY MESSAGES

- The Major Economies Business Forum (BizMEF) sees strong potential value in Intended Nationally Determined Contributions (INDC). We consider that this new, innovative, and flexible process will enhance the likelihood of a greater range of emission reduction options coming forward from a broader set of nations.
- The focus on INDCs has, to date, been appropriately dominated by a technical discussion about their characteristics, such as their scope, supporting information, and methods of assessment. But the time has come to move beyond the technical discussions to what INDCs can actually be.
- Business has a wealth of knowledge and experience to offer in the research and commercialisation of new, innovative approaches, and it should be at the very heart of discussions—formal and informal, domestic and international—about what practical, cost-effective initiatives the INDCs will comprise.

- Early involvement of business and other interested stakeholders will ensure a greater chance of buy-in to the options tabled and ensure that they are supported by domestic capability and capacity, strategies, policy agendas, and legal and regulatory frameworks that give businesses the confidence to plan and invest. Business engagement will also help provide insight on implications for global commerce and aggregate consequences.
- Consistent with this, BizMEF advocates that INDCs should focus primarily, but not solely, on domestic actions to mitigate emissions and on the extent to which nations intend to assist developing nations in their mitigation and adaptation efforts.
- Business can not only help to develop a transparent understanding of the potential of the various INDC options to deliver on their promise, but also assist with designing the framework for measuring, reporting, and verification (MRV). Both are important to understanding impact, environmental integrity, and comparative effort between nations and the potential impacts on international competitiveness.
- It is important not to forget the fundamentals. As for any form of emissions reduction target, getting the fundamentals that support investment, trade, and markets right is important to unlock emission reduction potential. These include respect for intellectual property rights, the rule of law, sound institutions and stable regulatory regimes.

INTRODUCTION

At Warsaw, Parties agreed to submit INDCs ahead of the Paris meeting. The purpose of doing so was to ensure that the process by which the collective and universal interest in understanding individual and collective mitigation and other efforts was concluded before a new agreement was reached.

Business sees this process as a potentially positive step towards reaching a new ambitious, inclusive agreement in Paris. Addressing climate change requires a long-term and stable commitment to regulation and innovation, leading to the development and deployment on a global scale of currently non-commercial technologies and new business models. Business will be the major actor in making this happen through research, development, commercialisation, and widespread dissemination of new

technologies, products, processes, and services.

Business will operate within whatever incentive structures it faces. However, business sees the INDC process as a way to allow even greater opportunities to unlock the great depth and breadth of knowledge and experience that resides within the business community. It is imperative, therefore, that Parties engage with their business communities at all steps from the identification of the INDCs through assessment and evaluation to their adoption and implementation.

BACKGROUND

At COP 19, held in Warsaw in November 2013, Parties to the UNFCCC decided (Decision 1/CP.19) “to invite all Parties to

initiate or intensify domestic preparations for their intended nationally determined contributions, without prejudice to the legal nature of the contributions, in the context of adopting a protocol, another legal instrument or an agreed outcome with legal force under the Convention applicable to all Parties towards achieving the objective of the Convention as set out in its Article 2 and to communicate them well in advance of the twenty-first session of the Conference of the Parties (by the first quarter of 2015 by those Parties ready to do so) in a manner that facilitates the clarity, transparency and understanding of the intended contributions, without prejudice to the legal nature of the contributions.”

DEVELOPING INDCs: MOVING FROM THEORY TO ACTION

INDCs allow for the possibility of a range of innovative responses that suit country-specific priorities circumstances and capabilities. The current Kyoto framework for emission reduction targets is only relevant to a subset of developed countries, but even for those countries, the use of INDCs offers greater flexibility. While the level of ambition might be different from emerging countries, commitments in terms of emissions reduction target should be in INDCs.. These factors can help to enhance broader and deeper participation.

Understandably, the new approach has, since Warsaw, resulted in the careful examination by Parties of the range of possibilities presented by INDCs. Much of the discussion about INDCs has been focused on ‘framing’ issues, for example, their intended purpose, attempting to

clarify their key underlying concepts, and the technical and policy-related aspects of preparing, consulting, and communicating the INDCs.

But actions do not take place in a vacuum. There is a need to move the discussion beyond theoretical and technical discussions about what INDCs might involve to more practical elements that can be understood, assessed, compared, and—critically—delivered. This argues for a strong business involvement.

The content of an INDC relies on in-country processes. Yet few Parties to date have engaged in the extensive discussion and consideration that was part of the negotiation of the Kyoto Protocol nearly twenty years ago.

The need to do this is now urgent. Business now needs to become an integral part of domestic consultations as well as the international negotiation process if robust and well-thought through solutions are to emerge setting realistic goals, capable of attracting investment, and building competitive economies. Contributing to understanding and assessment of both domestic and international implications of INDCs provides a unique opportunity for business to inform the international deliberations (see the 2015 issue paper Business Engagement in the Post-2020 Agreement).

Many of the technologies that would be needed to achieve emissions reductions—such as nuclear power, renewables, energy efficiency, transport, biofuels, carbon capture and storage, etc.—are comparatively expensive, currently not commercially available, politically unpopular, face regulatory and/or

institutional barriers or any combination of these. It is important that these issues and how they will be delivered are worked through in an open and transparent manner.

Integrating a business perspective, along with the perspectives from civil society and academia, will help ensure that the full range of challenges and opportunities presented by all of the options will both benefit and preserve the competitiveness of the energy sector while allowing it to lead the way towards a more sustainable energy future.

Integrating these perspectives will also help ensure that the INDCs are well-grounded in domestic strategies and policy agendas and compatible with local planning and budgeting cycles.

The need to consult broadly, and especially with business both formally and informally, is reinforced by the expectation that the submission of INDCs next year might only be the starting point. As the response to climate change will require decades of effort, it is important to lay the foundations on the INDC process for both the short and long term so as to allow business to maximize its long-term contribution. A failure to do so will make achieving goals these that much more difficult.

THE SCOPE OF INDCs: FLEXIBILITY MATCHED WITH ASSESSMENT AND TRANSPARENCY

INDCs will play a central role in the creation of the new post-2020 agreement. In performing such a role, BIZMEF notes that

the *primary* purpose of the INDCs is to convey the mitigation each Party is willing to implement.

In this context, BIZMEF considers that one of the key benefits of INDCs is the flexibility their use allows for Parties to identify the full range of mitigation options and sub-options broadly encompassing coverage (sector, gases), mechanism (market, non-market), timeframe (medium term, long-term), and level (national, sub-national).

BIZMEF also considers that INDCs allow for Parties to put forward contributions that are commensurate with their respective level of domestic capability. In those cases where there is high capability, this could involve the extent to which they are able to assist capability building, including the provision of financial and/or technical support. Countries should explain why they feel that the commitment they have made is appropriate given their national circumstances, and explain why they believe it to be comparable with others in their situation.

Such flexibility needs to be matched with a means by which all Parties and stakeholders can assess each INDC in an open and transparent manner. This would facilitate a common understanding of each Party's contribution and help Parties and stakeholders not only understand the implications of INDCs for domestic economies, but even more so to understand the aggregate implications over the entire portfolio of proposed actions by all nations, including as assessment of environmental integrity, absolute and comparable effort, and the risk of carbon leakage. Such a process is necessary to ensure that early submissions of INDCs are relevant.

The risks and opportunities associated with the intended use of various contributions also need to be assessed. For example, for those countries that intend to make use of international markets, including emissions trading, it will be important to understand their assumptions, such as the use of offsets and for those planning sectoral agreements, it will be essential to understand the full implications of such proposals, since they indirectly affect other sectors of the economy through their impact on supply and value chains.

Proposals such as the use of a template by which to do facilitate transparency and comparability appear to have substantial merit.

Transparency is, therefore, not only important to garner trust amongst Parties, but also to deliver confidence that the various actors, including business, know what is required of them over what timeframe. Confidence is also important for durability. The short term has to be achievable, while the medium to longer term must be possible.

DON'T FORGET THE FUNDAMENTALS

In previous issue papers (available at www.bizmef.org), the Major Economies Business Forum has addressed many aspects of how to meet the challenge of enhancing emission reduction potential. These include, for example, the need for proper enabling frameworks, including a predictable and supportive legal and regulatory environment that gives businesses the confidence to plan and invest, sound institutions, and good

governance arrangements if investments are to be made in an efficient and timely manner.

The use of INDCs will potentially allow for the greatest possible contribution of business—but the conditions in which action is expected to occur do not substantially change simply because the method of bringing forward the action has changed. The basic features that are crucial to the unlocking of enhanced mitigation by business still need to be suitable, especially in light of the transformational change required.

To be sustainable to shareholders and to secure external financing, investments must generate an adequate return. This can be particularly challenging for costly, long-lived investments that require a stable or predictable legislative and regulatory regime.

CONCLUSION

The INDCs process represents a new, innovative initiative that on the face of it offers a flexible and accountable means to facilitate broad participation to encourage global deployment of existing and innovative technologies to mitigate greenhouse gas emissions and adapt to climate change and bring forward realistic emission reduction proposals.

In this note, we highlight the essential role of business in the establishment of INDCs and in the unique and essential contribution business can make to understand and assess both their domestic and global implications. Governments should make decisions in consultation with very businesses organizations and institutions

that will help deliver on these contributions. INDCs developed in tandem with business provide a real opportunity to maximise participation, innovation, and effort and to encourage collaborative action. This can

only come about if the INDC process at both domestic and international levels is open and transparent and allows for governments, businesses, and civil society to gain the confidence to move ahead.

ABOUT BizMEF

BizMEF is a partnership of major multi-sectoral business organizations from major economies. Modeled after the government-to-government Major Economies Forum, BizMEF is a platform for these groups to:

- promote dialogue and exchange views on climate change and energy security across a broad spectrum of business interests including major developed, emerging, and developing economies;
- highlight areas of agreement among participating organizations on the most important issues for business in international climate change policy forums; and
- share these views with governments, international bodies, other business organizations, the press, and the public.

Organizations that have participated in BizMEF meetings represent business groups in Australia, Brazil, Canada, China, the European Union, Denmark, France, Germany, India, Italy, Japan, Mexico, New Zealand, Poland, South Africa, South Korea, Turkey, the United Kingdom, and the United States. Collectively, BizMEF organizations represent more than 25 million businesses of every size and sector. Because BizMEF partnering organizations represent a broad range of companies and industries—including energy producing and consuming companies as well as energy technology and service providers—the partnership is able to provide robust and balanced views on a range of issues.

For more information on BizMEF, please visit our website at:
www.majoreconomiesbusinessforum.org.