Paris Guidelines: Business Call to Action

Business Backs Strong Paris Agreement Guidelines

The Paris Agreement has become an international standard for business action. As countries work to implement their national climate plans and policies, more and more businesses are reducing emissions and building climate resilience. As of the Global Climate Action Summit in September 2018, 492 companies - nearly one-fifth (17%) of Fortune Global 500 companies - had committed to Paris-aligned emission reduction targets, an increase of 40% over the past year.

Businesses want clarity that governments are moving strongly towards achieving net-zero emissions globally across their economies. Policy certainty from national governments accelerates the implementation of company targets and business investment into the net-zero emissions, climate-resilient world that is envisaged by the Paris Agreement. Ambitious business action is built on confidence that the Paris Agreement commitments will be fully implemented, and that domestic policy ambition will strengthen over time. Now is the time for governments to step up and send strong signals to give businesses the confidence and clarity they need to go further and faster.

At the 2018 UN Climate Conference (COP24) in Katowice, Parties will decide on implementing guidelines for the Paris Agreement (the “Paris rulebook”). A common system that provides more detail on when and how Parties will communicate their climate plans and how they will monitor and report on progress, recognizing national circumstances, will drive short-term ambition by encouraging implementation of Parties’ first Nationally Determined Contributions (NDCs), and will affect ambition for decades to come as they facilitate governments in adopting and communicating progressively more ambitious new NDCs.

The following eight Paris rulebook guidelines are crucial to driving business action on climate change.

1. A GLOBAL STOCKTAKE THAT DRIVES AMBITION

Every five years, the global stocktake will assess the implementation of the Paris Agreement and collective progress towards achieving its purpose and long-term goals, including the long-term temperature goal (Articles 2.1(a) and 4.1), the long-term adaptation goal (Articles 2.1(b) and 7.1), and the long-term financing goal (Article 2.1(c)). The outputs will inform all other processes under the Paris Agreement, including the communication of progressively more ambitious NDCs. The first global stocktake will take place in 2023.

An effective global stocktake must accurately capture current global progress towards the Paris Agreement’s long-term goals - to reach net-zero global emissions in the second half of the century; to enhance adaptive capacity, strengthen resilience and reduce vulnerability; and to make finance flows consistent with low greenhouse gas and climate resilient development. A regular, comprehensive, global assessment of challenges and opportunities, that is technically rigorous and given high level political attention is critical to ensuring that subsequent rounds of NDCs reflect the highest possible ambition over time.

We call on the Parties to the Paris Agreement to establish a global stocktake which:

- Includes separate workstreams for each of the Paris Agreement's long-term goals - the temperature goal, adaptation goal, and finance goal. Businesses will benefit from the separate consideration of each of these goals, as they relate to business actions to reduce emissions, to build resilience to physical climate impacts, and to shift towards climate-friendly investments.
- Includes a technical phase focused on analysis of inputs, and a political phase held during the COP which informs Parties' subsequent NDCs are well informed and reflect increases aligned with their highest possible ambition. An effective political phase will provide businesses with a clear signal of commitment from the highest levels that NDCs will become progressively more ambitious. Sectoral analysis of inputs to the global stocktake will provide businesses across industries with information to make investment decisions.
- Invites the private sector to provide input, for example on low greenhouse gas and climate-resilient innovation, opportunities for investments and the cost of climate impacts along supply chains. This information should be considered by Parties alongside the sources of input specified in Decision 1/CP.21 and the best available science. Businesses often lead from the cutting edge of innovation and are an invaluable partner to assist Parties to define and implement their highest possible ambition.
- Invites the participation of non-Party stakeholders, including business, into the technical and political phases, to build an inclusive multilateral process which considers different perspectives. Businesses provide unique insight on how we can collectively implement the Paris Agreement long-term goals, and can help articulate specific policies needed in subsequent NDCs and long-term climate strategies, to accelerate progress in the real economy and the implementation of tangible solutions.
- Includes addressing our progress towards the long-term mitigation goal in Article 4, by analyzing the state of mitigation efforts, support, experiences and priorities from the sources of information listed in December 1/CP.21, para. 99, and specifying any other information needed from Parties. The IPCC Special Report on Global Warming of 1.5°C makes clear the imperative of reaching net-zero global greenhouse gas emissions by 2050.
- Includes addressing our progress towards the long-term resilience goal in Article 7, by analyzing the state of adaptation efforts, support, experiences and priorities from the sources of information listed in Decision 1/CP.21, para 99, and specifying any other information needed from Parties. Businesses need to understand the degree to which governments are protecting the infrastructure, inputs, and communities on which their value chains depend. As climate change risks become more material, it will become increasingly important for businesses to have reliable and comparable sources of information about the actions countries have taken to adapt and increase resilience.
- Generates outputs including:
  - a clear signal to Parties to kickstart the revision of their NDCs;
  - high-level recommendations for domestic policymakers to inform subsequent NDCs including how Parties' highest possible ambition has increased and how gaps between current progress and the Paris Agreement's long-term goals can be addressed;
  - technical analyses by geography and sector/industry; and
  - recommendations for how the business community can best contribute to supporting NDC implementation and achieving the Paris Agreement long-term goals.

2. FIVE YEAR NDC IMPLEMENTATION PERIODS TO ENABLE BUSINESS PLANNING

Article 4.9 of the Paris Agreement requires that Parties communicate updated NDCs every five years, but Parties have not yet agreed on common implementation periods or target years for NDCs. In 2015, some Parties set 2025 as their target year while others chose 2030.

Common implementation periods and target years for NDCs would improve their comparability and enable businesses to more accurately calibrate decisions across a global set of NDCs. Businesses are constantly monitoring market and regulatory trends and working to adapt in real-time to the pace of innovation and disruption in the real economy. NDCs that are updated regularly enough to reflect current trends and signal new opportunities will better inform business planning.

We therefore call on Parties to decide that:

- NDCs should have common implementation periods and target years, beginning with those communicated under the Paris Agreement in 2020. This will increase their comparability and enable businesses to apply the same implementation periods and target years to their climate and energy strategies and goals, risk assessments, and long-term planning. Common implementation periods and target years will also enable more accurate aggregation of NDCs, increasing the predictability of regulatory and market impacts from climate to business.
- NDCs should have five year implementation periods, meaning that target years are 10 years after the date of communication.[1] For example,

1 See Project for Advancing Climate Transparency, Setting the Paris Agreement in Motion: Key Requirements for the Implementing Guidelines.

- NDCs submitted in 2025 will have a domestic planning period from 2026-30 and a five year implementation period from 2031-35, and will therefore set 2035 targets.

- NDCs submitted in 2030 will have a domestic planning period from 2031-35 and a five year implementation period from 2036-40, and will therefore set 2040 targets.

Shorter implementation periods and closer target years will enable NDCs to better reflect evolving market and technological trends. Implementation periods of 10 years having targets 15 years from the date of NDC communication would involve high uncertainty. In contract, a shorter implementation period and closer target year will avoid locking in low ambition. Businesses have tended to meet their emissions reduction targets early and in some cases setting stronger targets. With business backing, governments can surely set stronger targets even before their current targets elapse.

- NDCs, aside from common implementation periods and target years, should be in line with national long term strategies to 2050 that aim to achieve the long term mitigation. While some business investments adhere to a short-term timeline, others will be in line with longer-term decisions, including transitioning away from the use of fossil fuels and infrastructure changes.

3. NDCS THAT ARE CLEAR, TRANSPARENT AND READILY UNDERSTOOD BY BUSINESS

Under the Paris Agreement, Parties are to develop guidance on the information to be provided by Parties in order to facilitate clarity, transparency and understanding of NDCs. For the business community, this information is vital to inform planning and investment. For example, without a base year, target year, scope and coverage, an emissions reduction target is effectively meaningless for business planning.

Some information is also necessary to make the impact of an NDC clear and transparent. For example, methodologies used to determine a BAU scenario and to account for land sector emissions can have material impacts on the ambition of an NDC.

Finally, other information provided by Parties can help businesses respond to the inbound policy environment. For example, information on planning processes for the implementation of NDCs through domestic regulation and legislation helps businesses to understand their future regulatory environment.

When NDCs are not clear, transparent, and readily understood, at best they are difficult for businesses to translate into actions in the real economy, which could drive businesses to invest elsewhere and not in a clean energy economy. Businesses are important implementing partners for governments trying to achieve their climate goals, but can only do so if those goals and plans are clear.

We therefore call on Parties to:

- Expand upon the types of information listed in paragraph 14 of Decision 1/CP.20, making more specific what each one means, and encourage the provision of more information over time given Parties' respective capabilities. The more specific the information provided to businesses, the more they are able to incorporate that into their planning and investment and help drive change in the real economy.
- Require that certain information be provided by Parties to make an NDC intelligible or to remove uncertainty about the impact of an NDC. For example, for mitigation targets this should include:
  - the base year(s); target year(s); sectoral, greenhouse gases included, geographical coverage, and level of output for emissions intensity targets;
  - the percentage of inventory emissions covered by the target;
  - the IPCC methodologies and global warming potential (GWP) values used to calculate inventories and track progress;
  - if the Party intends to use Internally Transferred Mitigation Outcomes (ITMOs) a multi-year emissions budget so that units of different vintages are not simply applied to the target year. Through an ITMO, a "buyer" country could choose to finance lower-cost emissions reductions in another country in an effort to meet an NDC target;
  - if the Party includes the land sector, the assumptions and accounting approaches used for the land sector;
  - if the Party takes a target relative to a business-as-usual projection, whether the projection is static or dynamic, under what circumstances a dynamic projection will be recalculated, and the methodology used to generate the projection.

This information can be directly factored into business strategies and goals. It is also aligned with metrics which businesses report on as they track progress towards their own climate goals.

- Include information with NDCs which clarifies how they will be implemented, for example planned legislation, regulation, and financial measures and planned investments to implement mitigation targets. Governments can also indicate how they intend to couple this legislation with necessary employment and social planning to ensure a just transition of the workforce and the creation of decent green jobs. This additional clarity on the future regulatory landscape facilitates businesses' confidence to adopt more ambitious climate strategies and goals.

- Include information on how they consider their NDCs to be fair and ambitious (in light of their national circumstances), and how they contribute towards achieving the objective of the UNFCCC, analyses of their NDC relative to national economic and development indicators or other indicators such as vulnerability to physical climate impacts and capacity to adapt to them. The breadth of such analyses will make NDCs more versatile and relevant to a greater number of business functions and departments.
- Such information must be consistent with the date included in the transparency reports to facilitate the tracking of progress towards implementation and achievement of NDCs.

4. AN ENHANCED TRANSPARENCY FRAMEWORK WHICH CREDIBLY TRACKS PROGRESS

The Paris Agreement builds on the existing measurement, reporting and verification system under the UNFCCC, and can therefore build the credibility of Parties' stated progress towards their NDCs. The manner in which governments report against their NDCs and how these reports are reviewed is essential to building trust and accountability in the multilateral climate regime.

For businesses, a strong transparency framework under the Paris Agreement has many benefits. It makes individual NDC targets credible and progress against them clear. It increases overall ambition by allowing governments to clearly observe each other's progress. It also produces information which can be used as inputs by businesses in the construction of climate strategies and goals.

The Paris Agreement transparency framework will need to ensure complete and accurate GHG inventories, transparency of progress against NDCs, transparency of adaptation measures undertaken by Parties, clear accounting for climate finance and effective technical expert review and multilateral assessment of Parties' reports.

We therefore call on Parties to establish a transparency framework which:

- Establishes a single set of guidelines, while providing flexibility to Parties based on the materiality of their information to the global effort and their capacity to provide that information. Materiality and capacity are fundamental building blocks of business decision making. Flexibility can be provided through a wide variety of means including the use of tiers, default provisions and opt-in provision and the application of criteria related to the materiality of information and Parties' capacity to provide it.
- Requires that national inventories follow the latest IPCC guidelines, include information at the sub-category level and are as recent as possible, with information no later than two years prior to the date of submission. Businesses need granular and current information on country emissions to best evaluate their transition risk as we move to a low-carbon economy.
- Provides guidance on how Parties should report on progress towards their NDC goals rather than enabling them to fully self-determine indicators for reporting progress. A minimum set of common indicators will continue to leave space for Parties to select indicators based on their national circumstances. Harmonization of information on progress towards NDC goals between countries will allow businesses to better understand individual party and global progress and make better informed capital expenditure decisions.
- Provides guidance for robust reporting on adaptation communications, including forward-looking information, information on risks and vulnerabilities and government plans, policies and planned actions to manage those risks and reduce those vulnerabilities, including at local level if possible. Detailed information on adaptation measures undertaken by Parties will enable companies to understand the degree to which inputs for producing goods and services are protected by government, helping businesses understand risks to their supply chains and the communities which lie along those supply chains.
- In the Facilitated, Multilateral Consideration of Progress (FMCP), Parties should be given the opportunity to question each other and observers given the opportunity to participate and to submit questions to Parties. An effective FMCP will help to keep Parties accountable against their NDC goals. Non-Party stakeholder engagement will also increase business confidence that Parties are committed to implementing their NDCs and enable businesses to solicit information that is most relevant to their climate strategies.
- While outside of the formal transparency framework, Article 9.5 should require developed countries to provide ex-ante communications on finance through a standard format (with other Parties providing support encouraged to do the same) and makes the communication of basic information mandatory (e.g. overall climate finance pledges, budgetary processes and relevant policies), while projected levels of climate finance are provided when possible. Analysis of these communications should feed into the global stocktake.

We recognize that clarity on climate finance is important both for building trust between the Parties and for increasing business confidence that Parties remain aligned with the goals of the Paris Agreement. Forward-looking information on finance also gives a sense of potential business opportunities towards a the low-carbon and climate-resilient economy. This information also provides valuable context for how governments and businesses can together achieve the global goal set out in Article 2.1(c), to make "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

5. STRONG GUIDELINES TO PROTECT THE ENVIRONMENTAL INTEGRITY OF CARBON MARKETS AND ENABLE THE LOWEST-COST EMISSION REDUCTIONS

Article 6 of the Paris Agreement enables Parties to voluntarily cooperate to implement their NDCs under market and non-market mechanisms. Cooperation under market approaches include via ITMOs as well as through a more centralized mechanism "to contribute to the mitigation of greenhouse gas emissions and support sustainable development" (Sustainable Development Mechanism or SDM).

Cooperative implementation of NDCs through market mechanisms has several advantages for businesses. It enables businesses to seek out cost-effective emission reductions. It also remains neutral as between low-carbon technologies, giving businesses strategic flexibility in how to transition to the low-carbon economy. But, if such mechanisms are not designed well, they can come with potential pitfalls. For example, a lack of strong rules could result in loopholes which leads to the miscalculation of actual emissions reductions, and lack of trust in the system.

For ITMOs, we therefore call on Parties to establish:

- A system of governance of ITMOs that includes expert review and Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) guidance to develop international requirements and conformity assessment processes. This should be complemented with review and periodic certification of national processes for conformity with international requirements.
- A method for Parties to keep track of and manage the trading of ITMOs, such as a centralized registry, and agreement to use the same accounting metrics as for NDCs. This will help to ensure that ITMOs are applied accurately towards NDC goals, increasing business confidence in their implementation.
- Eligibility criteria for the use of ITMOs which ensure environmental integrity and robust accounting. This includes the requirement of corresponding adjustments to reporting on NDCs that are appropriate for the type of ITMOs being applied. A corresponding adjustment, preferably to a multi-year carbon budget, makes clear how an ITMO is used to satisfy an NDC, and helps to avoid double counting. Transparency and good governance facilitate secure transactions and build trust to encourage business participation.
- The use of pre-2020 ITMOs towards achievement of NDCs, with the application of robust accounting guidelines as described above.

For the SDM, we therefore call on Parties to establish:

- A centralized registry for issuance of SDM units.
- A dual system of governance that is both centralized and led by Parties, to develop sound governance practices and to review the implementation of the national processes of each host Party for conformity with international requirements and periodically certify them. This will enable the global harmonization of requirements for usage of the SDM in the future.

6. STANDARD ACCOUNTING GUIDELINES WHICH FOLLOW THE FUNDAMENTAL PRINCIPLES OF CONSISTENCY AND COMPARABILITY

Article 4.13 of the Paris Agreement states that Parties shall account for their NDCs. In accounting for the removal of emissions, Parties are required to promote environmental integrity, transparency, accuracy, completeness, comparability and consistency and ensure the avoidance of double counting, in accordance with the guidelines which are now being developed.

The accurate and consistent measurement of emission mitigation by countries is critical not only to track progress towards meeting the long-term goals of the Paris Agreement, but is also critical for reliable comparisons to be made between countries and across the diverse emission mitigation strategies employed by Parties under an NDC. Accounting standards dictate not only how emissions are calculated, but also what emission reductions are calculated. Without accounting standards the business community cannot have an accurate understanding of the impact on the atmosphere or progress toward achieving stated goals.

For business, an agreed set of consistent standards which are clear, leverage past accounting experiences and are developed based on the best available science and principle of environmental integrity are important to provide reliable metrics to measure and understand progress and act as a consistent benchmark against which opportunities and risks can be evaluated.

We therefore call on Parties to establish:

- A mandatory framework under which accounting standards are set, developed and applied to all Parties. A mandatory framework provides a higher level of accountability for clear and unified international standards to account for emissions reductions.

- A single set of accounting standards which apply to all Parties. This provides businesses with consistency in the application of standards, which would permit business to more easily assess country NDCs, opportunities and risks, and evaluate their own climate opportunities and risks.
- Accounting standards for NDCs communicated in 2020 and after which:

  - require Parties to use the latest methodologies and common metrics as assessed by the IPCC and adopted by the CMA;

  - include standards for all greenhouse gases as well as short-lived climate pollutants;

  - set reporting timeframes which are complementary to the timeframes built into the Paris Agreement (i.e. the global stocktake and communication of NDCs);

  - use accurate sector-based methodologies;

  - account for emissions reductions from a range of emission mitigation strategies, with a common metric of emission reductions (i.e. tCO_2e);

  - draw on past experiences and existing approaches including under the Kyoto Protocol; and

  - harmonize accounting standards with those developed by other internationally recognized bodies (e.g. the International Civil Aviation Organization (ICAO) and International Maritime Organization (IMO)).

Accounting using common standards helps businesses to evaluate investment opportunities and risks across jurisdictions and sectors, irrespective of the form and content of varied NDCs.

The standardization of measurements across countries, sectors and with other international emission reduction schemes outside of the Paris Agreement, enables the consistent measurement and comparison of actual emission reductions.

- Accounting standards should include clear guidance on how ITMOs (further expanded upon in Section 6 below) can be recorded, tracked, surrendered and verified. The credibility and accuracy of records (particularly for transfers between various international trading schemes) are crucial to build trust and market confidence in governance standards, and to encourage participation. A robust accounting system fosters business confidence in compliance schemes and transfers and reduces the risk of reputational damage for business due to accounting errors.

7. AN EFFECTIVE COMPLIANCE COMMITTEE TO INCREASE BUSINESS CONFIDENCE THAT NDCS WILL BE IMPLEMENTED.

Article 15 of the Paris Agreement created a mechanism, consisting of an expert committee, to facilitate the implementation of and promote compliance with the Paris Agreement. It has been agreed that the committee will include members with recognized competence in relevant scientific, technical, socioeconomic, or legal fields, but triggers for the committee to act, the process it will follow and the measures it can take to support implementation and facilitate compliance with the Agreement remain to be agreed.

Business could benefit from this committee if it is designed to make clear factual findings on the implementation of and compliance with the Paris Agreement. The committee may be able to facilitate compliance by examining systemic issues that hinder compliance for all Parties. An independent expert voice can also provide technical expertise and an impartial and apolitical perspective which can help Parties implement their NDCs. If designed properly, this committee could be an effective, independent and informative reference point for business.

We therefore call on Parties to establish a committee which:

- Uses the views of independent experts and technical expertise to facilitate implementation by Parties against the key goals and obligations under the Paris Agreement and on a broad range of issues, taking into account specific national circumstances. Business benefits from certainty and clarity on the implementation of the Paris Agreement, which provides a clear signal for investment directions. In addition, independent technical expertise should be applied to a broad range of issues to maximize opportunities, promote compliance and guide best practice.
- Considers matters referred by Parties other than the Party concerned, and retains the discretion to act on information received under Paris Agreement Article 13 or from the UNFCCC Secretariat. Mechanisms for referral beyond self-referral are necessary to optimize compliance with the Paris Agreement and NDCs.
- Maintain a wide range of potential measures, including independent firm statements of non-compliance with key provisions of the Paris Agreement. Firm statements based on independent factual findings create clear signals for business on domestic implementation of the Paris Agreement and actions on mitigation and compliance.
- Maintain flexibility for the committee to consider and assess a range of issues (which are material to reducing emissions and may include consideration of national circumstances) through a transparent and open process, such that business can understand and identify opportunities to engage as part of the solution. Open and transparent identification on a case-by-case basis of “gaps” in compliance can outline opportunities for business to provide expertise, finance, technology or capacity-building, as well as assist businesses to identify and assess risks.

8. GUIDELINES WHICH SUPPORT THE PROTECTION OF VULNERABLE ECOSYSTEMS AND COMMUNITIES.

The finalization of the Paris Agreement Work Programme presents the opportunity for Parties to clearly signal their continued commitment to ambitious adaptation and resilience efforts. All countries are now expected to undergo adaptation planning and communicate these efforts to the UNFCCC in five year cycles within the global stocktake and within Adaptation Communications through Article 7 of the Paris Agreement. The information within these communications will help determine what is needed in terms of support to reach the global resilience goal under the Paris Agreement.

Political parity between mitigation and adaptation action is key to ensuring the protection of communities and vulnerable ecosystems (including ecosystems which economies and businesses depend on). This includes enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change, enhancing the work of the Adaptation Committee on private sector resilience and promoting the development of national adaptation plans, policies and commitments with the involvement of non-Party stakeholders.

Adopting Paris Agreement guidelines which deliver transparent, easily accessible and comparable information on a Party's adaptation efforts is the foundation for companies to develop robust climate risk management systems for global supply chains, while facilitating more sustainable investment decisions.

We therefore call on Parties to:

- Decide that adaptation communications be focused on forward-looking information that both contributes to and informs action toward the global goal for adaptation. Forward-looking communication can provide an indicative pipeline for investment in climate adaptation and resilience projects. This is good for business, but also good for development in countries. Countries with better risk management plans and practices are more likely to attract more private sector investment.
- Agree a standardized vehicle for communicating adaptation priorities, plans, including support needs and risk assessments.

For business, the exact vehicle (such as Adaptation communication, NDCs, National Adaptation Plans) is less important than the standardization of what countries communicate about their forward plans and priorities for adaptation on a national and sectoral level. Greater standardization allows businesses to more easily understand and compare country priorities and risk management approaches when making investment or procurement decisions.

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