



CLIMATE ACTION DIGEST #1

There are three big scene-setters for our **Climate Action Digest**: Momentum for carbon pricing, the increasing climate ambition among non-state actors, and the global call for greater transparency on climate-related risks and opportunities - all ensuring that finance flows into deserving projects that advance a timely low-carbon transition.

Are companies and capital markets prepared for this momentous shift?

The challenges posed by climate change are tricky and multifaceted. We will all need to row in the same direction in order to tackle them. This means engaging with those who still defend the status quo and placing shared value at the heart of new collaborations. And our team welcomes this challenge! We believe everyone has more to gain if we embrace results-based partnerships to accelerate the transition to a low-carbon economy. (In fact, we document this in a quantifiable manner - every day, across the globe - by increasing [the number of our projects](#) and by creating [real case studies](#) to prove our argument of value-creation.)

A pivotal test for collaborative, global climate action will be agreeing on the final rulebook to implement the Paris climate agreement. The current [200-page draft](#) is far from the detailed guidance nations need to implement their nationally determined climate contributions (NDC) - but it is still an encouraging step towards a final version that needs to be signed off at COP24 in Katowice, Poland. The year 2018 will also be the year for a real reality-check on our progress towards the 1.5 and 2-degree goals, putting countries' pledges on climate action to the test.

Adapting to a 2 degree reality: Increased momentum for carbon pricing



Article 6 of the Paris Agreement: A home for carbon markets

The Paris Agreement creates opportunities for countries to cooperate with one another when implementing their NDCs. The frameworks for such collaboration are outlined in Article 6 and include:

- Article 6.2: Internationally-transferable mitigation outcomes (bilateral or plurilateral transfers of emissions reductions)
- Article 6.4: A new market mechanism (to replace the CDM/JI), also known as the “Sustainable Development” or “Mitigation” Mechanism
- Article 6.8: Non-market based approaches, such as technology transfer, capacity building, and climate finance support

Carbon will continue to be priced (and phased out). The proliferation of carbon pricing schemes continues at a national and sub-national level, with more than [40 countries enacting carbon pricing policies](#). The latest one of these is [the launch of the Chinese emissions trading system \(ETS\)](#), the largest of its kind at present, even overshadowing that of the EU in terms of the total amount of emissions covered. On the other side of the world, in Latin America, the region is moving quickly to introduce market incentives as part of their climate change mitigation policy: Chile and Colombia launched carbon taxes in recent years, and [Mexico has announced plans](#) to launch its national pilot emissions trading system very shortly. [\(Find out what all of this means for you!\)](#) Simultaneously, a score of countries joined an international alliance launched by Canada and UK that aims to phase out coal from power generation before 2030.

The planet is not waiting for an Article 6 text - governments shouldn't either. This critical piece of the Paris Agreement provides guidance for how countries can trade emissions reductions internationally (“internationally transferred mitigation outcomes” or ITMOs) to achieve their NDCs, either through cooperative approaches or under a new UNFCCC carbon mechanism. Differing policy instruments, levels of government command, and types of NDC targets, means there is a mix of climate efforts put forth by 197 countries that need to be brought together if emissions reductions can be exchanged on a tonne for tonne basis. Not to mention ensuring that each one of them ratchets up ambition levels of the NDC’s on a consistent basis. It’s a hard nut to crack! But while negotiators grapple with decoding the practicalities of how Article 6 mechanisms (or cooperation mechanisms) should be governed and designed, including both market- and non-market based approaches, governments and non-state actors must forge ahead. Many businesses are eager to contribute directly to the Paris Agreement, and [Article 6 is seen as a way to do so](#). Any further details that national actors can add to NDCs are welcome, as they will engage non-state actors by giving better signals to the marketplace on what kind of climate activities will be [available](#).

The emissions gap is much more significant than we thought. The probability of us reaching our goal of staying below 2 degrees is looking increasingly unlikely. Published right before the climate talks kicked off under the Fijian Presidency, the United Nations Environment Programme (UNEP) launched its [Emissions Gap Report 2017](#): The gap between the emissions considered under the Nationally Determined Contributions (NDCs) and the necessary reductions to avoid dangerous levels of warming still looms large, and much more needs to be done.

A rapidly evolving climate action landscape:

Minimizing climate risks and maximizing low-carbon opportunities



Non-state actors are pulling their weight and world's second biggest emitter is #StillIn the game. The clichéd image of private corporations often frames them as the big, bad climate change deniers who survive solely on fossil fuels. The surge of non-state actor ambition has challenged that trope, and proved that companies and cities alike have an incredibly important role to play in achieving the global climate deal. The most notable examples in this space are the [We Are Still In coalition](#) and [America's Pledge on Climate Change](#). Filling the [Trump-shaped void](#) left behind since the U.S announced its intent to withdraw from the Paris Agreement, America's Pledge aggregates actions taken by U.S states, cities, business, colleges and universities that have decided to proceed with their own decarbonisation plans and actions in the absence of a federal coordinating role. If these actors were their own country, they would be [the world's third-largest economy](#). *(You too have solutions at hand to join the group of corporate climate action leaders!)*

Selection of major climate commitments announced by companies

- 333 businesses have created science-based targets to align with the Paris goals
- 119 businesses have signed up to 100% renewable energy goals (RE100)
- Mars Inc. to [reduce carbon footprint](#) 27% by 2025 and 67% by 2050
- Norway & Unilever recommitted \$400m fund for public and private investment in more resilient socio-economic development.
- HSBC announces 100 billion for [green investments](#) just before COP23
- Bloomberg committed \$50m to help shut down coal plants in Europe
- Microsoft to cut carbon emissions by 75% by 2030
- World Resources Institute announced a landmark USD 2.1 billion of [private investment](#) earmarked to restore degraded lands in Latin America and the Caribbean through Initiative 20x20
- The International Business Declaration, a broad alliance of 54 global companies from all continents and a broad range of industries, [called for an adequate price on carbon](#) and more ambitious climate action as a basis for future economic success.

Climate-related risk assessments and stakeholder communication are now a must.

Plenty of worrisome impacts will actually happen well before we hit 2 degrees. Today, physical climate risks can actually be quantified, they are not in some far away future, and have become tangible enough to drive business decisions. A 2.5 degree rise in global temperature would put [an estimated US\\$1.7 trillion share of global financial assets](#) at risk due to the negative impacts related to climate change. The 197 NDCs will also be crystallised and catapulted into laws and policies. The ensuing transitional risks - such as carbon pricing, regulation, technological disruption, and a drop in demand for carbon-intensive products - are already having an effect on markets. Companies operating in multiple countries need to understand and quantify the very real impacts of this evolution, and the long-term effects of the Paris Agreement. Changing complex supply chains will require a transformation of an entire system of value and stakeholders. The most prominent intervention pushing for such an 'industry revolution' has come in the form of the recommendations of the [Task Force on Climate-Related Financial Disclosures \(TCFD\)](#), a body set up by G20's Financial Stability Board (FSB). *(But are corporates really prepared? [Find out here!](#))*

Entire regions face exposure to stranded assets from coal-power expansion - commerce, communities, and countries all risk losing out. The momentum supporting new coal investments for short-term gains in Southeast Asia [still remains strong](#). And there are deep-seated forces preserving this status quo: The availability of subsidised financial incentives for coal technology exports from East Asian countries; the ready supply of, and aggressive overseas support for cheap coal from Indonesia; as well as a lack of policies prioritising renewable energy and low-carbon business innovation. By implementing just half of the planned investment in new fossil fuel-based energy production capacity (400 GW), we can all wave goodbye to the gains of a low-carbon transition for Southeast Asia and to reaching the global Paris climate goals. At the same time, inaction on these issues will see the region lose out on an investment opportunity worth around USD 1 trillion - not to mention the significant benefits to local commerce and communities realised through a clean energy transformation. [The roadmap to action is there](#). This is no longer a wake up call - we've drank our coffee, let's get to work!

What is TCFD?

The Task Force on Climate-related Financial Disclosures (TCFD) was launched in December 2015, following a speech by the Bank of England Governor, Mark Carney, on the 'Tragedy of the Horizon', where he outlined the threat posed by stranded assets to the global financial system. Its 32 business representatives, backed by over 100 of the world's biggest investors and corporations, and supported by Michael Bloomberg, aim to ensure consistent and transparent financial disclosures on climate-related risks. In June 2017 a widely-endorsed framework was published for reporting on four elements: climate risk management, strategy, governance, metrics and targets. The framework distinguishes physical risks from the transition risks arising from decarbonisation. It also recommends scenario development to understand the potential impact of future risks, including a 2°C warming pathway. Disclosure is encouraged from 2018 onwards in mainstream filings, such as financial reports.

The road ahead: Talanoa, innovation, and redirecting financial flows to climate smart projects



We need to get better at managing the commons and financing the low-carbon transition. The most complex topic within the climate policy process is around the setting of countries' contributions to protecting our global commons - the total permitted amount of GHG in the atmosphere and the reporting systems for such emissions - and financing this protection. A major unresolved roadblock remains: While developed and developing countries have increased the mobilization of investments for climate change, reaching [USD 550 billion for a first time in 2016](#), we are still far away from the approximately [USD 2 trillion needed every year until 2040](#) to enable a 2-degree low-carbon transition. Another crucial building block for meeting the global climate goals will be the alignment of the financial community and financial flows with a 2°C economy. Key to this will be improving the transparency and regulatory framework of green finance, and providing market players with better information on climate projects - which the likes of the TCFD are already pushing for. Another crucial element will be the creation of more innovative instruments to scale up climate finance - such as those developed under the [City Finance Lab](#), a joint initiative by Climate-KIC and South Pole.

The innovative use of technology could help us accelerate the implementation of the Paris Agreement. The answer to some of our trickiest climate conundrums might just come from the information and communications technologies (ICTs) or more specifically in the form of distributed ledger technology (DLT - also known as blockchain). So far, DLT has been [hailed as a welcome disruptor](#): High hopes have been pinned on [its potential to boost climate action](#) through 1) more accurate tracking of greenhouse gas (GHG) emissions reductions by avoiding double counting; 2) better climate finance flows; and 3) support for peer-to-peer trade of clean energy, to name a few. One of the many issues standing between a happy marriage of DLT and climate, however, is the major concern regarding the technology's exceptionally high energy footprint. And we should know - [we're prominent members of the UN's Climate Chain Coalition](#) (and have carried out research on the topic - [our team can tell you more about it!](#)). As for ICTs in general, within the next decade, they can help slash up to 20% of our global carbon emissions by helping companies and consumers to more intelligently use resources. ICTs can - and will - provide benefits across the triple bottom line: emission reductions, the generation of additional cost savings, revenues and wider societal benefits. ICTs' ability to deliver will come from its smart application in, among others, the realm of energy efficiency in transport, energy, agriculture and real-estate sectors. To pair their ability to [ensure such climate-friendly solutions in a sustainable manner](#), leading ICT companies have signed long-term commitments to power their operations with renewable energy, lower their

carbon footprint, and contribute to the global UN Sustainable Development Goals (SDGs). To name a few: [Telefonica SA is the latest addition](#) to the list of ICT industry heavyweights such as Microsoft, Google and SAP who joined the [RE100](#) initiative. A [new generation of renewable energy solutions](#) is also making it easier to overcome the historical challenges of procurement constraints, legislative restrictions, and lack of transparency that previously restricted ambitious climate action among ICTs.

We'll soon have a reality check. Back in Paris, nations agreed that there should be a stock-taking of global climate action in 2018, which would help set the scene and inform the next round of NDC ambition (planned for 2020). Under the Fijian Presidency, the facilitation of this one-off stock-taking has been branded as the “Talanoa dialogue”, which will test the robustness and design of the NDCs. This process will be a reality check for the global community as it will measure where exactly the world stands on progress towards limiting warming to 2 degrees. Non-state actors should take advantage of the participatory nature of the Talanoa dialogue and pressure decision-makers to take stronger action at home and abroad. *(We can [help climate-conscious companies](#) do just that.)*

Notes

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