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The Paris Climate Change Conference – what did it achieve?

The agreement reached at the Paris Climate Change Conference on 12 December is the first real global deal on climate change action. It was immediately acclaimed as a great achievement by politicians and the media. Its success from a political perspective should not be should underestimated, as it secures agreement from 195 countries on a way forward on climate change. However, the agreement places fairly limited substantive obligations on the parties and there is still a great deal of work to do to implement change.

What do the parties hope to achieve?

The legally-binding agreement reached by the parties is set out in a 12 page document (the Paris Agreement), accompanied by a longer 'decision' which sets out wider action points (the Decision).

The parties agreed to aim towards limiting the increase in global temperature to 2°C and to pursue efforts to limit temperature increases to 1.5°C in order to avoid the worst effects of climate change. They also agreed to aim to see global greenhouse gas (GHG) emissions reach a peak "as soon as possible" and to "undertake rapid reductions thereafter." The ultimate ambition is that, in the second half of this century, carbon emissions should only be permitted where these can taken up by carbon sinks. The Paris Agreement has been criticised for not containing any concrete deadlines for this.

The Paris Agreement formally recognises the concept of "common but differentiated responsibilities". This means that developed countries will have the greatest responsibilities to reduce emissions and will be expected to give significant assistance to developing countries to help them mitigate, and adapt to, the impacts of climate change. It focuses on post-2020 action (following the end of the second Kyoto Commitment Period).

What has changed after Paris?

- The Paris agreement requires all parties to submit emission reduction contributions with new common requirements for accounting and estimation to ensure transparency
- The commitments are not enforceable but there will be considerable political pressure to adopt and implement them
- Finance – with floor of US$100 billion per year – will be provided to poor nations to help them cut emissions and adapt to the effects of climate change
- There will be a new carbon mitigation mechanism – most likely a broader form of the Kyoto protocol's Clean Development Mechanism (CDM) and greater links between emissions trading schemes

The Paris Agreement will come into force on the 30th day after the date when at least 55 parties, representing at least 55% of total global emissions, have ratified it. Given the urgency of making real progress on emission reductions, it is hoped that the Paris Agreement fares better than the Kyoto Protocol which took more than seven years to come into force on the same basis.

Reducing carbon emissions

As expected, the Paris Agreement requires the parties to prepare and submit their own individual Nationally Determined Contributions (NDCs) to reduce carbon emissions. Unlike the Kyoto Protocol, which imposes binding targets on developed countries, no specific level of emissions reductions target is prescribed for any country. While developed countries are encouraged to adopt "economy-wide absolute emission reduction targets," developing countries are simply directed to "continue enhancing their mitigation efforts," and to move "over time" to specific targets depending on their national circumstances.

Although this might appear to be weak, it is positive that even parties that previously refused to consider making emissions cuts will now be required to do so, even if the level of ambition may be small. These NDCs must be submitted every five years (with a start date to be agreed) and must become progressively stronger each time. Although non-compliance with a party's NDC would be politically embarrassing, there is no legal obligation upon the parties actually to achieve them.

A major success of the Paris Agreement appears to be the commitment of the parties to transparent and consistent accounting and estimation principles and an expert review, which was a significant stumbling block during the negotiations. The parties will need to follow guidance to be agreed at a later date, for example to ensure consistent baselines, and to ensure that all categories of emissions are counted or that an explanation is given as to why this is not the case. Information will have to be supplied regularly about national emissions and to track compliance with NDCs. This information will be subject to "technical expert review" on a basis to be agreed at a later date. While developing countries will be allowed a degree of flexibility in the accounting and reporting requirements, this should at least provide a relatively transparent baseline which will allow a reasonable comparison between emissions reduction objectives and the performance of all parties.

Significant criticism has, however, been levelled at the omission of international aviation and shipping emissions, both major global sources of carbon emissions. These will remain subject to separate processes for discussion of mitigation action.

Finance for developing countries

The Paris Agreement requires developed countries to provide financial resources to developing countries to help them address climate change. The Decision sets a floor of US$100 billion per year up to 2025; this figure is a collective one and not divided up between the developed countries. Developed countries must provide updates of projected levels of spend every two years. This commitment is an important outcome of the conference and it will serve to help some developing countries towards a greater level of ambition in their NDCs. It remains to be seen, however, how easy it will be to encourage developed countries to offer up their fair share of this funding.

Carbon trading schemes

The Paris Agreement establishes a new GHG mitigation mechanism which is aimed at delivering an overall reduction in GHG emissions, as well as assisting parties in meeting their NDCs by supporting emissions reductions in other countries. The mechanism would allow participation by private entities in a similar way to the existing flexibility mechanisms which exist under the Kyoto Protocol: the Clean Development Mechanism (CDM) and Joint Implementation. However, while the Paris Agreement notes that the mechanism should aim to avoid double counting of emissions, little further detail is contained in the provisions, and the operation of the new mechanism remains to be agreed at a later date. The rules for the operation of the new mechanism are expected to take several years to be agreed and it will not be fully operational until after 2020. It can be anticipated that a mechanism building on the features of the CDM (but with a broader scope and no geographic restrictions) will be designed, taking into account the nature of NDCs and the fact that developing countries themselves are likely to make use of the mechanism in helping them to meet their own NDCs.

There are some more general obligations on the parties to:

- Consider strengthening the Warsaw International Mechanism for Loss and Damage (which seeks to provide knowledge and support to help avoid and address loss and damage caused by climate change); however the Decision makes it clear that this does not establish a basis for liability or compensation, which will give comfort to developed nations;

- Continue to enhance and conserve forests and other "sinks" that capture carbon, using payment-based mechanisms such as the existing "reducing emissions from deforestation and forest degradation (REDD)" mechanisms in relation to forest resources;
- Develop their approaches to adaptation to climate change;
- Strengthen action and cooperation on building the capacity of developing countries to reduce emissions and cope with the effects of climate change;
- Strengthen cooperation on technology transfer to developing countries under the existing UN convention mechanisms; and
- Cooperate on education, training, public awareness and participation in relation to climate change.

The Paris Agreement also establishes a regular "global stock-take" process from 2023 which will allow the UN more easily to track progress towards the actions seen as needed to achieve the 2°C and/ 1.5°C climate objectives.

What has been achieved in Paris?

The Paris Agreement is the first real global deal to address carbon mitigation action. Although the NDCs are not legally enforceable in the same way as the Kyoto targets were for developed countries, the political momentum this creates is likely to be considerable. All parties, developed or otherwise, will be aiming for emissions cuts and this must create some pressure on the outlook for use of fossil fuels in the future.

There is significant concern that projected emissions on the basis of NDCs supplied so far are significantly above the level thought necessary to keep temperature increases to the 2°C level, let alone the more ambitious 1.5°C level to which the parties aspire. It is hoped that the momentum of the conference will lead to further ambitious cuts from those countries yet to declare their NDCs, or stronger cuts from others (as, for example, President Hollande has reportedly suggested might be the case for France).

All eyes will now be on the biggest emitting parties to ensure that the Paris Agreement is ratified. In particular, this looks likely to be a major challenge in the US where President Obama faces strong opposition from Congress and the Senate.

The implication of the ambition to balance out carbon emissions and sink uptake during the second half of the century is an inevitable push towards all forms of techniques that will help ensure this balance, including renewable energy and energy efficiency projects. This in turn ought to help feed the appetite for green financing and investment products (e.g. green bonds and climate bonds).

It remains to be seen what sort of carbon trading mechanism this agreement will lead to, and the sooner the details can be worked up, the better for the carbon markets. At the very least the mechanism ought to create a new or modified CDM which is broader in scope and less project-focused. It should also help create links between current carbon markets, even if a global trading mechanism might be an ambition too far at this stage.

It is clear that there is much work left to do to secure sufficient emissions reduction commitments from the parties and design the various mechanisms needed to help implement them. The Paris Agreement does, however, form a good practical basis to work with. In turn, the Paris Agreement seems likely to push climate change issues higher up the corporate board agenda again, with climate change having been somewhat overshadowed in the last few years by the global economic crisis.

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