



COP25 IN MADRID - UPPING THE ANTE ON 2020 AMBITION

Summary

COP25 to the UN's Framework Convention on Climate Change (UNFCCC) in Madrid closed on Sunday the 15th of December. The focus of the meeting was to finalise carbon market rules for the Paris Agreement, and drive political commitments to scale up national action to cut emissions. The COP concluded with modest political signals on the need to scale up ambition and no conclusion on carbon market rules. The outcome of the summit, while disappointing, is not unsurprising.

Australia's position to reduce the ambition of its emissions target was in particular focus while New Zealand played a constructive leading role in carbon market discussions. It remains unclear whether Australia will actually be able to use carry-over credits to meet our national emission reduction targets at all. Lack of progress will only increase pressure on nations and investors to come to the next COP in Glasgow with more ambitious emissions plans.

About Us

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand investors focused on the impact that climate change has on the financial value of investments. The IGCC represents institutional investors with total funds under management of over \$2 trillion, and others in the investment community interested in the impact of climate change. IGCC members cover over 7.5 million people in Australia and New Zealand.



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Outcomes

The COP in Madrid was aiming to deliver two main outcomes: greater ambition ahead of 2020 and clarity on the rules for global carbon market frameworks. Results were mixed and progress hard fought with the COP extending to 8am on the Sunday morning after two weeks of talks.

Key outcomes are summarised below.

1. A political signal that nations will step to their 2030 emissions targets and deliver [long-term emissions strategies](#) in 2020

Over 80 countries, out of around 190 signatories to the Paris Agreement, have already committed to enhance their ambition in 2020. While the COP was occurring, the EU leaders [agreed](#) to increase their 2050 emissions goal to net zero emissions. Discussions have also begun in the EU to increase its 2030 emissions target from a 40 per cent reduction to 50-55 per cent below 1990 levels by 2030. The implementation of an [EU Green Deal](#) is also underway and this will align all of the EU's policies to achieving net zero emissions and ensuring the package does "leave no-one behind."

Overall, however, the Madrid conference concluded with a somewhat muted political signal on nations increasing their ambition in 2020. The conference noted previous commitments by nations to communicate updated emissions targets and 2050 emissions strategy in 2020. It emphasised that new climate pledges should be stronger than previous targets and represent the highest possible ambition. The final decision also makes it clear that countries are expected to start closing the gap between current targets and the objectives of the Paris Agreement in 2020.

2. Final global carbon market rules under the Paris Agreement:

At last year's COP the overall Paris Agreement rule book was agreed with the exception of how many Paris Agreement carbon markets could be used to meet national commitments - so called Article 6 negotiations. It was hoped that the Madrid conference would finalise these rules but the meeting failed to do so and final agreement was deferred until 2020.

Discussions around carbon market rules within the UNFCCC have always been extremely difficult as countries have very different views on the role of international markets in meeting climate commitments. Key sticking points included the desire by Brazil to use credits for both international trade and to account for them in national targets (effectively double counting), the use of CDM era credits in the new market framework and the issue of carry-over credits from the Kyoto Protocol.



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Critically, the desire for Australia to use carry over emissions credits from the Kyoto Protocol to meet its Paris targets emerged as a significant political issue in the COP.

The Government's latest [projections](#) indicate that the use of carryover means Australia can meet its current 2030 targets without additional action (assuming the emissions reductions fund delivers 100 million tonnes of abatement). [IGCC's analysis](#) has previously shown that the use of carry over reduces Australia's current 2030 target to only a 16 per cent reduction in 2030 and would further delay action to reduce growing transition risks to the Australian economy.

Importantly, over 30 countries, including next year's COP President the UK, released the [San Jose Principles](#) on carbon markets under the Paris Agreement. New Zealand also signed. This sets a benchmark for final agreement on market rules next year.

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IGCC at the COP

Through The Investor Agenda, IGCC participated in a number of activities at COP25. This included:

- **Release of the [Global Investor Statement to Governments on Climate Change](#):** At the COP, The Investor Agenda released a statement supported by a record 631 institutional investors managing more than US\$37 trillion in assets. The statement urged governments to step up efforts to tackle to achieve the goals of the Paris Agreement, urges governments to phase out thermal coal power, put a meaningful price on carbon pollution, end subsidies for fossil fuels, and update and strengthen 2030 targets to meet the objectives of the Paris Agreement.
- **Hosted an Investor Agenda event - Investors, companies and Governments stepping up climate ambition in 2020 for a net-zero future:** The event showcased investor commitments to align with the Paris Agreement and investor actions to accelerate the transition to net zero emissions. Michael Barbara, Director, Business Development at New Forests represented IGCC in panel discussions at the event.



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Implications for Investors

With the Madrid meeting over, attention will now turn to the first COP of the next decade in Glasgow late next year. The UK Government has stated the priorities for the meeting are that all countries raise ambition and the delivery of robust carbon market rules. (Note, at the recent election that all 632 mainland Britain MPs were elected on platforms of net-zero by 2050 or sooner). On carbon markets, the UK's COP president tweeted that no deal is better than a bad deal. "We will pull no punches next year in getting clarity and certainty for natural carbon markets and will work with everyone, including the private sector for clear rules and transparent measurement," she stated.

Given that Australia's proposed use of carry over credits has now been bundled politically with the Article 6 negotiations this will sharpen international focus on the Australian Government's level of ambition over the coming year. This has already begun with other governments and senior influencers [openly naming](#) Australia as a key block to effective global action. Together, this opens the door for an explicit exclusion of the use of Kyoto carryover to meet Paris targets and creates further uncertainty over the ability of the Government's current policies to meet its commitments under the Paris Agreement.

We can also expect to see a step up in UK Government bilateral and international diplomatic efforts to engage key trade partners and allies (such as Australia) in supporting greater ambition under the Paris Agreement.

The other important implication of the Madrid meeting and next year's negotiations is that a perceived failure of urgency from governments to take the necessary short-term actions will further increase external pressure on investors to take action in the absence of government policy. This will stem from civil society, but more importantly, from central banks and financial supervisors as they drive action to support financial stability in the face of the physical impacts of change and a growing risk of a disorderly transition to net zero emissions.