About the Paris Agreement:
Summary of key points

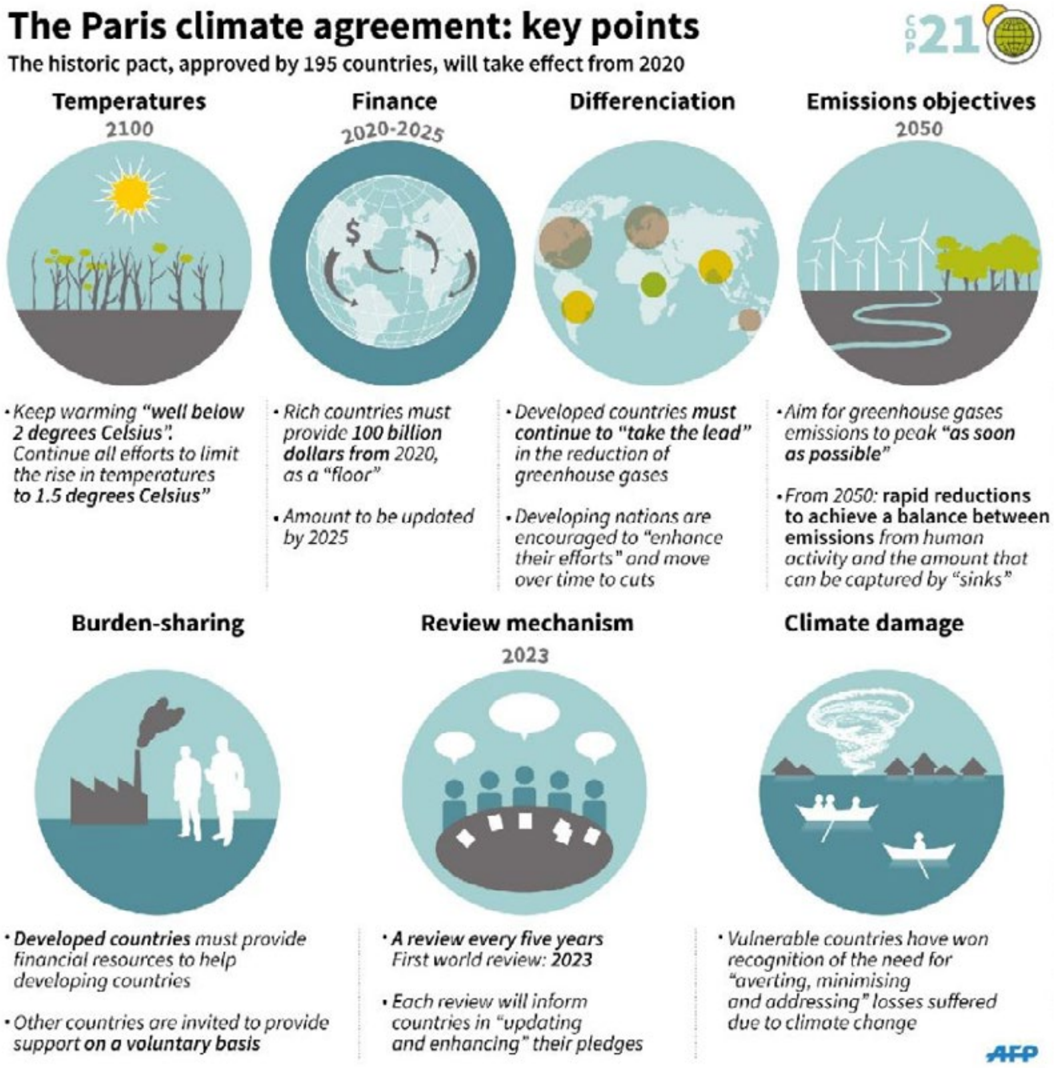
16th December 2015

What are the key components of the Agreement?

The Paris Agreement finalised on Saturday 12 December in France is the result of more than four years of hard work and relentless diplomacy, and clearly marks a turning point in global climate change policy.

The complete text of the Agreement is here and is worth a read to understand the full scope of the framework.

However, this graphic summarises the key components which investors need to understand.



AFP Photo/Jonathan STOREY

Why is it so significant?

The Paris Agreement is the first, universal, legally binding climate change agreement – meaning that it includes both developed and developing countries.

It also includes hard carbon reduction targets, with an explicit reference to the ambition of 1.5 degrees, and a long term goal of net emissions neutrality.

The five year review process means that countries can only increase their levels of ambition – and accelerate decarbonisation of the global economy.

Essentially, it is much more ambitious than anyone thought possible even at the start of the COP.

What does it mean for investors?

The Agreement is a clear market signal that economic transformation will continue to accelerate.

There will be heightened focus on the investment community and what it is doing to manage the downside risks and capitalise on the upside investment opportunities.

Investment in CleanTech, clean energy and other emissions reduction measures will increase. Pressure will also mount on the fossil fuel industry as to how they manage the impact of the strengthened global approach to emissions reduction and the long term viability of their industry.

Financial system implications have come to the fore with the Financial Stability Board review on climate related financial risk disclosure. This will increase in profile as a key issue in 2016.

What does it mean for Australia?

During the COP the language, rhetoric and tone of the Australian Government position changed – from one of reserved optimism to open support for an ambitious agreement.

A significant achievement for Australian negotiators was to maintain the Kyoto accounting provisions to allow for the 'carryover' of excess emissions reductions achieved under previous commitment periods, upon which the Government is relying to achieve current stated targets. This is also being positioned as facilitating future further increases in ambition under the 2017 review.

Nonetheless, there will now be more pressure on the Turnbull Government to ramp up Australia's targets and to strengthen the policy response accordingly.

What does it mean for New Zealand?

The maintenance of carbon market provisions was a crucial issue for New Zealand, as the only country whose INDC states that it is relying almost entirely on the NZ Emissions Trading Scheme to meet emission reduction targets.

New Zealand is set to undertake a review of the national ETS next year, and the Paris outcome should now allow the NZ Government to amend the scheme to address low prices by reducing or phasing out the transitional measures, such as the two for one until retirement provisions and free permit allocations.

Prime Minister Key also played a key role in the Fossil Fuel Subsidy Reform Communiqué and will look to implement the key measures.

What happens next?

The Paris Agreement will officially come into force in 2020. However, the 'Paris Effect', as it is now being called, should immediately influence the tone and tenor of climate change policy development, increasing momentum in business, government and investor responses.

For Australia, New Zealand and all countries party to the Agreement, attention will now turn to implementation and progress in achieving the ambitious goals set out in Paris.

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