OK, what the heck just happened in Paris?

For 21 years the climate caravan has been rolling on, conference after conference, with very little to show for itself. Since the first ever COP produced the Berlin Mandate back in 1995, we’ve had the Geneva Ministerial Declaration, the Kyoto Protocol, the Buenos Aires Plan of Action, the Bonn Agreements, the Marrakech Accords, the Delhi Ministerial Declaration, the Bali Road Map, the Copenhagen Accord, the Cancun Agreements, the Durban Platform, and the Doha Climate Gateway. Impact? Plus or minus nada.

Each of these was, of course, vigorously hailed by the climate cognoscenti as a major breakthrough, and each was equally vigorously mocked by climate skeptics as an absurd and pointless boondoggle. I came late to the game, not even aware of COP meetings before founding New Energy Finance in 2004. My first was Poznan in 2008. For two hours, I listened as a roomful of diplomats argued the details of the process by which the agenda for a discussion of one aspect of something called REDD would be decided. Before the discussion could be resolved, REDD had for some reason morphed into REDD+ and I had headed back to my hotel to do some real work. It was pretty clear that if the planet were to be saved, it wouldn’t be by this lot!

I also attended COP15 in Copenhagen a year later, though with no expectation that it would produce a breakthrough, so I wasn’t particularly surprised or disappointed when it didn’t. In the years immediately after Copenhagen, I thought the whole COP thing should be put out of its misery. In November 2011 I wrote, in a piece called Ya Basta: Time to Call Time on the COP Show, “What is needed…is a modern-day Oliver Cromwell….who will stand up and say to the assembled negotiators and politicians: You have sat too long for any good you have been doing lately… depart, I say; and let us have done with you. In the name of the planet, go!”

In retrospect I am very glad no one listened to me!

In the years after 2011, an extraordinary thing started to happen. The climate community grew up. Its leaders finally accepted that there would never be a top-down deal, in which a global carbon budget would be agreed, and divided up between nations. There would never be a global per-capita carbon budget. There would never be a global carbon price. There would never be a transfer of public funds from developed to developing world at anything like the scale required for them to leapfrog all the difficult stages of economic development. There was no point hitching the wagon of every progressive cause to the train of climate change, or it would be too burdened ever to leave the station. The developed world would never agree to impoverish itself in penance for historical sins of emission, nor to hand the developing world a turn at the emissions helm and allow them to run the planet full steam onto the carbon rocks, all in the name of climate justice.

Slowly, unrealistic, top-down absolutism was replaced with pragmatic, bottom-up flexibility. An understanding that the only framework that would be accepted by the world’s most powerful nations, developed and developing, was one which was essentially voluntary: pledge and review, it used to be called.

This wasn’t the result of any sort of diminution of ambition. It was simply the result of a growing understanding of the way in which ambitious climate goals might actually be met, rather than just postured about. Plus the impact of an extraordinary woman called Christiana Figueres, who took over the leadership of a demoralised and dysfunctional UN Framework Convention on Climate Change immediately after Copenhagen.

The shift in understanding has not been universal. There are still plenty of idealists out there who would sacrifice action on the altar of purity, who consider anything but a
single global carbon price as a sell-out, and who believe that any climate deal must inevitably involve carbon budgets and hair shirts. Figueres’s greatest achievement has not been to extract concessions from a developed world, which demonstrated in Copenhagen that it was ready to do a deal, but in prizing the controls away from climate ultras – both among the activist community and around the negotiating table.

This new pragmatism matters, because eliminating carbon emissions is not like eliminating ozone-depleting chemicals. In the case of the latter, there were only a few producers and a wealth of alternatives. Fossil fuels, the main source of CO2 emissions (as well as of shorter-lived but arguably more damaging soot and fugitive methane), are absolutely at the heart of our world economies. Avoiding climate change will be like swapping out that heart while in the middle of a game of football, and no one is going to watch from the sidelines.

So there never was a scenario in which there would be one climate deal, negotiated over a heroic two-week period, followed by fifty years of implementation. Instead, as I wrote in 2007 in a White Paper entitled How to Save the Planet: be Nice, Retaliatory, Forgiving and Clear, “Climate change negotiations take place repeatedly over a period of decades. They started before the Earth Summit in Rio in 1992 and will continue far out into the future”. In the paper I challenged the conventional view that climate change represents a one-off Prisoner’s Dilemma, postulating that it is instead a repeated game, in which cooperation between nations should be expected to evolve – just as it indeed has.

The other major development in the period between Copenhagen and Paris was that the cost of clean energy began coming down very rapidly. The beauty of all clean energy technologies is that they benefit from powerful experience curves – especially the ones based largely on material science or software. Going into Copenhagen, these experience curves had been obscured: excessive policy-driven demand had overwhelmed supply, and prices had not dropped for a few years. As soon as supply caught up, through a combination of cumulative investment and slowing demand in the wake of the financial crisis, prices plummeted.

The falling cost of clean energy technologies gave policy-makers growing confidence that shifting to a low-carbon future is not an unaffordable pipe dream, but something that can, over time, be delivered. But with the global climate negotiations apparently stalled, the leadership role fell to other players, who willingly took the lead.

As I wrote in 2011 - after noting that clean energy investment had broken through the $250 billion mark - “There are also dynamic initiatives at sub-national level, in states like South Australia, the Basque Country, Quebec and California. Large cities are self-organizing, making commitments and exchanging best practices with each other. There are bilateral processes, linking the U.S. with China, China with Indonesia, Indonesia with the Netherlands, and so on. International financial institutions have dramatically shifted their funding away from fossil-based projects and into clean energy. Multilateral processes outside the UN talks are creating coalitions of energy ministers and academics, business leaders and entrepreneurs. All of this has sprung up in the last five years or so, and it is resulting in new infrastructure and supply chains, retrofitted buildings, new research programs and technology breakthroughs beyond number.”

Among many other reasons that Paris succeeded where Copenhagen failed – French diplomatic choreography versus optimistic Danish chaos being another – was the inclusion of the leaders of these new initiatives in the process. Polish environment minister and president of COP19 in Warsaw, Marcin Korolec, came in for intense criticism for inviting business leaders to observe and have their say as part of the proceedings. By Paris, business and investors were seen as (generally) supportive, and their involvement as essential. In Paris, for the first time, Mayors and local leaders were invited to attend, with Paris Mayor Anne Hidalgo and Mike Bloomberg co-hosting a full-day mini-summit for them. The importance of these business and municipal leaders cannot be overstated: these are people who have real mandates – in one case from shareholders in the other from voters – from stakeholders on the front line of climate risk. They also have budgets to deploy: collectively probably more than the finance ministers of the world, and certainly more than environment ministers.

In my 10 predictions for 2015 at the start of the year, using a dinosaur theme, I wrote: “The climate community are dearly hoping [Paris] will prove to be a vast meteorite, streaking across the sky to deliver a long-overdue extinction event. The reality is rather different.”

Well, Paris did not deliver an extinction event for fossil fuels, but it did deliver an agreement that far outstripped the generally low expectations everyone held. One leading member of the French delegation told me, in a private email, “I can’t believe it. I prepared myself to be happy but disappointed. Finally short-term interests didn’t prevail, and it was far beyond my expectations!”
Of course the Paris Agreement gives plenty of opportunity for cynicism, among both skeptics and climate hard-liners. The Intended Nationally Determined Contributions, or INDCs, produced for Paris do not add up to enough action to keep the planet within two degrees Celsius of warming. But anyone who thinks that is a fatal flaw is missing the point: the Paris Agreement contains a powerful ratchet mechanism, consisting of a combination of transparency and a five-yearly demand for plans of ever-increasing ambition. You thought COP21 was it? Start preparing for COP26, COP31, COP36, COP41 and so on, for the rest of the century.

Paris also failed to make available anything much in the way of new finance, merely promising to extend the annual $100 billion promised by the developed world in Copenhagen through 2025 and beyond. But so what? The OECD showed in the run-up to Paris that $62 billion had flowed North-South in 2014, up from $52 billion in 2013, over double the numbers from 2009. India objected to the figures, claiming that the $100 billion was meant to be public, government-to-government transfers, mainly through the Green Climate Fund. But that was only their interpretation, not generally shared; it was never going to happen, and it never will.

As I wrote in a piece entitled Towards a Green Climate Finance Framework, published in August 2011: “There will never be a $100 billion, government-to-government funds transfer, nor anything approaching it...What is needed instead, in order to drive flows of $100bn per annum in climate-related investment from the developed world to the developing world by 2020, is the creation of an integrated Green Climate Finance Framework. This would be made up of a full set of instruments, which can be deployed flexibly and efficiently on a blended basis, and which between them could manage large-scale funding flows.” Sound familiar? It is exactly like what we see today, with international financial institutions, trade and export finance banks, aid budgets, sovereign wealth funds and private investors delivering large-scale climate finance in the high tens of billions of dollars per year, and a minor but helpful role being played by the long-gestating Green Climate Fund.

The fact is that if a country is a good destination for foreign direct investment, and has a good framework in place for clean energy investment – perhaps as measured by BNEF’s Climatescope – then the funds are available.

Ah, the emission reductions agreed in Paris are not binding, I hear a mixed chorus of climate skeptics and climate ultras chant, both rocking too and fro in anguish. Well, Kyoto was binding, and when it suited them Canada, Russia and Japan simply resiled from it, with no penalties whatsoever. Conversely, the US, which never ratified Kyoto, met its commitments in full. Binding is not where the action is anymore; after Paris, action is where the action is.

And what action it will need to be! Because if you believe the 195 nations of the world that signed the Paris Agreement were in any way in good faith about it, then what they have signed up to is a joint endeavour to eliminate net CO2 emissions entirely sometime between 2050 and 2100. That means no more use of fossil fuels unless their emissions are captured, or unless some hitherto untried way of capturing them from the atmosphere and sequestering them is invented – and paid for.

Unlike my good friends at the Carbon Tracker Initiative, I am not particularly concerned about the fossil fuel assets on the balance sheets of companies. Nor even about any new investments they are about to make, which may never yield a return. If the world’s investors have to kiss goodbye to $2.2 trillion of value over coming decades, that’s only 1.3 percent of total assets currently under management – and at the same time huge countervailing value in the form of clean energy companies and assets will be created elsewhere in the system. Schumpeter will be up there grinning broadly. I have seen no evidence to believe it will be particularly destabilising for the world’s financial system.

When the G7 met this year in Schloss Elmau and said the world must decarbonise entirely by the end of the century, you could dismiss it as posturing. But Paris is not posturing. Paris is not the world saying it wishes it could dismiss it as posturing. But Paris is the world’s economy serving divorce papers. The industry can blister, talk about how hard it works to feed the kids, how it will reform its behaviour, but a key point has passed, an irreversible process has started. Which sensible businessperson or investor can ignore the clear signal?

Could I be completely wrong? It wouldn’t be the first time. The Paris Agreement could turn out to be an abject failure, honoured only in the breach. Or it could partially succeed, with current commitments honoured, but the ratchet failing. Ambitious as some of the INDCs are, far more ambition will be needed in future to hit its goals. On balance, we are still more likely to breach the two-degree target than not to.

The real acid test will be whether, over the next 10 years, countries are prepared to make significant additional commitments, in particular in the areas of...
decarbonising transportation and improving energy efficiency. Having seen the progress made in renewable energy technology in the past decade, I feel confident that rapid technological and cost progress in these areas too is possible, and that will embolden the policy-makers to offer deeper cuts.

So there you are – my initial response to the extraordinary events in Paris. Only time will tell if my optimism is well-placed. Meanwhile, of course, we’ll be analysing the Paris Agreement in great detail in coming weeks and months, teasing out implications for countries, companies, technologies and business models. And we will no doubt still be discussing it when we meet at the Bloomberg New Energy Finance Summit in New York, 4-5 April 2016.

However it turns out, even if everyone’s high hopes and expectations are dashed, we’ll always have Paris!

*Bloomberg New Energy Finance clients can read the detailed view of Richard Chatterton, head of climate policy on the results of Paris, on this link.*