WBCSD COP25 Key policy messages

Policy messages from business

The IPCC's Special Report on Global Warming of 1.5°C published in October 2018, sent a clear signal: the impacts of allowing global warming to reach 2°C above pre-industrial levels are far greater and more catastrophic than 1.5°C – which we're set to surpass as early as 2040. The report states that, while a 1.5°C world is still possible, it will require radical and urgent transformation of all economic systems at an unprecedented scale. This will imply urgent advancements towards zero-carbon power, transport, and built environment systems, and a land system that can feed the planet while protecting vital ecosystems and removing pressure from wild habitats and biodiversity. This transition to a resilient, zero-carbon future can deliver huge benefits for our economies, society and nature.

The following policy asks are aimed at COP25 talks on behalf of WBCSD's almost 200 member companies. They focus on what is needed from climate negotiations next month at COP25 to put us on track towards achieving the Paris Agreement objectives.

THEMATIC FOCUS

1. **Stepping up ambition towards 1.5°C and a Net-Zero global economy**
2. **Business taking leadership action**
3. **Carbon pricing and the Article 6 mechanisms**
4. **Finance**
5. **Resilience**
6. **Just transition**
7. **Nature**

1. Stepping up ambition towards 1.5°C and a Net-Zero global economy

WBCSD is a global, CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world. Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD $8.5 trillion and 19 million employees, and combined annual greenhouse gas emissions of over 2GT.

Our member companies are key players in the global economy and society, and have a vital role to play in delivering a net-zero emissions world that will bring us on track to the 1.5°C Paris Agreement objective.

The member companies of WBCSD reaffirm their strong commitment to the Paris Agreement, as a crucial instrument to hold the increase in global average temperature to 1.5°C.

We strongly urge countries to strengthen their climate action and increase their national commitments to secure global net zero emissions as early as possible in the second half of the century and create climate-resilient societies. Developed economies, whose leadership is essential, should put in place plans to achieve this by 2050 at the latest.

In this crucial year for climate action, WBCSD and its member companies call on governments to show their commitment to climate action and the Paris Agreement by announcing clearly their intention to strengthen Nationally Determined Contributions (NDCs) 2025 and 2030 targets, and to develop or update clear long-term low greenhouse gas emission development strategies (LTS) compatible with a 1.5°C pathway and net zero emissions by 2050.

The implementation of NDC and LTS commitments must also be supported by strong national plans and policies, that mainstream climate action across all national economic and development strategies and support accelerated business ambition that transform systems in a just manner.

To achieve a net zero emissions global economy, we need to accelerate systems transformation at scale. As engines for growth, jobs, innovation and investment, the private sector is already making investments and with companies aligning their strategies with a net-zero economy and are calling on governments to step up and implement the right policies to help us get on track.

WBCSD member companies are committed to leading by example, supporting the implementation of commitments and action to achieve the Paris Agreement globally and across value chains. We want to go further and faster, in partnership with local, regional and national governments who must establish the policies to enable business to deliver.

2. Business taking leadership action

Leading businesses across the world are taking ambitious climate commitments within their operations, and across their value chains aligned with 1.5°C and the ambition of achieving a Net-Zero global economy.

Through the We Mean Business coalition, more than 1060 global companies, from businesses in all sectors, headquartered in over 50 countries, and with combined market capitalization equal to 20% of global GDP, have made over 1,600 commitments to bold climate action.

676 Companies have committed to setting science-based emission reduction targets, that are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement and nearly 100 companies have committed to the Business Ambition for 1.5°C campaign to calibrate their decarbonisation plans with the ambition required to limit warming to 1.5°C.

Hundreds of global businesses are making commitments to act collectively as sectors and through their value chains. This includes action such as investing to produce and purchase 100% renewable energy, scaling up sustainable transport fuels, ambitious collaborative action plans under WBCSD's Low Carbon Technology Partnerships initiative (LCTPi), and committing to water security by joining the Business Alliance for Water and Climate (BAFWAC).

Together, leading **businesses and governments can work together to create positively reinforcing loops of climate ambition** with strong ambitious government policies that give clarity and confidence to business to invest decisively in zero-carbon products, services and solutions. **These ambition loops accelerate the transition to a zero-carbon world.**

3. Carbon pricing and the Article 6 mechanisms

With countries looking to ramp up ambition in their respective NDCs for submission in 2020, several analyses and scenarios show that carbon pricing needs to be a key part of all NDCs and long-term strategies in the coming years if we are to stand a chance of reaching the Paris goal.

Carbon pricing is one of the most effective and cost-efficient means of driving deep decarbonization pathways across economies. WBCSD and its member companies believe that carbon pricing mechanisms are critical to support the urgent efforts required to drive the transition towards a low carbon future and achieving the 1.5ºC goal.[1]

We see the development of a robust global carbon market (comprised of links between emission trading systems and transfer of carbon units) underpinned by environmental integrity and aligned with the achievement of SDGs, as a huge opportunity to accelerate climate action at the global level. This echoes the view of the UN Secretary General (and others) when they call for a tax on carbon, not people.

We believe that effective carbon pricing policies that ensure environmental integrity are a low-cost means to achieve deep emission reductions while maintaining competitiveness, creating jobs, encouraging innovation, enabling investment, creating value to solutions and minimizing social costs. These solutions do so by correcting the current issues in applying the polluter pays principle to address climate change, thus internalizing the costs of carbon pollution in prices. **Combined with other direct policy interventions, carbon pricing can ensure a smooth transition to a low-carbon economy.**

Internally, businesses know that carbon pricing can work and are using carbon pricing to drive change within their operations and investment portfolios. As of 2018, over 1,300 companies – including more than 100 Fortune Global 500 companies with a collective annual revenue of USD $7 trillion – disclose that they use an internal carbon price or are planning to do so within the next two years.[2]

WBCSD and its member companies call for governments to put on a price on carbon and develop clear and consistent long-term carbon pricing policies as part of their NDCs that support the accelerated transition towards a decarbonized future and support the achievement of the SDGs.

- We urge all Parties to **implement robust and Paris-aligned carbon pricing policies mechanisms** (such as carbon taxes, market-based mechanisms, standards or a combination of these and other appropriate mechanisms) as part of their renewed NDCs to **redirect investments towards solutions that will drive accelerated and deep decarbonization across all sectors of the global economy to meet the Paris goal.**
- **To ensure acceptance and application of those solutions, we urge Parties to consider the principle of technology-neutrality and the solutions to be based on a globally applied and respected risk – benefit principles.**
- We urge governments to reach agreement this year on **strong rules to implement Article 6 of the Paris Agreement**, which support governments to take additional mitigation action and provide incentive to business to invest in cost-effective emission reductions. These rules should:
    - **prevent double counting of emissions reductions**;
    - **protect the environmental integrity** of NDCs;
    - **enable the transfer of mitigation outcomes** between Parties' NDCs in order to maximize cost efficiency and support additional mitigation action.

For further information concerning our views on the **Article 6 negotiations**, please refer to the Annex below.

[1] WBCSD Carbon Pricing Policy Paper, September 2019.
[2] CDP, Carbon Pricing: CDP Disclosure Best Practice, CDP Climate Change 2019.

4. Finance

To enable the accelerated transition to a zero-carbon economy, markets need full information on climate risks and opportunities, and clear pricing signals and policies to enable global financial flows to urgently shift towards investments in innovation and technology aimed at achieving net-zero economy as soon as possible.

WBCSD and its member companies call on government leaders to:

- put on a price on carbon, and develop clear and consistent long-term carbon pricing policies as part of their NDCs that support the accelerated transition towards a zero-carbon future and support the achievement of the SDGs.
- demonstrate clear commitment to phase out fossil fuel subsidies.
- promote the implementation of the TCFD recommendations through regulation.

Public climate finance is essential to ensure the full implementation of the Paris Agreement, and it enables more resilient public infrastructure while leveraging private sector markets.

We call on developed country leaders to honor their commitments to climate finance by reaffirming the collective promise by developed countries to mobilize USD $100 billion a year by 2020, and by ambitiously contributing to the Green Climate Fund replenishment.

5. Resilience

While increasing mitigation ambition is critical to hold global warming to 1.5°C, we must build resilience to the climate impacts we cannot avoid. Companies are building resilience strategies to address climate risks, integrating them into risk management practices, business continuity plans, and growth and investment plans. We call on governments worldwide to build resilience to climate impacts for vital communities that support value chains across the globe.

The scope and scale of climate risks and impacts are regionally diverse and complex. They can be difficult to identify over the long-term. Our response must therefore be global, sustained, involving our full supply chains and stakeholders. In addition, it must differentiate between regional adaptation objectives and requirements. For business, this means developing and implementing mitigation strategies and targets at the global level (e.g. net-zero emissions targets), while also addressing local risks affected by climate change, including water, nature and just transition for communities, in operations and sourcing strategies.

In recent years, the private sector has made great strides in understanding climate risk and enabling climate resilience inside companies as well as across supply chains and frontline communities vulnerable to climate impacts. In September 2019, WBCSD launched its report on Business Climate Resilience which highlights three key steps that businesses can take to build business climate resilience:

1. **Develop and maintain ambitious mitigation efforts.** If a business makes progress in its mitigation efforts, it becomes less vulnerable to disruptive risks, such as policy and legal measures, resource scarcity or adverse market developments.
2. **Adapt to ensure business continuity in the face of climate-related physical risks.** Businesses must assess and evaluate climate-related physical risks throughout their operations, supply chains and across the communities in which they operate.
3. **Assess the connections, dependencies and value to society and nature.** The connections, dependencies and interrelationships between climate and society, climate and nature and climate and sustainable development will increase public pressure on the true purpose of business activities and the role of business in society.

We call on the business community to double down efforts on building resilience. We also call on the governments to strengthen win-win collaborations with the private sector. It is only by working together that we can adapt and increase our resilience.

We call upon national, local and regional governments, to work with the private sector to identify effective adaptation needs, priorities, practices and collaborative actions to implement across supply chains by:

- **supporting the recommendations of the TCFD** to manage systemic financial risk, and to provide investors and credit rating agencies with better information enhancing;
- early warning systems and emergency preparedness;
- strengthening resilience of value chains;
- promoting blended finance tools;
- switching to circular business models;
- developing comprehensive risk assessments;
- robust data-based decision-making tools; and
- promoting public-private partnerships across regions.

We call on Parties to signal continued commitment to ambitious adaptation and resilience efforts, and to recognize the adaptation efforts of the private sector. Parties should **complete and implement their National Adaptation Plans (NAPs)** and work with businesses to identify adaptation needs and priorities.

6. Just transition

The transformation of our economies needs to accelerate to deliver the ambition of the Paris Agreement, and will imply significant technological, social and economic disruption. The private sector is ready to deliver towards this goal but will only be able to do so if their unions, workers and communities are engaged and active participants.

Effectively navigating the transition in this challenging context is an imperative to avoid jobless growth, income inequality and social instability – and business has an integral role to play. To ensure widespread support for accelerating the transition, we must ensure that no one is left behind and that jobs are green and decent, and communities are thriving and resilient.

For business, implementing a just transition allows companies to plan for, manage and optimize the operational and reputational effects of cutting emissions and increasing resource productivity. This improves oversight of transition benefits and costs, increases social support for climate action and sustainability, and ensures good labor and community relations.

We call on governments to support an economy-wide just transition to net-zero emissions through instigating social dialogue with businesses, workers and communities to ensure decent jobs meet high labor standards, and by integrating measures **outlined in the** [Solidarity and Just Transition Silesia Declaration] **into NDCs and national climate and energy plans.**

In this regard, we call on governments to:

- Develop **long-term climate strategies** that appropriately take into account employment planning, national skills and education policy, and social protection planning.
- For **specific regions and sectors** that will undergo a major transition, to **collaborate with business** to define responsible approaches to the implementation of new technologies, building foundations of fair and meaningful work with respect, transparency and trust.
- **Invest in training and skills** provision for workers who will need to transition from high emitting sector jobs into low emitting ones.
- Work with businesses to create tools and strategies that contribute to **building resilience in the workforce**, in businesses, in labor markets and in social support mechanisms.
- Address concerns related to climate policies, so that **climate action is seen as an opportunity by all.**

7. Nature

Our forests, grasslands and wetlands are able to sequester and store carbon providing a unique opportunity to help global warming stay within a 1.5 degrees limit. But efforts to tackle these issues are still fragmented. There is a lack of urgency and a need for more coordinated and coherent policy making.

Relying on ecosystem services to capture and store CO2 is essential to addressing climate change. Natural Climate Solutions (NCS) help reduce emissions from the land sector and provide a tried and tested tool to sequester and store carbon. Research shows that these solutions could deliver approximately one third of the emissions reductions needed by 2030 to be on track to limit global warming to 1.5 degrees. However, despite their massive potential, they receive only 2–3 % of the climate finance. We need to scale up the role of nature in climate action and commit to unlocking the full potential of nature in the climate fight by scaling-up and mainstreaming Natural Climate Solutions including in Nationally Determined Contributions (NDCs), unlocking finance and enhancing cooperation.

We call on governments to:

- **Align the development, climate and nature agendas** to recognize that sustainable development and the fight against climate change cannot be won without conservation being addressed as a cornerstone.
- **Sign-up to The Nature-Based Solutions (NBS) for Climate manifesto** to acknowledge the important role of nature in climate action and commit to unlocking the full potential of nature in the climate fight by scaling-up and mainstreaming NBS, including in Nationally Determined Contributions (NDCs), unlocking finance and enhancing cooperation.

ANNEX: KEY MESSAGES ON ARTICLE 6

WBCSD Key policy messages on Carbon Pricing

Carbon pricing is one of the most effective and cost-efficient means of driving deep decarbonization pathways across economies. The World Business Council for Sustainable Development (WBCSD) and its member companies believe that carbon pricing mechanisms are critical to support the urgent efforts required to drive the transition towards a low carbon future and achieving the 1.5°C goal.[3]

With countries looking to ramp up ambition in their respective Nationally Determined Contributions (NDCs) for submission in 2020, several analyses and scenarios show that carbon pricing needs to be a key part of all NDCs and long-term strategies in the coming years if we are to stand a chance of reaching the Paris goal.

WBCSD strongly believes that effective carbon pricing policies that ensure environmental integrity are a low-cost means to achieve deep emission reductions while maintaining competitiveness, creating jobs, encouraging innovation, enabling investment, creating value to solutions and minimizing social costs. **Combined with other direct policy interventions, carbon pricing can ensure a smooth transition to a low-carbon economy.**

As the global economy heads towards large scale carbon emission reductions, implementation will be challenging for some and progress may be limited as a result. But as has been the case in all aspects of economic growth over many centuries, trade should be fully utilised to solve these issues.

Article 6 of the Paris Agreement offers countries the opportunity to pursue cooperative approaches with others as a route to achieving their respective Nationally Determined Contributions (NDC). Cooperative approaches, including market mechanisms, can be the foundation of future trading arrangements, ensuring that the goals of the Paris Agreement are met at lowest overall cost to the global economy.

Within this context, WBCSD firmly believes that Article 6 of the Paris Agreement will be essential to delivering its ambitious long-term climate goals. Through cooperation, Parties can reach for greater ambition over time by taking advantage of the efficiency and cost savings of market-based approaches.

With Article 6 remaining the missing piece of the Paris Rulebook, the negotiations at COP25 in Madrid, Spain, are critical for the advancement of cooperative mechanisms. This might be the last chance to put in place cooperative mechanisms that deliver meaningful emission reductions whilst considering issues relating to environmental, economic and social impacts.

We strongly call for governments to reach agreement at COP25 on the key implementation guidelines for Article 6, that will enable progress to be made on their implementation and technical details to be ironed out in the years to come.

Carbon pricing and Natural Climate Solutions

Nature is a proven, scalable carbon removal technology that could deliver up to one third (11.3 billion tons CO2e at less than USD $100 per tCO2e) of the GHG emissions reductions needed to limit global warming to 2°C up to 2030,[4] thereby, contributing significantly to the climate mitigation challenge. Given the size of the Paris Agreement challenge, all investment in Natural Climate Solutions (NCS) is needed and voluntary action is critical for demonstrating and scaling NCS markets. However, while the voluntary use of natural climate solutions is growing and desirable, it is not currently anywhere near enough to deliver the Paris Agreement goals.

The Paris Agreement is clear that balancing remaining sources of emissions against sinks (storage of carbon) must be achieved in the second half of this century. As we collectively move towards net-zero emissions, the task of achieving that goal can be facilitated by matching sources and sinks through a cooperative approach based on trade. Article 6 can be the foundation for long term cross border transfer of carbon units as the underpinning mechanism for such trade.

Through Article 6 of the Paris Agreement, the development of credible accounting and governance structures that allows the international transfer of mitigation outcomes between countries could be established to deliver the required confidence for governments to include NCS into compliance regimes and into NDCs.

Government policies that raise the ambition of national climate goals (including NDCs), while also integrating nature-based carbon credits into compliance pathways and carbon pricing mechanisms could unlock a scale of investment that significantly exceeds what could be achieved through voluntary markets alone.

[3] WBCSD Carbon Pricing Policy Paper, September 2019.
[4] Griscom, B.W. et al., 2017, Natural Climate Solutions

Why does Article 6 matter for business?

As a voluntary set of tools to allow for higher ambition in Nationally Determined Contributions (NDCs), **Article 6 has an essential role to play for the world to meet the ambitious goals enshrined in the Paris Agreement.** It is the key part of the Paris Agreement that directly engages the business and private investment sector in directly implementable activities and projects in which they can invest.

The trading instruments, implementation of non-market approaches can also contribute to the wider sustainable development and poverty eradication.

There is strong real-world interest shown by existing pilot Article 6 projects and the private sector is showing strong signs of willingness to invest. However, **without consensus on the negotiations and a clear guidance on the rules governing Article 6, these pilot projects may lead to multi-standard implementation bringing additional complexity.** While all issues currently under discussion are crucial for the operationalisation of Article 6, some elements are particularly important to give confidence and enough lead time to the business community.

Article 6 - key policy asks

WBCSD and its member companies call for governments to reach agreement this year on **strong rules to implement Article 6 of the Paris Agreement,** which support governments to take additional mitigation action and provide incentive to business to invest in cost-effective emission reductions.

These rules should:

- **prevent double counting of emissions reductions** and
- **protect the environmental integrity** of NDCs,
- **enable the transfer of mitigation outcomes** between Parties' NDCs in order to maximize cost efficiency and support additional mitigation action.

The guidance of Article 6 should clearly **define the metric (tonnes CO_2), form and scope of internationally transferred mitigation outcomes (ITMO)**, as these elements are essential to define how ITMOs will be operationalised and provides the required clarity and confidence to parties as they prepare for the first NDC cycle.

We emphasize the critical importance of **robust accounting rules** to ensure transparency and additionally, provide private sector players with certainty on how ITMOs will be accounted for to ensure environmental integrity and the avoidance of double counting.

We call for an accounting approach that adequately captures the progress made and is representative of the total use of ITMOs by a Party over the NDC period and discourage methods that only capture a 'snapshot' of the use of ITMOs in the target year. The guidelines should therefor clearly **define the treatment of single year targets.**

Article 6 should be clear on the **application, frequency and reporting of corresponding adjustments.** Providing clarity on this will be an essential element to give Parties and private sector players confidence in the robust accounting practices that underpin the ITMOs.

Given the voluntary nature of these cooperative approaches, the guidance on Article 6 should clearly define the requirements for participation in a manner that enables a broad participation from Parties and non-Parties while ensuring environmental integrity. The guidance should **encourage action by non-Parties** with the goal of ensuring an adequate engagement of subnational entities and private sector players. It should also provide clear accounting guidance for compliance-driven non-NDC uses of ITMOs, such as CORSIA, with the aim of ensuring the avoidance of double counting.

Cooperative approaches are a way to enable the achievement of higher ambition and deliver new means of unlocking mitigation opportunities. Therefore, imposing any form of restrictions or limitations to the use of ITMOs would undermine the environmental potential of Article 6. Therefore, the ruleset should clearly indicate that there will be no restrictions on the use of ITMOs such as shelf life of ITMOs or limit to the quantity of ITMOs for either buyer or seller.

Under **Article 6.4**, the guidance should clearly define **the scope of the mechanism** and outline clear rules for the governance of the mechanism, including the establishment of the Article 6.4 supervisory body and eligibility requirements for members of such body. The rules should provide clarity on the Clean Development Mechanisms (CDM) and Joint Implementation (JI) transition and ensure continuity for existing projects and critical mass for the 6.4 mechanism.

To ensure an effective and well-functioning mechanism, it is crucial that the leverage of a **share of proceeds (SoP)** and the **delivery of overall mitigation in global emissions (OMGE)** are implemented in such a way that ensures that the mechanism is attractive to the host and acquiring Parties, as well as to project developers. A high share of proceeds and/or cumbersome requirements for overall mitigation risk making the mechanism unattractive to both Parties and private sector actors.