



COP22: Strengthening the world's response to climate change

Briefing on the outcome of COP22, the 2016 UN Climate Change Conference

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The world's governments came together in Marrakesh, Morocco in November 2016 for the 22nd UN Climate Conference (known as COP22^a).

Thousands of representatives from business, city governments, academia and NGOs joined the conference as observers to the official governmental negotiations, bringing the total number of attendees to some 20,000.

COP22 focused on progressing the Paris Agreement – the historic climate deal adopted at the COP21 conference in Paris, December 2015.

The conference began on a high after many governments fast-tracked the ratification of the Paris Agreement in their own countries, bringing it into global force within one year. This unprecedented speed is widely seen as a signal from governments that they recognize the urgency of the global climate change challenge and are committed to addressing it.

By the close of COP22 in Marrakesh, 111 governments (of the 196 that adopted the

agreement) had already ratified it. Together they account for three quarters of global greenhouse gas (GHG) emissions.

The result of the US election on 8 November brought uncertainty over the US's future participation in the Paris Agreement. Despite this, Heads of State and government representatives at COP22 finished the conference by issuing the [Marrakech Action Proclamation](#). It reaffirms their intent to proceed with the agreement and declares that 2016's extraordinary momentum on climate change worldwide is 'irreversible' and 'driven not only by governments, but by science, business and global action of all types at all levels'.

This briefing paper provides KPMG member firm clients with a short summary of what was discussed and agreed at COP22 and key announcements relevant to business.

What is the Paris Agreement?

Under the Paris Agreement of December 2015, countries committed to:

- limit global warming to 'well below' 2°C above pre-industrial levels (the level at which many scientists predict potentially catastrophic impacts) and to pursue efforts to limit it to only 1.5°C
- peak global greenhouse gas (GHG) emissions as soon as possible and to achieve global carbon neutrality between 2050 and 2100
- set national targets to reduce carbon emissions, known as Nationally Determined Contributions (NDCs), and update them every five years
- report transparently on their carbon reduction progress
- provide financial assistance for poorer countries to fund low-carbon growth and adapt to the effects of climate change
- provide vulnerable countries with financial assistance for loss and damage from climate change.

Note: (a) Conference of the Parties 22

What happened at the COP22 negotiations?



Deciding on the rules of the agreement

Negotiations in Marrakesh focused on developing the 'Paris rule book', namely the processes required to deliver the key commitments of the agreement. This rule book covers issues including:

- Mitigation: how countries should present and account for their national commitments to reduce GHG emissions
- Transparency: how countries' reporting of their GHG reductions can be made transparent
- Global stock take: how the 5-yearly global 'stock take' of progress will be conducted
- Implementation and compliance: how compliance with the agreement will be managed and ensured
- Article 6 – market and non-market mechanisms: how flexible mechanisms can be developed that enable countries to deliver their obligations by facilitating GHG reductions in a different country
- Finance: how developed countries should report on the climate finance they have provided to poorer countries or mobilized through public interventions.

Negotiators made progress on these and other issues and agreed that the rule book must be completed and agreed by all parties before the start of COP24 in 2018.

Continued negotiation on climate finance

Financing worldwide action on climate change is one of the more challenging topics discussed at UN Climate Conferences. At COP22, developed countries were urged to continue increasing their contributions to the Paris Agreement goal of

mobilizing US\$100 billion per annum for poorer countries by 2020. The need for a greater balance was noted between financing for adaptation (i.e. dealing with the physical impacts of climate change such as storms and flooding) and mitigation (i.e. reducing the GHG emissions that contribute to climate change). Historically, more finance has been channeled to mitigation than to adaptation.

UN brings in business and other 'non-state actors'

One of the common complaints by business since the beginning of the international climate change process is that it has no seat at the negotiating table. While it is still the case that only nation-states are party to the official negotiations, Marrakesh saw the launch of the [Marrakech Partnership for Global Climate Action](#): an initiative to get governments to work collaboratively with businesses, city governments and other non-state actors to address climate change.

First countries submit long-term strategies

The Paris Agreement encourages countries to set out their long-term strategies for reducing GHG emissions. These strategies are commonly known as 'mid-century' strategies as they typically look forward to 2050 or beyond. At COP22, [four countries](#) became the first to publish their long-term strategies: US, Canada, Mexico and Germany.

100 percent renewables commitment from poorest countries

Nearly 50 of the world's poorest countries, which together comprise the [Climate Vulnerable Forum](#), committed to generating [100 percent of their energy](#) from renewable sources as soon as possible.

Business and sub-national government news from COP22

COP22 was notable for strong signals of increased action on climate change by major businesses and the governments of regions, states, provinces and cities worldwide. Announcements made at COP22 included:

- The *We Mean Business* coalition announced that almost 500 companies with a total market capitalization of over US\$8 trillion – representing every industry sector and geography – have undertaken over 1,000 ambitious commitments to combat climate change. The number has more than doubled since the COP21 UN Climate Conference in 2015.
- The *Science Based Targets* initiative announced that 200 companies have committed to set GHG reduction targets aligned with the Paris Agreement goal of limiting global warming to below 2°C. Over the past 12 months, an average of two companies per week joined the initiative. Walmart, the world's largest retailer, is one of the latest to join and announced its science-based target shortly before COP22.
- Leading global reinsurer Swiss Re was the latest company to commit to doubling its energy productivity by joining *EP100*, a global campaign that works with companies to maximize the economic benefits of every unit of energy consumed.
- *Over 350 major businesses* including Acer, eBay, DuPont and Nike, called for elected US leaders to continue to support the Paris Agreement.
- A new private-sector led initiative, the *Renewable Energy Buyers Alliance* (REBA), was announced. REBA builds connections between corporate electricity demand and renewable energy supply.
- The *Solar Impulse Foundation launched the 'World Alliance for Clean Technologies'*. The Alliance will bring together start-ups, companies, institutions and organizations to share experiences, create partnerships and develop clean technology solutions to help governments meet their climate targets.
- Mars announced plans for a new wind farm in Mexico, which is its *third major wind energy commitment in as many years* and will help Mars to meet its overall ambition to eliminate all fossil fuel use from its operations by 2040.
- The *Under2 Coalition* announced that 165 sub-national governments in 33 countries have committed to reduce their GHG emissions toward net-zero by 2050. Together they represent over a billion people and a collective GDP over US\$25 trillion – one third of the global economy.
- The *C40 Cities Climate Leadership Group*, a network of the world's megacities, has collectively committed to reducing emissions by 3 gigatons of CO₂-equivalent by 2030.



COP22: What does it mean for business?



Adrian King,
Global Head,
KPMG
Sustainability
Services

COP22 was in many ways a technical conference aimed at establishing the processes and protocols necessary for delivering the Paris Agreement. However, some clear signals for business emerged from the meeting:

- Whatever climate policy the new US administration adopts, at least 110 other countries will press ahead with cutting their emissions in line with the Paris Agreement. Critically, these countries include China, the world's largest emitter of greenhouse gases (GHGs). China has seen the effects of climate change and extreme fossil fuel pollution on its people and will continue to address climate change and develop its clean energy economy along with the other countries.

The effects of these countries' commitments are likely to include the further spread of carbon pricing systems around the world and eventual links between these systems, increasing investment into clean technologies and the growth of green financial systems including green bonds.

- State, provincial and city governments worldwide will also step up their action on climate change so businesses can expect increasing regulation and fiscal incentives on a sub-national level.
- World-leading businesses will continue to prepare to thrive in the global low carbon economy.

This will create peer pressure for other companies to take action such as committing to 100 percent renewable energy and setting

targets to reduce their GHG emissions in line with the global goal of limiting global warming to 2°C.

- Investment in clean technologies will continue to rise and the cost of renewables will continue to fall. This combined with continuing supplies of cheap natural gas will make high carbon fuels like coal more costly in comparison. The market forces behind clean energy are ultimately unstoppable.
- The financial sector – investors, lenders and insurers – are increasingly aware that climate change poses risks to the financial system. They will pressure businesses to be transparent about their climate risks and opportunities and they will increasingly factor this information into their investment, lending and insurance decisions. Businesses will have to respond.
- As the physical effects of climate change are felt more severely, NGO campaigners, activist shareholders and consumers will put increasing pressure on companies to contribute their fair share of emissions reductions and to develop technological solutions.

The international fight against climate change is a long-term challenge and has always hit obstacles as it negotiates the complexities of global politics. This is to be expected and I remain convinced the world is on a path to achieve a low or zero-carbon global economy around the middle of this century. Business leaders need to prepare for that today.



How we can help?

KPMG member firms offer climate change and sustainability services in around 60 countries. Our experts help organizations with the risks and opportunities of climate change and related legislation. Ways in which we can support you include:

Strategy

- Help you to understand and profit from disruptive change in the low carbon economy
- Identify and reduce climate-related risk in your operations and supply chain
- Help you to reduce the costs of carbon taxes or carbon pricing systems worldwide

Compliance

- Help you understand and comply with carbon-reduction and carbon reporting legislation worldwide

Reporting

- Implement effective processes and IT solutions to gather, analyze and report carbon data across your organization
- Advise you on industry best practice for carbon reporting
- Provide independent third party assurance of your carbon data

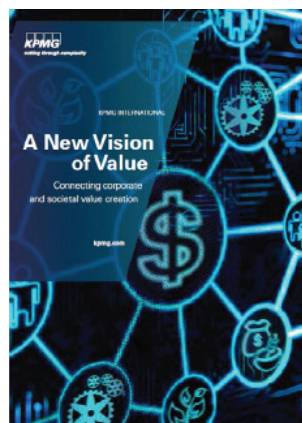
Finance

- Advise you on issuing green bonds to raise capital for investments and innovations that reduce carbon emissions and/or increase energy efficiency
- Provide independent third party assurance for green bonds, e.g. use of proceeds
- Help you to identify and access tax incentives for carbon reduction and energy efficiency

KPMG thought leadership

KPMG member firms have produced a range of publications on sustainability, including:

- The KPMG Survey of Corporate Responsibility Reporting 2015: Provides a snapshot of global CR reporting trends and a deep-dive into the quality of carbon reporting among the 250 largest companies in the world kpmg.com/crreporting
- Gearing up for Green Bonds: Provides practical advice on issuing a green bond kpmg.com/greenbonds
- A New Vision of Value: Explores how organizations can quantify and communicate the value they create for society kpmg.com/truevalue
- KPMG Green Tax Index: Analyzes the green tax policies of 21 countries worldwide kpmg.com/greentax



Local Contacts

Argentina

Martin Mendivelzua
mmendivelzua@kpmg.com.ar

Australia

Adrian V. King
Global Head, KPMG Sustainability Services
avking@kpmg.com.au

Austria

Peter Ertl
pertl@kpmg.at

Azerbaijan

Vugar Aliyev
valiyev@kpmg.az

Baltics

Marko Siller
msiller@kpmg.com

Belgium

Mike Boonen
mboonen@kpmg.com

Brazil

Ricardo Zibas
rzibas@kpmg.com.br

Canada

Bill J. Murphy
billmurphy@kpmg.ca

Chile

Luis Felipe Encina
lencina@kpmg.com

China

Maria Cheng
maria.cheng@kpmg.com

Colombia

Maria Teresa Agudelo
magudelo@kpmg.com

Cyprus

Iacovos Ghalanos
iacovos.ghalanos@kpmg.com.cy

Czech Republic

Milan Flosman
mflosman@kpmg.cz

Denmark

Niels Vendelbo
nielsvendelbo@kpmg.com

Finland

Tomas Otterström
tomas.otterstrom@kpmg.fi

France

Philippe Arnaud
parnaud@kpmg.fr

Germany

Simone Fischer
simonefischer@kpmg.com

Greece

George Raounas
graounas@kpmg.gr

Hungary

István Szabó
istvan.szabo@kpmg.hu

India

Santhosh Jayaram
santhoshj@kpmg.com

Indonesia

Iwan Atmawidjaja
iwan.atmawidjaja@kpmg.co.id

Ireland

Eoin O'lideadha
eoin.olideadha@kpmg.ie

Caroline Pope

caroline.pope@kpmg.ie

Israel

Oren Grupi
ogrupi@kpmg.com

Italy

PierMario Barzaghi
pbarzaghi@kpmg.it

Japan

Kazuhiko Saito
kazuhiko.saito@jp.kpmg.com

Yoshitake Funakoshi

yoshitake.funakoshi@jp.kpmg.com

Kazakhstan

Saken Zhumashev
szhumashev@kpmg.kz

Luxembourg

Jane Wilkinson
jane.wilkinson@kpmg.lu

Malaysia

Kasturi Paramanathan
kparamanathan@kpmg.com.my

Mexico

Jesus Gonzalez
jesusgonzalez@kpmg.com.mx

Netherlands

Bemd Hendriksen
Hendriksen.Bernd@kpmg.nl

New Zealand

Gabrielle Wyborn
gwyborn@kpmg.co.nz

Nigeria

Tomi Adepoju
tomi.adepoju@ng.kpmg.com

Norway

Anette Ronnov
anette.ronnov@kpmg.no

Peru

Rosario Calderon
rccalderon@kpmg.com

Philippines

Henry D. Antonio
hantonio@kpmg.com

Poland

Krzysztof Radziwon
kradziwon@kpmg.pl

Portugal

Martim Santos
martimsantos@kpmg.com

Romania

Gheorghita Diaconu
gdiaconu@kpmg.com

Russia, Ukraine, Georgia & Armenia

Igor Korotetskiy
lkorotetskiy@kpmg.ru

Singapore

Sharad Somani
sharadsomani@kpmg.com.sg

Slovakia

Quentin Crossley
qcrossley@kpmg.sk

South Africa

Shireen Naidoo
shireen.naidoo@kpmg.co.za

South Korea

Sungwoo Kim
Regional Leader, Asia Pacific KPMG Sustainability Services
sungwookim@kr.kpmg.com

Spain

Jose Luis Blasco Vazquez
Regional Leader, Europe, Middle East & Africa, KPMG Sustainability Services
jblasco@kpmg.es

Sweden

Jenny Fransson
jenny.fransson@kpmg.se

Helena Mueller

helena.mueller@kpmg.se

Switzerland

Isabelle Hirs-Schaller
ihirs@kpmg.com

Taiwan

Niven Huang
nivenhuang@kpmg.com.tw

Thailand

Paul Flipse
pflipse@kpmg.com.th

UAE

Raajeev Batra
raajeevbatra@kpmg.com

UAE and Oman (Lower Gulf)

Paul Callaghan
pcallaghan@kpmg.com

UK

Paul Holland
paul.holland@kpmg.co.uk

US

Katherine Blue
kblue@kpmg.com

Uruguay

Martin Clerino
martinclerino@kpmg.com

Venezuela

Jose O. Rodrigues
jrodrigues@kpmg.com

KPMG's Global Center of Excellence for Climate Change and Sustainability
sustainabilityservices@kpmg.com
kpmg.com/sustainability

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