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Alstom's response to the European Commission's consultation on 2015 International Climate Change Agreement: Shaping international climate policy beyond 2020

Alstom is a global equipment and services supplier to the power generation, power transmission and rail transport sectors. Through its innovative technologies, the Group contributes to improving energy efficiency, reducing CO2 emissions and developing renewable sources of energy.
Alstom welcomes this consultation which initiates a debate with Member States, EU institutions and stakeholders on how best to shape the international climate regime between 2020 and 2030

➢ Structure of an agreement [Question 1]

To drive action, we believe an agreement should embody:

- Realistic ambition in target-setting
- An inclusive approach, recognising that governments alone will not deliver the necessary mitigation and adaptation actions required to all Parties
- A pragmatic and action-oriented approach that recognises "bottom-up" as well as "top-down" action
- A stable, predictable, simple and transparent framework that enables low carbon trade and investment, based on mechanisms that work with the market, create opportunities for trade and growth and deliver cost-effectively

➢ Carbon pricing is crucial [Question 2]

An international agreement must set at its heart the fundamental individual and collective interest of all parties i.e. each must see it as in its best interests to participate. The only instrument we regard as capable of creating this positive force is carbon pricing.

Carbon pricing encourages cost-effective abatement and the diffusion of low-carbon technologies. Carbon trading schemes offer the fastest route to scaling up carbon pricing on a global scale and already there have been promising moves to develop schemes and link existing ones. But there is still a long way to go and a pressing need to create more demand in carbon markets especially the EU ETS and the CDM. The more global carbon pricing measures become, the less risk of disputes arising over carbon leakage.

- **Greater ambition in target-setting and action to scale-up carbon markets are essential**
- **Reform of CDM, measures to help address the oversupply of credits in the market and firm and clear rules on Monitoring Reporting and Verification (MRV) are priorities for action.**
- **More progress in defining NAMAs and making this information available to the private sector is needed to raise awareness of opportunities, build project pipelines and support investment**

➢ **Flexibility will be of paramount importance [Questions 3, 4 & 5]**

An agreement should be flexible enough to allow increasing ambition in the future without renegotiation. A flexible structure offers a number of advantages:

- Necessary flexibility to increase ambition over time without re-opening negotiation of the agreement itself;
- Ability to record all relevant areas of action – both "top-down" and "bottom-up", thus recognising the contribution of private sector and other non-government actors to delivery;
- Ability for Parties to define the actions most appropriate to their circumstances, contributing according to their ability and resources, addressing those aspects of mitigation and adaptation and those sectors of their economies that are most relevant.

Though an agreement based on legally-binding commitments may be the ideal solution for many parties, it would be truly tragic if disagreement on this point meant that another historic opportunity for agreement were missed. So demand that commitments be legally-binding, though preferable, should not prevent a deal being reached on a non-legally binding basis. Given the urgency and the growing risk to the UNFCCC's own credibility in delivering a deal, a pragmatic compromise is far preferable to another lost opportunity. It is also to be noted that it is unclear at present how any legally-binding international agreement could be enforced in practice, therefore rendering the added-value of such a deal to be doubtful.

Whilst initiatives to broaden the scope of the Agreement (e.g. to cover sustainability) are laudable in an ideal world, we think that given recent experience, Parties should not add to an already-complex negotiation. The key focus should remain on the priority of agreeing a framework for ambitious global action to deliver emissions reductions.

➢ **Market mechanisms unlock finance [Question 6]**

Functioning markets create trading opportunities and support value-creation and investment. Those countries that have set ambitious but credible targets and developed market mechanisms to deliver them have seen investment flow into their economies. An international agreement is an opportunity to create a global framework to support the development of national and regional market mechanisms. This can provide the foundation for directing investment towards low carbon projects that deploy today's technologies and that help to develop and demonstrate tomorrow's.

It is important that capacity building in developing countries keeps pace with funding and finance flows. Those countries most in need of financial support may also require intensive institutional capacity building to process and channel them where they can be effective. Failure to make prompt and effective use of public sector funding not only risks undermining the UNFCCC process, but also the private sector flows they are intended to leverage.

- **Funding, in isolation, is not enough, it will need to be accompanied by capacity building as well as support in developing MRV, NAMAs and supportive policy frameworks.**

NAMA crediting offers a route to channel private sector investment into NAMAs and support rapid scale-up of activity. Specifically, it could help to support larger-scale, transformative projects (e.g. major grid upgrades or build-outs to deliver access to clean energy and support connection and integration of renewable generation), which might also be characterized by complex PPP and funding arrangements. It should also cover a broad scope of eligible technologies and take a flexible approach that enables new technologies to be supported.

➢ **Progress on finance and technology requires engagement with the private sector [Question 6]**

Businesses will provide the vast majority of the financial and human resources needed to deliver climate change solutions. These will not be mobilised without political commitment and supportive policy frameworks. Early engagement in discussions and active involvement in public-private partnerships will increase the speed and efficiency of delivery. Both the Technology Mechanism and the Green Climate Fund have made promising starts in engaging business but this engagement must be developed and increased in scale to become really effective.

Governments and the UNFCCC need to provide the right policy frameworks to attract private sector investment and expertise

Policy frameworks should support a **balanced portfolio** of technologies to extend affordable access to energy, cut GHG emissions, enhance energy security and provide sustainable mobility. Stability, credibility and economic viability of measures is essential. Measures to support low carbon technologies include:

- **CO2 pricing mechanisms that deliver a robust and predictable carbon price,** driving the necessary investment in sustainable technologies, including supply-side efficiency.
- **Targets** for sectoral emissions reductions (e.g. for low-carbon power or transport) can give direct signals to focus industrial development and investment.
- **Market-based support mechanisms**, co-ordinated carefully with carbon pricing, can help to support the commercialization of newer technologies, e.g. feed-in tariffs, renewable portfolio schemes, renewable certificate trading, tax credits and other incentives. Measures should also support the renewable element of co-firing and hybrid plant (e.g. biomass, solar) which can deliver significant renewable capacity but with built-in back-up.
- **Policy and legal clarity on permits, licenses and grid connections**. Governments should set time limits for permitting: ideally maximum 3 years.
- **Regulation** to require thermal plant to achieve high levels of efficiency and to meet certain standards for a range of emissions (such as SO_x and NO_x) and for its water intensity
- Public support and collaboration to accelerate ongoing **research, development and demonstration** of sustainable technologies to help deliver not only tomorrow's technologies but the skilled workforces to operate and maintain them. This is particularly important for CCS demonstrations: the IEA has emphasized that rapid roll-out of CCS technology is on the critical path to achieving a 2 degree scenario. In an urban setting, demonstration projects are needed for eco-city technologies, including mass urban rail initiatives, smart grids and smart buildings.

- **Planning and funding for essential national and regional infrastructure** to support economic growth and build regional markets (e.g. High Voltage Direct Current (HVDC) lines delivering high efficiency transmission over long distances). This includes interconnection between countries and regions where improved transmission and distribution connections can support great energy security and reliability; minimize losses and improve affordability, as well as supporting trade and job-creation. On-grid as well as off-grid solutions will be needed to extend energy access in developing countries.

➢ **Transparency and accountability [Question 7]**

A pragmatic approach is needed that embraces mechanisms already in existence and supports developing countries with institutional capacity building, especially with **measurement, reporting and verification** (MRV). Administration should be light-touch, learning lessons from the CDM. Continuity with establishment mechanisms (like CDM, JI) should be maintained.

The shift towards a bottom-up approach to action implies that the **Framework for Various Approaches** (FVA) should act as a basic framework with a broad, flexible scope that provides some basic structure to emerging carbon markets. The FVA should be an agreed framework or set of standards, with individual countries responsible for translating that into legislated practice. Only if they breach the standards should there be intervention by the UNFCCC to prevent global trading of credits/units that are not credible. It should **explicitly exclude** mechanisms that contravene WTO rules or create trade barriers.

As a basic minimum, the FVA should:

- support fungibility of credits and linking of schemes by establishing standards that must be met to ensure environmental integrity of units, including offsets, and MRV;
- clarify the extent to which countries may include individual pricing policies to suit their circumstances (eg, price floors); and
- clarify the way in which trading schemes may relate to UNFCCC commitments (eg – Does a country need to have a reduction target before its units/credits can be globally traded? Can it qualify for global trading of approved NAMA credits without having an overall target?)
- allow trading of other GHGs as well as carbon to embrace trading schemes (e.g. Australia's) that include them.

➢ **Preparing the path to a 2015 agreement [Question 8]**

The most important factor in delivering an effective 2015 agreement will be political leadership from all Parties. An international agreement must set at its heart the fundamental individual and collective interest of all parties i.e. each must see it as in its best interests to participate. The only instrument we regard as capable of creating this positive force is carbon pricing.

Aside from this, there are ways in which the structure of the negotiations and UNFCCC process can support a successful outcome, including:

- Making demonstrable progress before 2015, especially with the GCF. Getting the GCF fully operational and ready to finance projects, by 2015 could do much to increase the chances of an ambitious agreement;

- Moving rapidly into NAMA implementation for those countries that have made most progress in defining their plans. Use these leaders as pilots to help refine financing and delivery and support future NAMA development;
- Getting the Climate Technology Centre and Networks up and running and delivering real support in developing countries;
- Developing more practical and effective ways of engaging the private sector and other stakeholders in ways that encourage constructive and practical contribution e.g. through the use of joint task-forces to address specific issues;
- Finally, advancing a public-private partnership approach to accelerating deployment of transformational technologies like CCS or advanced transmission and distribution technologies, to prepare the ground now for the technologies that will enable low carbon development in future.

➢ **The key role of the EU in paving the way for an ambitious and effective 2015 agreement [Question 9]**

The EU must agree 2030 objectives and targets as soon as possible and in any case before the UNFCCC international climate negotiations to be held in 2015 in Paris (COP 21).
Failure to agree before 2015 will seriously threaten the EU's negotiation position for an ambitious and effective 2015 agreement.

For additional details, please refer to *Alstom's response to the European Commission's consultation on the green paper on 2030 framework for climate and energy policies.*