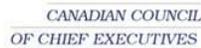


Major Economies Business Forum

on Energy Security and Climate Change



Confederation of Indian Industry
Since 1895



Confederation of Danish Industry



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Major Economies Business Forum: Perspectives on Low-Carbon Pathways

Key Messages

- Low carbon pathways can guide better national policies and build greater international confidence – but only if they are well prepared, open to consultation and review, and published with supporting information.
- The plan itself is less important than the process. Pathways need to be part of a flexible and ongoing process embodying means to achieve continuous improvement to remain relevant—unexpected advances in technology or changes in the global economy and international policy can change the game.
- Governments should report progress and update pathways based on domestic and international experience and achievements. Objective progress reports should be published frequently, perhaps annually, and pathways updated periodically, for example, every four years.
- Consultation is key. It is business that will be making investments and adjusting to different market circumstances at various stages along the low-carbon pathway. Therefore, business must be closely involved in charting the course.
- A guide, not a law. Binding commitments and legislation have their place, but low-carbon pathways should be statements of current policy and intent backed by an implementation plan, not rigid national prescriptions.

Introduction

The call for nations to develop low-carbon pathways has become part of the international dialogue. Leaders of the Major Economies Forum countries agreed at L'Aquila in July 2009 that they would prepare low-carbon growth plans. The United Nations negotiations include proposals that all countries develop low-carbon pathways, describe them in their regular National Communications, and update them as necessary.

The concept of low-carbon pathways is potentially very useful, whether as part of a global agreement or national policy. There are various formulations—low-carbon, zero-carbon, pathways, growth plans—but the common element is a focus on how emissions reductions goals and commitments would be achieved while maintaining the economic growth necessary to support improved living standards and reduce poverty.

There are many potential benefits that these pathways can provide if developed sensibly. Fundamentally, they can make national commitments more credible, whether to other nations or to long-term investors in energy, infrastructure, and industry, by providing information on how goals will be attained. They should highlight the real circumstances, options and constraints that countries face, in the context of a coherent overall national policy. They can make clearer to citizens the choices that need to be made, the costs and benefits of different approaches, and the impacts on their energy and land use and all that is affected by such changes. And they can provide a vital avenue for business to inform and gauge government expectations, hopefully resulting in greater clarity on investment requirements and policy implications, *e.g.* for growth, competitiveness and jobs. If poorly implemented, however, low-carbon pathways risk being either an empty formality or unduly rigid and constraining.

Business has a particularly strong stake in the issue, since we will suffer first if there is no basis for

investment or if the framework ignores business realities and expertise.

The value of pathways

There is no shortage of actual and proposed climate and greenhouse gas emissions goals. The non-binding goal of the Copenhagen Climate Accord (CCA) to restrain average global temperature rise to less than 2°C implies very large aggregate global emissions reductions over the next several decades. Separately, G8 countries aspire to an 80% reduction in their emissions by 2050. All the major economies have made political commitments associated with the CCA, which may form the basis of a new agreement, to reduce emissions or take actions that would slow emissions growth by 2020. These goals generally share two features:

1. meeting them requires broad, complex and sustained changes from the status quo; and
2. the goals themselves are merely waypoints along the path to continuing emissions reductions.

Setting and proclaiming an overarching goal is not the end of the process for national governments. They also must give thought to how their goals might be achieved and the broader implications of such efforts. Just as importantly, however, they should communicate their thinking clearly to citizens, government at all levels, other governments, and especially to the business community. This presents clear opportunities for all parties to improve understanding, build trust, and provide feedback. The latter is particularly necessary to ensure that data and assumptions are realistic and that pathways can evolve to account for changing circumstances, including the pace of technology change.

The proper goal of a low carbon pathway is not to predict or delineate the future, but to be mindful of it; detailed predictions will always be wrong and inflexible plans that depend on them will rapidly become irrelevant or worse. A sensible approach marshals the best available information about future conditions and requirements now while

acknowledging that it is uncertain and incomplete and will inevitably change. Successful businesses apply this approach already, recognising that its value lies not only in the plan itself but also in the process of planning. This brings attention to systems, assumptions, interconnections, preconditions, and consequences, rather than to isolated projects and targets. The process needs to be repeated regularly with the humility to recognize emerging difficulties and modify plans to ensure that they remain relevant.

It is important to note that the “carbon” in low carbon pathways is and should remain merely shorthand for all greenhouse gas emissions. A country considering a pathway should not restrict itself to energy-related carbon dioxide emissions, but consider the full range of gases, as well as emissions from land use and opportunities for external partnerships to generate cost-effective offsets.

International status of pathways

Low carbon pathways have several benefits in the context of an international agreement: if well prepared they can improve a country’s ability to meet its goals, encouraging a results-based approach to policy; if well communicated they can build confidence between countries; and if sufficiently practical and detailed they can focus international cooperation and assistance on identified areas of need. These benefits are unlikely to arise unless countries are as open and comprehensive as possible in preparing and communicating their low carbon pathways. Ideally the pathway information provided internationally—most appropriately as part of regular national communications—should be at least as detailed and comprehensive as the equivalent statement of domestic policy.

However, countries are naturally very cautious about describing or making potential commitments. This means that in the international context, pathways should be provided for information only and should not be viewed as constituting a binding commitment in themselves. Pathways will of course

reflect the autonomous commitments or binding obligations that countries choose to take on, but the processes for making commitments and providing low carbon pathways should be kept separate.

This extends to any provisions around measurement, reporting and verification and international consultations and analysis that may be agreed; such processes should apply to the relevant mitigation or financial commitments, rather than to the broader content of a low carbon pathway. Again, this is necessary to encourage countries to include more information without fear of compromise to their sovereignty. Transparency remains very important, however, and countries should include supporting material and assumptions or make them otherwise available.

It would be helpful for the international community to develop guidelines for the preparation and reporting of low carbon pathways, both to assist countries that may lack capacity in this area and to help ensure that pathways are developed and reported in a more consistent and comparable format. Use of similar measures and definitions would be particularly useful. However there may be limits to the consistency that can be achieved, since low carbon pathways are primarily a domestic policy document and will reflect the differing circumstances, starting points, and practices of diverse national governments.

Development of guidelines should strongly feature consultation with business, which can provide input, advice, and comment on effective planning processes, data, assumptions, and expectations that must be met if plans are to effectively mobilize or attract private investment.

As noted, pathways need regular update and revision if they are to incorporate the best information and remain relevant. If countries commit to prepare low carbon pathways, they should also commit to publish regular progress reports and to prepare periodic updates—at an appropriate, but defined frequency, *e.g.* every four

years. Less developed countries may need capacity-building assistance to meet this goal.

National status of pathways

The main use of a low carbon pathway is to improve the quality of national policy and decision-making around emissions mitigation. There are several principles that should guide the development of these pathways. Pathways should:

Be realistic. Pathways should be achievable. This may mean tempering ambition, but not forgoing it. The overall mix of enhanced investment, increased effort and technological improvement should be physically and economically plausible, especially over the near-term, *e.g.* five to 10 years, and within the credible capabilities of the country in question, taking account of pledged or foreseeable levels of international assistance and the security of energy supply. Assumptions about the availability, cost, and performance of future technologies are particularly important to plans that stretch to 2030 or beyond, and the uncertainty and unpredictability around these should be clearly recognized.

Be flexible. Technological, economic and international developments will rapidly supersede an overly rigid plan. Well-developed pathways will have the flexibility to accommodate a range of foreseeable developments. While pathways may involve greater emphasis on particular technologies that are better adapted to national circumstances – strong solar or coal resources, for instance – they should not be solely reliant on any one technology. Technologies should not be ruled out or ‘deselected’, given the need for a broad portfolio of approaches to address the immense challenge of emissions reduction. Unforeseen game-changing developments can significantly alter the prospects of particular technologies and the relative attractiveness of alternatives. Policy should be flexible enough to recognize such changes. Policy should also be responsive to changing needs and priorities, for example if facing recession or other unforeseen economic circumstances.

While the role and nature of government differs from state to state, in general low carbon pathways should not have the force of law – they should be statements of policy that advise and guide public and private actions. A more binding legal status would likely be far too cumbersome to match a rapidly evolving reality.

Be co-ordinated across government. In most instances low carbon pathways will be prepared by national governments, but there is a risk that they will be the responsibility of only a narrow part of government. Pathways involve the future of a whole economy, society and polity, raising issues around projections and their consistency for development, infrastructure, finance, macroeconomic management, skills and education, research, business assistance and regulation, and much more. Such a broad canvas cannot be addressed solely by the energy ministry or the environment ministry, but will require the expertise and inputs of the whole of the government. Better communication and coordination between the different arms of national governments is required to design sound low carbon pathways, and has obvious broader benefits as well. Other levels of government – regional or local authorities, for instance – should also be involved. As with past efforts to develop reliable emissions inventories, the process as well as the outcome should aim for continuous improvement based on experience and review.

Another aspect of this is that low-carbon pathways involve values and goals beyond mitigating climate change. Governments, business and citizens also seek energy security, a cleaner environment, improved healthcare, economic development, and so on. Pathways need to be developed with all these goals in mind, seeking solutions that can deliver multiple benefits.

Be consultative. Government does not hold all the required information or all the answers, even when it draws on its full range of expertise. Citizens, non-government organizations and business have vital perspectives and knowledge to share and should be consulted extensively in the development and

review of low carbon pathways. It is especially important to consult business early and often on these issues. It is business that will make most of the investments needed to translate pathways into reality; business will also bear the brunt of responding to changing markets that results; and business has a deep store of experience that is vital to making plans and policies more practical and achievable. Without strong consultation, governments may be unaware of the investment barriers, market expectations, skills requirements or systemic problems that can bedevil elements of a proposed pathway. Business can provide perspectives on implications for investment, competitiveness and jobs.

To be effective, business consultation should be broad and open to the full range of views, providing opportunities for involvement to all enterprises and all sectors. A narrow focus or a 'cherry-picked' set of participants that would potentially benefit from policy change is unlikely to provide a sufficient breadth of information or perspectives.

Be transparent and contestable. When a pathway has been developed it should be reviewed and published, with comprehensive supporting material and assumptions made available as well. Such transparency is important to demonstrate the credibility of the pathway and to permit it to be questioned and improved. Errors, incorrect assumptions and unconsidered issues are much more likely to be found with a high degree of openness, greatly assisting the quality of the pathway and resulting policies, especially as time passes.

Be updated frequently. Even a process built on the above principles cannot produce a perfect plan once and for all. The plan will inevitably incorporate predictions that fail, targets that are not met and assumptions that prove incorrect. This is not necessarily a problem, and could be an opportunity, if the pathway is subject to ongoing scrutiny and improvement. The process should include means to track progress against actual outcomes and to provide explanations for changing assumptions. There should be frequent tracking updates to show progress and note major developments – perhaps annually – and regular major reviews leading to updates based on future development and consultation processes. This will have implications for administrative costs, but the potential costs of outdated and irrelevant policy are far greater.

It is important to emphasize that frequent update does not mean that national policy should be unstable or unpredictable. Indeed, while tracking should be frequent, the pathway itself should be revised less often, perhaps every four years. Policies that are chaotic, short-term or start and stop suddenly are a source of increased uncertainty that is deeply unhelpful to businesses considering the sorts of large long-term investment necessary to reduce and restrain emissions. Governments should be mindful of this when designing policy and drawing up low carbon pathways. There is a tension between providing stability and remaining relevant to a changing world, but governments can still maintain a balanced and consistent approach.

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Iniciativa para el Desarrollo Ambiental y Sustentable – IDEAS (Mexico)
Korea Chamber of Commerce & Industry
Mouvement des Entreprises de France
Nippon Keidanren (Japan Business Federation)
Turkish Industry and Business Association (TUSIAD)
US Chamber of Commerce, Institute for 21st Century Energy
US Council for International Business

About BizMEF

The Major Economies Business Forum on Energy Security and Climate Change (BizMEF) is a partnership of major multi-sectoral business organizations from major economies. Modeled after the government-to-government Major Economies Forum, BizMEF is a platform for these groups to:

- promote dialogue and exchange views on climate change and energy security across a broad spectrum of business interests including major developed, emerging, and developing economies;
- highlight areas of agreement among participating organizations on the most important issues for business in international climate change policy forums; and
- share these views with governments, international bodies, other business organizations, the press, and the public.

Organizations that have participated in BizMEF meetings represent business groups in Australia, Brazil, Canada, China, the European Union, Denmark, France, Germany, India, Italy, Japan, Kenya, Mexico, the United Kingdom, and the United States. Collectively, BizMEF organizations represent more than 25 million businesses of every size and sector. Because BizMEF partnering organizations represent a broad range of companies and industries—including energy producing and consuming companies as well as energy technology and service providers—the partnership is able to provide robust and balanced views on a range of issues.

For more information on BizMEF, please visit our website at: www.majoreconomiesbusinessforum.org.