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MAKING WAVES: LET'S MAKE SOME NOISE

Business is ready to amp up its efforts in cutting emissions – the right policy framework can truly unleash the power of markets to combat climate change. Paris is the opportunity to set the course for years to come and create the right signals, says Dirk Forrister

This year is pivotal for climate change policy. With the Paris climate summit and follow-on activities across 2016, the business community will hear a signal of change. It will respond in a measure corresponding to the clarity of the call. After a few years in the doldrums, many business leaders are ready to "make some waves" in protecting the climate – with new investments, technologies and market solutions.

We've grown all too familiar with bad signals. "Can you hear me now? Can you hear me now?" Whether it is a mobile phone, a Wi-Fi connection or a television signal, we know that a clear signal can make it all work. But a muddled signal means delay, frustration and anxiety.

To be frank, after a four-year negotiating process began in Durban in 2011, the signals from Doha, Warsaw and Lima were pretty weak. Will Paris be any different?

As 2015 began, the scientific community – led by the Intergovernmental Panel on Climate Change – had already signalled the powerful need for action. Limiting the average global warming this century to 2°C could protect against the worst outcomes. This implied maintaining a carbon budget of no more than 1 trillion tonnes of CO2 equivalent since the industrial revolution – roughly equal to concentration levels of 450 parts per million in the atmosphere.

These numbers might not resonate with the general public, but business leaders should be educated enough to appreciate what it means for growth prospects in key regions. Given fossil fuel usage rates, countries will need to cut emissions at a massive level – as much as 80–90% below 1990 levels in the developed world and 50% from major developing countries. That means huge deployment of renewables – and use of serious levels of carbon capture and storage as well as storage in forests. It will also reward entrepreneurs who bring new innovations to a market hungry for a low-carbon era.

INDCs WILL SHAPE THE NEXT POLICY WAVE – AND COULD PROMPT A LARGE CHUNK OF THE NEW BUSINESS OPPORTUNITIES

Business listened throughout the year for new signals from policy-makers, just to see if they would truly rise to the challenge laid down by science. How much action would be undertaken? How would national responses be structured? How would policy seek to attract investment to the action?

The Paris "signal" finally began to gather its strength at the end of March, with the first set of Intended Nationally Developed Contributions (INDCs). By October, the signal was stronger as over 150 countries had expressed their intentions. These INDCs will shape the next policy wave – and they could prompt a large chunk of the new business opportunities and investment in climate action and protection in the 2020s.

Business leaders continue to assess the force build behind this wave of policy-making, because it is sometimes drowned out by louder policy challenges – the refugee crisis, the Syrian conflict, elections and political polarisation. Will policy-makers stick to their aspirations? Or will the "intended" levels slip in view of other priorities? Might Paris provide the momentum for even more change, perhaps through cooperative approaches?

Standing alone, the INDCs will likely fall short of the scientific need. But, taken together, they could stimulate a great deal of collective action – and on their face, they offer a path for doing even more through the power of markets. Over 70 INDCs indicate potential to do more ***IF*** *they gain access to carbon markets and climate finance.*

That means that the real strength of the Paris agreement will be in whether it offers the route to ***markets and finance*** *so many are seeking.*

Over the long haul, the Paris agreement should instil confidence in countries to cooperate on large-scale emissions control efforts, given the massive wave of clean energy investment needed to achieve the 2°C level of ambition. From the atmospheric perspective, national borders should not matter – and cooperative action is essential.

What kind of policy framework would accomplish that goal? What fundamental element of the Paris agreement would create a whole new wave of investment and partnership around the world, delivering the clean energy revolution?

History gives us the answer.

With an environmental problem as widespread as greenhouse gas emissions – where the cost effective opportunities to reduce or store emissions do not appear evenly across the globe and where the technologies and financing are not available to all – it takes a carbon price to bring it all together.

THE MAGIC OF THE PARIS OUTCOME WILL BE IN HOW WELL IT UNDERGIRDS THE MARKETS OF THE FUTURE

That's why hundreds of businesses, organisations and governments joined forces this year to form the Carbon Pricing Leadership Coalition, to advocate pricing approaches that will make a difference.

Market mechanisms can produce the right price. Market mechanisms can deploy capital and technology efficiently across the globe. They did it before, they are doing it now – and they can do it even more powerfully in the future.

This edition looks into the history of carbon markets. It recalls that under the Kyoto Protocol, governments stimulated a tiny ripple of action with the early "prompt start" era of the Clean Development Mechanism (CDM). Eventually, with the Protocol's entry into force and the launch of the markets driven by the European Union's emissions trading system and Japanese voluntary commitments, international investments took off under the CDM and, later, Joint Implementation as others began to ride the wave of the early market. These responses to Kyoto's policy signal proved that markets can deliver the desired benefits.

As my friend Fred Krupp describes in this edition, a new wave of market activity is underway. Major jurisdictions from China to the US and Canada are joining the EU in using emissions trading solutions to prompt new waves of investment. These programmes will report results under the Paris agreement – and they could grow even more robust through market linkages in the future.

That's why the magic of the Paris outcome will be in how well it undergirds the markets of the future – and how it helps them connect to do the enormous job ahead. The Paris package could unleash this wave of business opportunity, if the signal is clear and convincing. It also aims to sustain regular signals by establishing a mechanism for target setting for future phases of reductions, so a consistent pattern of reduction targets should emerge.

Most in the business community want to be part of the Wave of the Future on climate action. It appeals to the entrepreneurial nervous system that makes businesses come alive with creativity and ambition.

In some ways, it's not so much a problem of finance (there is tons of capital on the sidelines, looking to be put to work for good returns) or technology (many of the solutions are available and ready to be deployed) – it is a problem of signals and frameworks, which are the stuff of policy. Well, good policy that is! We can only hope that after Paris, you can see the wave building in terms of policy signals.

Like a surfer in the water, many businesses want to ride the "wave of the future" to experience the satisfaction of accomplishment. They know that building the market itself isn't the accomplishment; it is just necessary infrastructure. The true accomplishment will be achieving the emission reduction goals and delivering climate protection.

That will be the true legacy of Paris: if the signal is received and the goods delivered. And whether it will produce a new mode of cooperation through markets that can do the job faster and cheaper.