



The Year Ahead 2021

Getting Back on the Paris Climate Track

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PARIS – When representatives from nearly 200 countries finalized the Paris climate agreement on December 12, 2015, there were celebrations around the world. But it has now been five years, and the world is in a state of deepening uncertainty. The COVID-19 crisis admits of no quick fixes. The pandemic has ushered in deepening economic and social crises, as well as a wave of increased indebtedness. The geopolitical landscape is as fractured as it has been in decades, and with global supply chains being reorganized, the prospects for achieving deeper global integration through trade are fading.

Yet despite all the recent turmoil, one certainty remains: the climate crisis and the need to stick with the Paris accord, which is the only roadmap that we have for decarbonizing the global economy. Though the agreement initially met with doubts, its primary mechanisms are proving their efficiency and efficacy, and its target of reaching net zero greenhouse-gas emissions by mid-century is now the point of reference for governments and businesses around the world. A growing number of economic sectors – public and private finance, energy, transport, and, increasingly, industry – are setting targets consistent with this objective.

With the 2021 United Nations Climate Change Conference (COP26) approaching, the immediate task for governments is to strengthen their climate plans (following the logic of the Paris agreement’s “ratchet mechanism”) to lock in emissions-reduction targets for 2030. Politically, the world has reached a tipping point. Donald Trump’s infamous June 2017 Rose Garden speech announcing America’s withdrawal from the Paris agreement set off a negative domino effect, encouraging Brazil, Australia, and Mexico also to temper their climate ambitions. But now, we are on the cusp of a positive domino effect, as more governments and sectors realize that decarbonization is the key to future economic competitiveness.

In 2020, ambitious new net-zero commitments by China, Japan, South Korea, and the European Union were followed by Joe Biden’s election to the US presidency, together marking a decisive shift in the global calculus. In 2021, the G7 and the G20 could both make climate policymaking (not least green finance) the central issue on the global agenda. A majority of members in each group have already established net-zero targets, and thus will need to increase their 2030 benchmarks accordingly. The EU, for example, will need to reduce net emissions by 55% by 2030 in order to meet its 2050 goal.

Beyond the latest developments in the US, the EU, and China, broader economic trends and the mobilization of non-state actors have lent further momentum to climate action. Since 2015, there has been a 22,000% increase in assets committed to fossil-fuel divestments, and many large multinational companies have committed to emissions reductions in line with the Paris agreement.

For example, just in late 2020, Malaysia’s state energy giant Petronas joined BP, Shell, and Equinor in setting a 2050 net-zero emissions target, and Spain’s Iberdrola, the world’s third-largest utility, announced that it will invest €75 billion (\$89 billion) over the next five years to double its renewable-energy capacity. Meanwhile, Volkswagen’s CEO has acknowledged that the company’s survival depends on its ability to pivot to electric-vehicle production, starting with a €33 billion investment between now and 2024.

Moreover, cities, regions, companies, and financial institutions are increasingly working together on climate action, implying that some countries could exceed their national climate goals, while others – such as Brazil and the US – get back on track. These efforts are all underpinned by strong grassroots support for climate action. Even amid a pandemic, polls show that people are as concerned as ever about climate change, and want their governments to do more to protect the planet.

These pressures are creating a virtuous circle. Far from being just words on paper, net-zero commitments are having a significant effect on the real economy. A major trade deal between the EU and Mercosur (Argentina, Brazil, Paraguay, and Uruguay), for example, has been blocked by a number of EU member states over concerns about Brazilian President Jair

Bolsonaro's disregard for environmental protections and issues like deforestation. As a result, many Brazilian businesses – including in the beef and soy industries – have been pressuring the Bolsonaro government to change course.

Moreover, in pursuing the European Green Deal, the EU is considering a carbon border adjustment mechanism to put a carbon price on certain imports from outside the bloc. The mechanism will be developed through close engagement with trade partners, and could be the beginning of a new era of cooperation, because other countries committed to net-zero targets will have to push their own industries to pursue decarbonization.

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Still, we cannot be blindly optimistic. The fact is that we are running out of time. We know that 2010-20 was the hottest period on record, and that atmospheric concentrations of GHGs have continued to rise fast. We know that emissions from fossil fuels and forest fires reached an all-time high in 2019, and we are now regularly confronted with images of melting glaciers, burning rainforests, streets choked with smog, and small islands battered by superstorms. Even in regions or countries where emissions have peaked, the effort to get to net zero by 2050 will need to be stepped up threefold. Other regions, meanwhile, are not even close to meeting the challenge.

With entire economies and societies changing fast, this is the moment for political leadership to push things across the finish line. The new Biden administration will play a critical part in the global response, but the US alone will not solve the problem. In these times of increasingly distributed global leadership, we all must work together. The international community's next milestones – at the G7, the G20, and COP26 – will be decisive. This is a game of dominoes that we can win.

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