COP21, The Force Awakens

Written on 18/12/2015

After four years of hard work, the COP21 has culminated in a climate agreement that was accepted by 195 countries. This agreement is the first to involve all world economies in the fight against climate change. Beyond the pledges made by the governments, the COP21 also aimed to highlight solutions that are backed by the private sector. A testimony to companies' determination to become a part of the movement, several initiatives were launched in a wide range of sectors over the course of the two conference weeks.

Responding to these transformations, the financial sector also made several announcements, promising that it would divest from the most polluting energies, increase investments in clean technologies, stimulate financial innovation (green bonds, LDN) and measure carbon footprints. Investors have understood once and for all that they must adapt their investment strategies if they want to face up to the challenges of the current transition to a low carbon economy.

On Saturday 12 December 2015, 195 States agreed on a text that aims to reduce global greenhouse gas (GHG) emissions. The Paris deal marks an apogee after four years of work since the 2011 Durban Climate Change Conference. After the 'failure' of the Copenhagen Summit in 2009, a fresh page has been turned, allowing for a global agreement in 2015.

What does the agreement achieve?

The 2°C Target Confirmed and Even More Ambitious

Participants first of all agreed on the goal of maintaining the global average temperatures increase at no more than 2°C above pre-industrial levels, a target the majority of governments had already underwritten at the Copenhagen Summit. The novelty of the COP21 agreement is that it goes beyond Copenhagen, committing governments to reaching the 1.5°C target.

Common but Differentiated Responsibilities

As for the previous UN texts, the Paris agreement still mentions the 'common but differentiated responsibilities' according to countries' level of development. While Kyoto focused mainly on developed countries reducing emissions, the Paris agreement has succeeded in persuading all countries to commit to fighting climate change; this includes China, the world's top emitter today. Together with China's commitment, and thanks to the Obama administration's increased awareness of climate issues, the United States have also been included in the agreement. The fact that two of the largest world economies as well as the European Union have committed to fight climate change, has created a real knock-on effect for the rest of the world.

Robust Commitments

In a bid to avoid the pitfalls of previous negotiations where governments failed to agree on a common definition of their objectives, the approach adopted was to leave governments free to define their Intended Nationally Determined Contributions (INDC) themselves.

Table1 : Examples of Intended National Commitments

Country	Targets
United States	26%-28% below 2005 levels by 2025
European Union	At least 40% reduction by 2030 vs. 1990
China	By 2030: - Invert the CO_2 emissions curve by 2030 and make the best possible efforts to reach this target earlier - Reduce CO_2 emissions per unit of GDP by 60% to 65% - Reach 20% in non-fossil energy in primary energy consumption - Increase forest resources by around 4.5 m^3 relative to 2005
India	- Reduce CO_2 emissions by 33% to 35% per unit of GPD unit by 2030 relative to 2005 - ~40% of cumulated power installed to be generated from non-fossil sources by 2030 - Create additional carbon sinks for 2.5 to 3 Gt of CO_2 by forest plantation by 2030
Japan	26% reduction by 2030 relative to 2013

Source: Mirova based on WRI 2015

Some observers have voiced concerns that these targets are not mandatory. But sanctions regularly became sticking points in negotiations. The Kyoto Protocol has also shown how inefficient they are: when Canada failed to achieve its reduction targets, it simply decided to withdraw from the protocol so as to avoid paying a fine.

It should also be noted that the pledges submitted by the States still come as part of a +3.5°C scenario. Reaching the 2°C target will thus require additional efforts by governments.

Targets to be Reviewed Every 5 Years

In a move to create a framework that encourages raising the bar for emission reduction ambitions, the agreement provides for an update of pledges every 5 years, the first update being scheduled for 2020.

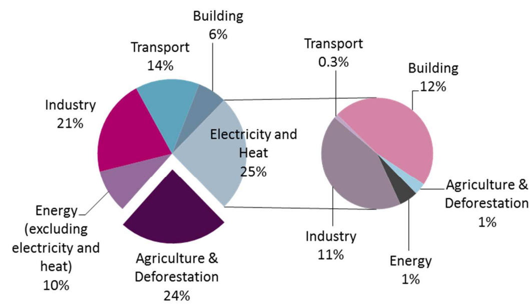
Finances

The plans for setting up a green fund of $100 bn a year by 2020, which were presented earlier at the Copenhagen Summit, have now been confirmed. The fund will be financed by developed countries and aims to help developing countries reduce their emissions and adapt to the consequences of climate change.

A galvanization of the private sector…

Beyond achieving an agreement between governments, the COP21 has allowed the private sector to demonstrate its ability to provide solutions to the challenges of climate change. Over the 11 days of negotiations, there was a flourish of announcements on new developments in those sectors of the economy that are linked to energy[1].

Figure 1: Greenhouse Gas Emissions by Sector 2010 (Total: 49 Gt CO_2 eq)



Source: Mirova based on (IPCC, 2014)

Energy

In terms of energy, 3 major initiatives defined the COP21

- The '**Terrawatt Initiative'** which aims to raise 1 trillion dollars for the construction of one terawatt (1000 GW) of solar capacity. This initiative comes after the Indian Prime Minister and the French President announced they would back an international coalition to develop solar energy in countries lying between the tropic of Cancer and the tropic of Capricorn.
- The '**Breakthrough Energy Coalition**', which is backed by Bill Gates and supported by 28 major entrepreneurs, is to assemble several billion dollars to finance companies

[1] *See Mirova, 2015, Which technologies can build a low carbon economy?*

developing innovative solutions for generating clean energy.

- Lastly, the **RE100** initiative seeks to encourage companies to use green electricity to 100%. Over 50 big international groups like Google, BMW, H&M, Kingspan and SAP have already confirmed that they will participate.

Mobility

In the transport sector, which makes up for around 15% of global greenhouse gas emissions, a number of players in the sector have committed themselves to supporting the emergence of low carbon mobility.

Players such as Tesla, Renault Nissan, the United Nations Environment Programme (UNEP), the International Energy Agency (IEA) and other representatives of civil society launched the 'Paris Declaration on Electro-Mobility and Climate Change & Call to Action'. Its signatories are committed to making the greatest efforts possible in raising the **share of electric vehicles to 20% of automobiles in circulation by 2030**; this target is part of reaching a 2°C scenario.

Furthermore, the WBCSD (World Business Council for Sustainable Development), an umbrella organisation for the biggest international companies working on sustainable development issues, has published figures for its targets in the industry:

- To replace 10% of fossil fuels by low carbon fuel by 2030,
- To halve emissions from goods transport by road by 2050.

Buildings

In the building sector, which accounts for (~18% of global greenhouse gas emissions, 60 professional organisations and 18 governments have announced that they are launching a 'Global Alliance for Buildings and Construction' in a bid to reach **220 billion dollars invested in energy efficiency by 2020**, i.e. a 50% increase relative to 2014. The Alliance notably seeks to encourage dialogue between a number of actors in the sector, many of them local.

The WBCSD has also fixed a sector-specific target to reduce the energy consumption of buildings by 50% by 2030.

Industry

There have been far fewer announcements in industry, which accounts for ~33% of greenhouse gas emissions. Since the sector has already made several attempts to reduce emissions, the potential for future reduction is limited here. Nevertheless, it should be noted that the following targets have been announced:

- to set up 500 to 1000 projects for CO_2 capture and storage (CCS) by 2030,
- to reduce the emissions in the chemical industry by 1 Gt CO_2 eq. a year by 2030,
- to reduce cement emissions by 20 to 25% by 2030 relative to the Business as Usual scenario.

Agriculture and Forestry

Lastly, the agricultural industry, which makes up for 25% of greenhouse gas emissions, was also highlighted during the COP, notably thanks to the 4 per 1,000 initiative which aims to increase carbon stocks inagricultural soils, and thanks to the announcement of an emission reduction target for the sector of at least 3.7 CO_2 eq by 2030. There has also been greater support for other initiatives, for example the Great Green Wall project which was launched in 2007 by the African Union and which aims to slow down land degradation in the Sahel desert from Mauritania to Eritrea.

...that is pushing the financial sector to change its understanding of the economy

Taking these economic evolutions into account, the financial sector is beginning to adapt its strategies so as to confront change. The sector took advantage of the COP21 as a platform for launching several initiatives with a wide range of approaches that reach from excluding the most polluting companies, over creating more efficient financing solutions for the energy transition, and to finding a better measurement of their exposure to carbon.

- Uniting a total of $4,000 bn, 100 banks and one investor group have promised to increase loans for funding energy efficiency.
- Many players have asserted that they wish to develop the green bonds market so as to create a market of $500 bn p.a. (as opposed to 38 at the moment).
- 23 investors with $600 bn in equities have joined the Portfolio Decarbonization Coalition.

- With a total of over $3,000 bn of funds under management, many investors have promised to exit from carbon.
- Uniting a total of over $10,000 bn, 120 investors have promised to measure their carbon footprint (Montréal Carbon Pledge).
- The United Nations Environment Programme (UNEP) has launched a fund which is open to private investors and which aims to achieve land degradation neutrality (LDN).

> '…once climate change becomes a defining issue for financial stability, it may already be too late.'

Mark Carney, Governor of the Bank of England and President of the FSB, October 2015

It should also be noted that the Financial Stability Board (FSB) is involved. Established after the G-20 summit in 2009, it is charged with forging better cooperation in supervising and monitoring financial institutions. The FSB announced that it would be creating a working group directed by Michael Bloomberg so as to improve reporting on carbon risk.

What Happens Now?

The players who have participated in these initiatives, whether they be private companies or players from the financial sector, closed the COP21 with the *L'Appel de Paris* (Paris Pledge for Action). By joining the Pledge, non-state actors demonstrate that they are ready to 'ensure that the ambition set out by the Paris Agreement is met or exceeded to limit global temperature rise to less than 2 degrees Celsius'.

For several years now, a number of elements have led us to think that the transition to a low carbon economy is well underway: renewable energies have been becoming far more competitive, carbon has been slowing down, clean solutions such as the electric vehicle and technologies for intelligent building management systems have taken off, and so on. The COP21 heralds a new era.

The transformations underway are far-reaching and it will take another several years before they can invert the emission increase. But the Paris agreement sets a clear course: the economy to come will not be in the image of the economy of the last 50 years, which was based on fossil energy and increased energy consumption. Investors are looking to adapt to this new set of facts. Even if these transformations will not have an immediate impact on the performances of the companies, the world of finance is starting to adapt its investment strategies so as to confront the transition we are experiencing.

DISCLAIMER

This information purpose only document is a non-contractual document intended only for professional/not-professional clients in accordance with MIFID. It may not be used for any purpose other than that for which it was conceived and may not be copied, distributed or communicated to third parties, in part or in whole, without the prior written consent of Mirova.

No information contained in this document may be interpreted as being contractual in any way. This document has been produced purely for informational purposes. Mirova reserves the right to modify any information contained in this document at any time without notice.

This document consists of a presentation created and prepared by Mirova based on sources it considers to be reliable. However, Mirova does not guarantee the accuracy, adequacy or completeness of information obtained from external sources included in this document.

These simulations/assumptions are made/indicated for example, they do not constitute an undertaking from Mirova and Mirova does not assume any responsibility for such simulations/assumptions.

Figures contained in this document refer to previous years. Past performance and simulations of past and future performances are not a reliable indicator and therefore do not anticipate future results. Reference to a ranking and/or a price does not indicate the future performance of the strategy or the fund manager.

The scenarii and investment strategies referenced herein represent the views of Mirova as of the date indicated. There can be no assurance that developments will transpire as may be forecasted in this material. These are subject to change, depending on market evolution and regulation in force.

Under Mirova's social responsibility policy, and in accordance with the treaties signed by the French government, the funds directly managed by Mirova do not invest in any company that manufactures sells or stocks anti-personnel mines and cluster bombs.

All information is the opinion and analysis of the authors, it is not guaranteed, and is subject to change without notice. None of the information contained in this document should be interpreted as having any contractual value**.**

Where required by local regulation, this material is provided only by written request. • **In the EU (ex UK)** Distributed by NGAM S.A., a Luxembourg management company authorized by the CSSF, or one of its branch offices. NGAM S.A., 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. • **In the UK** Provided and approved for use by NGAM UK Limited, which is authorized and regulated by the Financial Conduct Authority. • **In Switzerland** Provided by NGAM, Switzerland Sàrl. • **In and from the DIFC** Distributed in and from the DIFC financial district to Professional Clients only by NGAM Middle East, a branch of NGAM UK Limited, which is regulated by the DFSA. Office 603 – Level 6, Currency House Tower 2, P.O. Box 118257, DIFC, Dubai, United Arab Emirates. • **In Singapore** Provided by NGAM Singapore (name registration no. 5310272FD), a division of Absolute Asia Asset Management Limited, to Institutional Investors and Accredited Investors for information only. Absolute Asia Asset Management Limited is authorized by the Monetary Authority of Singapore (Company registration No.199801044D) and holds a Capital Markets Services License to provide investment management services in Singapore. Registered office: 10 Collyer Quay, #14-07/08 Ocean Financial Centre. Singapore 049315. • **In Hong Kong** Issued by NGAM Hong Kong Limited. • **In Taiwan:** This material is provided by NGAM Securities Investment Consulting Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C and a business development unit of Natixis Global Asset Management. Registered address: 16F-1, No. 76, Section 2, Tun Hwa South Road, Taipei, Taiwan, Da-An District, 106 (Ruentex Financial Building I), R.O.C., license number 2012 FSC SICE No. 039, Tel. +886 2 2784 5777. • **In Japan** Provided by Natixis Asset Management Japan Co., Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No. 425. Content of Business: The Company conducts discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 2-2-3 Uchisaiwaicho, Chiyoda-ku, Tokyo.

The above referenced entities are business development units of Natixis Global Asset Management, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. Although Natixis Global Asset Management believes the information provided in this material to be reliable, it does not guarantee the accuracy, adequacy or completeness of such information.

MIROVA

Mirova is a subsidiary of Natixis Asset Management

Limited liability company - Share capital €7 461 327.50

Regulated by AMF under n°GP 02-014

RCS Paris n°394 648 216

Registered Office: 21 quai d'Austerlitz – 75013 Paris

NATIXIS GLOBAL ASSET MANAGEMENT

Limited Company - Share Capital: €156 344 050

RCS Paris 453 952 681 00022

Registered Office: 21 quai d'Austerlitz - 75634 Paris Cedex 13

Visit us:
www.mirova.com

Follow us:
@Mirova_RI Mirova profile