**﻿India’s submission on**

**Article 2.1.(c) of the Paris Agreement**

1. **Introduction**

The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) has invited Parties, operating entities of the Financial Mechanism, international financial institutions and other stakeholders in the financial sector to submit views regarding ways to achieve Article 2, paragraph 1(c) of the Paris Agreement, including options for approaches and guidelines for implementation. On the basis of the inputs, the Standing Committee on Finance would need to submit a synthesis Report for consideration by the Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement at its fourth session (November 2022).

1. **Background**

Article 2 of the Paris Agreement seeks to enhance the implementation of the United Nations Framework Convention on Climate Change (UNFCCC) (hereinafter ‘the Convention’), including its objective with the view to strengthen the global response to climate change in the overall context of supporting sustainable development and eradication of poverty. This is to be achieved by the following, which are usually referred to as the “goals” of the Paris Agreement:

1. *holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change.*
2. *Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and*
3. *Making finance flows consistent with low greenhouse gas emissions and climate resilient development.*

Article 2.1 (a) is devoted primarily to the question of mitigation, while Article 2.1 (b) is clearly focused on adaptation. Article 2.1(c) (see Annexure for the text of the Article 2.1(c)) addresses the issue of how the flow of finance is to be consistent with low greenhouse gas emissions and climate resilient development. Article 2.1 (c) is clearly linked to the achievement of the goals (a) and b) of Article 2.1. It is important to note that all the three goals set by Article 2.1, as is clear from the preceding text, are to be pursued in the context of the enhanced implementation of the Convention and have to be undertaken in a manner that supports sustainable development and poverty eradication. This context is further clarified by Article 2.2 which lays down that the implementation of the Paris Agreement has to reflect the principles of equity and common but differentiated responsibilities and respective capabilities, in the light of different national circumstances. Thus any discussion of the implementation of Article 2.1 (c) is incomplete and inappropriate without duly considering the other elements in Article 2.

Further, the goals set in Article 2.1 itself derive legal force from both the articles of the Convention and the articles of the Paris Agreement. Since Article 2 is only aiming to enhance the implementation of the Convention, it is evident that the commitments under the Convention have to hold and are not being reneged or set aside in any manner. Also, the other provisions of the Paris Agreement such as Article 9 that relate to the flow of financial resources would affect the implementation of Article 2.1 and more specifically Article 2.1 (c) which is specific to financial flows. For instance, Article 9.1 mandates that the developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention.

Since the obligations under the Convention are also sought to be continued in the Paris Agreement, the commitments have to be read in line with Article 4 of the Convention which requires the developed countries to take the lead by undertaking economy-wide reduction in greenhouse gas emissions and provide new and additional resources that cover the full and incremental cost of the transition to low carbon pathways in the developing countries and to also facilitate technology transfer to support the process. The Paris Agreement also foresees the need for the mobilization of funds by the developed countries from a wide variety of sources, instruments and channels. It, however, notes the significant role of public funds, through a variety of actions, including supporting country-driven strategies, and by considering the needs and priorities of developing country Parties. This mobilization of climate finance needs to represent a progression beyond previous efforts. Article 9.4 also seeks that a balance is maintained between adaptation and mitigation including providing public and grant-based resources for adaptation to the developing countries that are particularly vulnerable to the adverse effects of climate change.

It is also important to note that any consideration of meeting the goals of the Paris Agreement as stated in Article 2, including Article 2.1 (c), must keep in view Article 4, para 7 of the Convention, that the extent to which developing countries will effectively implement their commitments under the Convention, “will take fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties”. Further Article 4, para 7 also notes that such implementation of the commitments of developing countries further depends on the corresponding effective implementation by the developed countries of their commitments related to financial resources and transfer of technology.

1. **Operationalizing Article 2.1c- Issues on which consensus is required**
2. Preliminary considerations of context and operationalization

Article 2.1(c) is read as “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”. The phrase on its own does not provide clarity with respect to its operation and does not specify the nature of finance flows.

To provide such clarity, the considerations of Article 2.1 (c) need to be divided into two categories, that are relevant within the framework and provisions of the Convention and the Paris Agreement. The first category relates to finance flows within and between developed countries. This category is brought forth by the Paris Agreement and its provisions explicitly, though it has always been indicated by the provisions of the Convention.

The second relates to finance flows from developed to developing countries. Within this finance flows within and between developing countries may also be included.

1. Finance flows within and between developed countries

The considerations of climate science, especially as noted in the Reports of Working Group II and III of the Intergovernmental Panel on Climate Change, have indicated the need to halt investment in fossil fuels as an integral part of climate change mitigation while noting the need for equity and differentiation based on the stage of development of various countries.

Since both the Convention and the Paris Agreement call on developed countries to take the lead in mitigation and emissions reduction, on the basis of equity, climate justice and CBDR&RC, halting investment in new fossil fuel infrastructure in the developed countries is the sine qua non of climate mitigation by developed countries.

Such halting of investment must encompass all fossil fuels, including oil and gas, as developed countries have high emissions arising from all fossil fuels and taking the lead in mitigation must encompass all fossil fuels. Halting investment in this context refers to both public and private investment, with the latter being especially relevant to the context of developed countries.

Further, public and private investment in renewables and non-fossil fuel infrastructure must show a measurable increase. Such increase must not only be measured in absolute terms but the net increase in investment in non-fossil fuel infrastructure over fossil fuel investment is the decisive measure.

Operationalization of Art 2.1(c) by developed countries requires that it commence immediately, and cannot be indicated through setting target dates for halting investment by 2030 or thereafter. Since emissions reductions must themselves be ambitious and adequate, on the basis that developed country emissions must stay within their fair share of the global carbon budget, it is essential that halting investment commence immediately.

Operationalization of Art 2.1(c) further requires that developed countries further report, both in quantitative and qualitative terms on fossil fuel infrastructure investment in their economies, including cross-border investment in other developed countries, and the relative share of such investment and finance in relation to non-fossil fuel infrastructure investment and finance.

India notes with concern and dismay that in the wake of recent changes in the current global geopolitical situation, several developed countries have stepped up investment in all fossil fuel infrastructure located in their territory to varying degrees. This is clearly not in keeping with the letter and spirit of Article 2.1(c).

1. Finance flows for Climate Action by Developing Countries

Article 2.1(c) refers to ensuring consistency of finance flows with the pathway towards low greenhouse gas emissions and climate-resilient development. The target for the pathway has been determined by Article 2.1(a) and (b) and this has to be read in the context noted in Article 2 of sustainable development and poverty eradication. Further Article 4.1, in the context of achieving the long-term temperature goal of Article 2.1(a), notes that the peaking of developing countries’ emissions will take longer than global peaking that must occur “as soon as possible”. It further reiterates that meeting this goal must take place “on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty.”

It must be emphasized that Article 4.1 makes it evident that the emissions reduction by developed countries must be adequate and ambitious enough to allow developing countries' emissions to grow and at the same time assure that global peaking occurs followed by rapid reduction of global emissions. The reference to global net zero in Article 4.1 is also a global goal and does not refer to individual Parties. This indicates clearly that developed countries must reach net zero well before mid-century, ensuring that their cumulative emissions remain within their fair share of the global carbon budget of the temperature goals of the Paris Agreement.

Thus Article 2.1(c) does not impose any conditionalities on developing countries for finance of and investment in fossil fuel infrastructure except in view of achieving their Nationally Determined Contributions. Such finance and investment must be according to their needs as determined by developing countries themselves.

India, therefore, emphasizes that developing countries may incur cumulative emissions in keeping with the responsible use of their fair share of the global carbon budget in view of equity and climate justice.

It may be further noted that such finance flows to developing countries from developed countries will include investment in non-fossil fuel and fossil fuel infrastructure, with progressive inclusion of abatement technologies for the latter as they become available.

Energy science makes it clear that even rapid expansion of renewable energy infrastructure in electricity generation requires fossil fuel investment for grid balancing. In the absence of large-scale energy storage systems, fossil fuel powered generation is required to balance the variability of solar, wind and other renewable sources of power.

Fossil fuel investment is also required across a wide variety of industrial sectors that are relevant from the viewpoint of adaptation, including the production of fertilizers and cement for infrastructure development, at least till viable technologies with low green premium become available in these sectors.

Developed countries therefore must continue to provide climate finance to developing countries within the scope of the latter's Nationally Determined Contributions and domestic development priorities including in the energy sector.

1. Further considerations on climate finance delivery to developing countries from developed countries.

One of the persistent challenges has been that developing country Parties lack the resources and the technology to adequately address climate change. The Paris Agreement does mention the mobilization of resources from a variety of sources but also places emphasis on public finance (Article 9.3). The onus lies on the developed countries to provide resources (Article 9.1) and mobilize financial resources from a variety of sources for climate action (Article 9.3). While private sector contribution is significant, it needs to be remembered that the private sector remains non-parties to the climate regime set by the Convention and its Paris Agreement and as such have no obligations under it. What certainly cannot be done is to place all the responsibilities on the private sector. Therefore, the obligation lies with the developed countries to make available resources for climate action.

The financial requirement for climate action by the developing countries has increased substantially and currently, estimates for taking climate actions as brought out by Standing Committee on Finance under UNFCCC are laying out a case for trillions in new and additional financing. The adequacy of the fund remains an issue and scaling up of funds from the developed country Parties is an important requirement for a climate resilient future. Developed country Parties need to enhance the contribution substantially and quickly in the form of grants, concessional loans and guarantees. Clearly, the finance flows need to have the scale, the scope and the speed to ensure translation of the objective of low carbon pathway and climate resilience and adaptation to reality. In this context, a collaborative approach is warranted to enable an ambitious collective quantified goal for ensuring effective climate actions by developing countries. Given the responsibility placed on the developed countries to take the lead in providing resources and in keeping with the commitment under the Convention and the Paris Agreement, climate finance should be grants by the developed countries or concessional loans or guarantees provided by the developed countries to promote private companies to finance climate action in developing countries. In the case of loans, it is important to ensure that the time horizon for loans and the rate of interest charged should be preferably similar to the International Development Association (IDA) loans.

Tracking finance delivery especially “consistent with a pathway” is very difficult without a clear understanding of the taxonomy of the financial flows. As part of deliberations, it will be important to agree on what will qualify as finance. These discussions should allow making progress towards convergence on issues like new and additional resources and climate specificity of the flows, need for predominantly unencumbered financial support. Such detailed classification is the foremost step towards the achievement of the long-term goal of the Paris agreement.  We must, therefore, move towards more robust methodologies to prevent ambiguity and double counting.

Article 9.5 and Article 9.7 of the Paris Agreement address predictability and transparency of financial flows. If the objective of Article 2 including article 2.1(c) has to be met in letter and spirit, it is pertinent that it should be possible to assess the extent of finance flows to adaptation and mitigation actions and their alignment with the NDCs. IPCC WGII Sixth Assessment Report Summary for Policymakers has stated that “Public mechanisms and finance can leverage private sector finance for adaptation by addressing real and perceived regulatory, cost and market barriers, for example via public-private partnerships (high confidence)”. The discussion should move on to the quality of financial flows, besides deliberation on the quantum of such flows. In implementing the Paris Agreement, it will be critical to determine how progress towards Article 2.1 (c) can be defined, reported on and collectively assessed in the near and medium term.

Alongside increased flows of finance, the developing world has repeatedly stressed the need to improve access to finance. Mechanisms for accessing resources are often slow, complex, resource intensive, uncertain, project-based and ambiguous. Deliberations on Article 2.1(c) should address how access to flows could be enhanced, including ways to simplify and streamline procedures.

Annexure A

**Text of Article 2 of the Paris Agreement**

*“This Agreement, in enhancing the implementation of the Convention, including its objective, aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by:*

*(a) Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;*

*(b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and*

*(c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.*

*2. This Agreement will be implemented to reflect equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances.”*