Swedish Presidency of the Council of the European Union

SUBMISSION BY SWEDEN AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES

Stockholm, 26 April 2023

Subject: Standing Committee on Finance (SCF) work regarding ways to achieve Article 2, paragraph 1(c), of the Paris Agreement

1. Introduction

The European Union and its Member States (EU) welcome the invitation in the decision of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its fourth session to submit views regarding ways to achieve Article 2, paragraph 1(c), of the Paris Agreement, including options for approaches and guidelines for implementation, by 30 April 2023.

As reflected in our first submission on 2.1(c)[1], the EU believes that making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development is key to the implementation of the Paris Agreement as a whole. Meeting the climate mitigation and adaptation goals requires an economic and financial strategy, bringing about a fundamental transformation of all economies and a major shift in the structure of the global economy, financial markets, and investments. Pursuing the objective of Article 2.1(c) is an integral part of pursuing ambition under the Paris Agreement. It is a global effort for all countries to reform the economy.

Article 2.1(c) is about all finance flows in the economy, meaning public and private finance, domestic and international finance, in all countries.

The efforts to achieve Article 2.1(c) could in turn accelerate the mobilisation of the financial resources that are needed to support developing countries on their pathways towards achieving the Paris Agreement goals. Moreover, Article 2.1(c) goes beyond the provision of climate finance to developing countries. In the long-term, it implies an in-depth transformation of global economy and capital markets (capital expenditure, re-orienting business models, new firms etc.) towards a low greenhouse gas emission and climate-resilient development. Article 2.1(c) entails an overarching enabling role, which is complementary to Article 9 of the Paris Agreement, and not a substitute for it. They are neither interchangeable, nor mutually exclusive.

In this context, the private sector has a pivotal role to play, with the public sector needed to provide appropriate financial and policy guidance, incentives, and enabling conditions.

The importance of Article 2.1(c) has been also recognized in the recent **IPCC AR6 Synthesis Report**[2], which states that there is sufficient global capital to close the global investment gaps but there are barriers to redirect capital to climate action (section C.7). It notes, for instance, that public and private finance flows for fossil fuels are still greater than those for climate adaptation and mitigation.

[1] 202205101237---EU_SCF_2.1(c).pdf (unfccc.int)
[2] AR6 Synthesis Report: Climate Change 2023 (ipcc.ch) AR6 Synthesis Report: Climate Change 2023 (ipcc.ch)

The IPCC highlights that **"reducing financing barriers for scaling up financial flows would require clear signalling and support by governments**, including a stronger alignment of public finances in order to lower real and perceived regulatory, cost and market barriers and risks and improving the risk-return profile of investments". At the same time, depending on national contexts, financial actors, including investors, financial intermediaries, central banks, and financial regulators can shift the systemic under-pricing of climate-related risks, and reduce sectoral and regional mismatches between available capital and investment needs" (Section C.7.3).

The aspects mentioned by the IPCC are essential expressions of what the Paris Agreement's overarching goal in Article 2.1(c) aims for. They indicate a broad, but not-exclusive, range of possible actions that can be taken not only at the international level but also by Parties' governments on the domestic level. The IPCC, like the EU, recognises that "enabling conditions are differentiated by national, regional, and local circumstances and geographies". Only Parties, as they represent national authorities, can have the legitimacy to discuss public actions to engage in order to transform the financial and economic world.

2. Where we are

In our last submission from 2022[3], we mapped a wide spectrum of some of the EU and its Member States' actions to make finance flows consistent with the provisions of Article 2.1(c). Since, further progress has been made on a range of additional initiatives (such as the Corporate Sustainability Reporting Directive, the European green bonds standard and the EU taxonomy for sustainable activities) and Article 2.1(c) has become part of the discussion in many other relevant fora (for instance the Coalition of Finance Ministers for Climate Action (CFMCA), the Export Finance for Future (E3F), the Glasgow Financial Alliance for Net Zero (GFANZ). MDB reform discussions and the global baseline for sustainability in reporting standards of the International Sustainability Standard Board, ISSB). This dynamic reality is building up the political momentum around which policies, measures, finance, and actions can be effectively proposed and designed to make finance flows consistent with the objectives of the Paris Agreement. **But much more remains to be done.**

On the technical side, it can for example be noted that there is no tracking system/framework (indicators and data) in place to capture in a systemic way the fragmented landscape of initiatives on financial flows consistent with the Paris Agreement. Moreover, there is no analytical model to define possible scenarios on future needs and solutions to achieve Article 2.1(c), to identify risks and opportunities at the country- and sector-level, and implications for the mitigation and adaption goals if Article 2.1(c) is not reached. Those gaps are partially due to disincentives to achieve progress on implementing Article 2.1(c) related to information asymmetries and market failures. For example, persistent market failures and climate-related externalities hinder progress in government policies, such as carbon pricing, taxes, and regulation.

On the political side, Parties are looking into their preferred approaches to advance this goal, but we want to point out again the lack of political space within the UNFCCC where Parties can discuss and further explore their understanding of Article 2.1(c) together.

3. Recommendations/Conclusions

The EU and its Member States believe that Parties should have the leadership to guide the current global efforts to accelerate the achievement of Article 2.1(c) as set by the Paris Agreement. It is therefore increasingly urgent to create a political space within the UNFCCC for a conversation and exchange of views on Article 2.1(c) among Parties, which should not be limited to its relationship with Article 9 of the agreement but should consider all aspects relevant for the achievement of Article 2.1(c) and define a common ground to set up a work programme.

[3] 202205101237---EU_SCF_2.1(c).pdf (unfccc.int)