



1. Introduction

The Baker McKenzie Global Climate Change practice expects 2020 to bring both scaled up developments and new challenges in a broad-based response to climate change.

Given widespread coverage of the shortcomings of last December's climate negotiations in Madrid, it may seem counterintuitive to anticipate positive movement on climate action this year.

Yet, in our view, there are several reasons why 2020 promises to be a milestone year for climate action and for increased confidence that 2020 will see enhanced flows of sustainable finance and mainstreaming of climate change into all aspects of public and private decision-making.

“2020 promises to be a milestone year for climate action”

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First, while it is true that negotiators in Madrid failed to agree on operationalising the new market mechanisms under Article 6 of the Paris Agreement, the talks did produce some concrete results that will likely pave the way for agreement in the future, possibly later this year.

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Second, the meeting cemented the role of the private sector as a key driving force for climate action. Rapid uptake of climate policies and targets by some of the world's largest companies and investors is likely to be a key driving force behind what we expect to see this year, in terms of flow of funds towards investments with good climate credentials, and away from those with unacceptable climate risk.



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Third, an emerging focus on "nature-based" solutions, like forest protection and restoration projects, holds promise for communities, ecosystems, climate results, as well as investment outcomes. The Madrid meeting showcased "blue" carbon projects—efforts to use the oceans, rivers and wetlands to absorb and retain carbon dioxide.

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Fourth, popular concern about the impacts of climate change has never been higher. Greta Thunberg led a march of 500,000 people demanding climate action during the climate negotiations in Madrid, and only days later was made Time's Person of the Year for mobilising millions in the global School Strike for Climate Movement. Extinction Rebellion's civil disobedience campaigns have brought London to a standstill on a number of occasions. The ongoing bushfire crisis in Australia has galvanised alarm for the devastating social, environmental and economic impacts of climate change, and support for stronger climate policies.

While the negotiated outcomes in Madrid did not produce the level of ambition that civil society and many countries and business groups demanded, the halls of the conference venue were filled with countries and companies targeting net zero emissions. Increasingly, we are seeing a shared understanding that in order reach the long-term goals of the Paris Agreement, and limit global heating to 1.5 to 2 degrees, a clear pathway to net zero emissions by 2050 is necessary.

Finally, this year, we expect to see forceful and ambitious leadership from the United Kingdom and Italy, the hosts of this year's United Nations climate talks in November. With high levels of support from governments, the private sector, and civil society, we think it is possible that negotiators will finalise the rules for new market mechanisms under the Paris Agreement by the end of this year.

Beginning with an overview of December's meeting of the Conference of the Parties to the United Nations Framework Convention on Climate Change—known as COP 25—this report provides a guide for what we believe will be the key trends and developments in 2020.

Notably, one of the trends is the "mainstreaming" of climate change into all aspects of decision-making, both in the public and private contexts. Climate policy and action is now relevant to decision makers in all areas of government and business.

“Climate policy and action is now relevant to decision-makers in all areas of government and business.”

We consider key trends in relation to:

- New climate change laws around the world;
- Commitments to reach net zero emissions by 2050;
- Carbon markets;
- Climate disclosures;
- Technologies to watch; and
- Climate adaptation, including building and financing resilient, low carbon infrastructure.

Please do not hesitate to contact us if you have any questions, concerns or would like any further information in relation to climate change law, policy and market practice and developments.

2. COP 25

2.1 Summary of outcomes

COP 25 was held in the first two weeks of December 2019. More than 26,000 representatives of Parties, the private sector, scientists, non-governmental organisations and 3,076 journalists attended the negotiations—a particularly impressive attendance level given that the location was changed at short notice due to civil unrest in Santiago, where it had originally been scheduled to take place.



Top of the agenda for many attendees was settling the unfinished business from the previous meeting—COP 24, held in Poland in 2018—which ended without agreement on the rules that would underpin international carbon trading post-2020 pursuant to Article 6 of the Paris Agreement.

Article 6 of the Paris Agreement relates to the cooperative approaches that Parties may pursue in implementing their nationally determined contributions (NDCs)—which include emissions reduction or limitation targets—and allowing for higher ambition in their mitigation and adaptation actions. These "cooperative approaches" may include market and non-market mechanisms. To bring Article 6 into force, Parties to the Paris Agreement must agree on how to formulate these mechanisms in what is known as the Paris Agreement "Rulebook".

COP 25 was the longest COP in history, which is a testament to the determination of many Parties to deliver positive outcomes. Despite unprecedented political attention on Article 6 at COP 25, and substantial progress being made in reducing the length and resolving many of the technical issues of the draft decision text, Parties again failed to reach agreement. This failure undoubtedly overshadowed some of the positive developments at the COP, leading UN Secretary General António Guterres, to say he was "disappointed" with the results, and that "the international community lost an important opportunity to show increased ambition on mitigation, adaptation and finance to tackle the climate crisis."

However, he then echoed a sentiment felt by many in attendance, saying, "We must not give up and I will not give up. I'm more determined than ever to work for 2020 to be the year in which all countries commit to do what science tells us is necessary to reach carbon neutrality in 2050 and a no more than 1.5-degree temperature rise."

Parties will continue work on the Article 6 rules in 2020 with the aim of reaching an agreement at COP 26. Given the potential of Article 6 to enhance global ambition and flows of climate finance to developing countries, and to



facilitate the participation of the private sector, we anticipate that the United Kingdom and Italy (as hosts of COP 26 in November 2020) will make operationalising Article 6 a top priority. This presents an opportunity for the private sector to continue engaging with governments to emphasise not only the need for a functioning international carbon market supported by clear rules, but also the opportunities that such a market presents.

Nevertheless, the COP achieved important progress in relation to:

- Recognising the ocean climate nexus, bringing attention to the links between the health of the climate and the health of the ocean, building on the IPCC's [Special Report on the Ocean and the Cryosphere in a Changing Climate](#);
- Establishing the Santiago Network for Averting, Minimizing, and Addressing Loss and Damage; and
- Adopting an enhanced Gender Action Plan for 2020-2025.

Below, we address each of these outcomes of the negotiations in detail. We consider some of key policies, targets and actions plans launched by countries and investors at COP 25, in the context of the broader trends and expectations from climate action in 2020.

2.2 Climate action, ambition and growing public demands

For the UN Secretary General, many Parties and civil society, a key aim of COP 25 was to commit countries to communicating a more ambitious NDC in 2020.

UNEP's [Emissions Gap Report 2019](#) found that even if all current climate plans (or NDCs) pledged under the Paris Agreement are implemented, temperatures are expected to rise by 3.2°C, bringing even wider-ranging and more destructive climate impacts. Collective ambition must increase more than fivefold over current levels to deliver the cuts needed over the next decade for the 1.5°C goal.

Halfway through the negotiations, Greta Thunberg led a march of around 500,000 people demanding climate action. It became clear that the public's expectations for what COPs can and should deliver has risen with the widespread acknowledgement that we are facing a climate emergency.

The final decision text of the Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement (CMA), the "[Chile Madrid Time for Action](#)", "re-emphasizes with serious concern the urgent need to address the significant gap" between current ambition and the goals of limiting warming to 1.5°C or well-below 2°C. It "urges parties to consider [that] gap" when they "[re]communicate" or "update" their NDCs, which falls short of calling for Parties to "enhance the ambition" of their NDC in 2020.

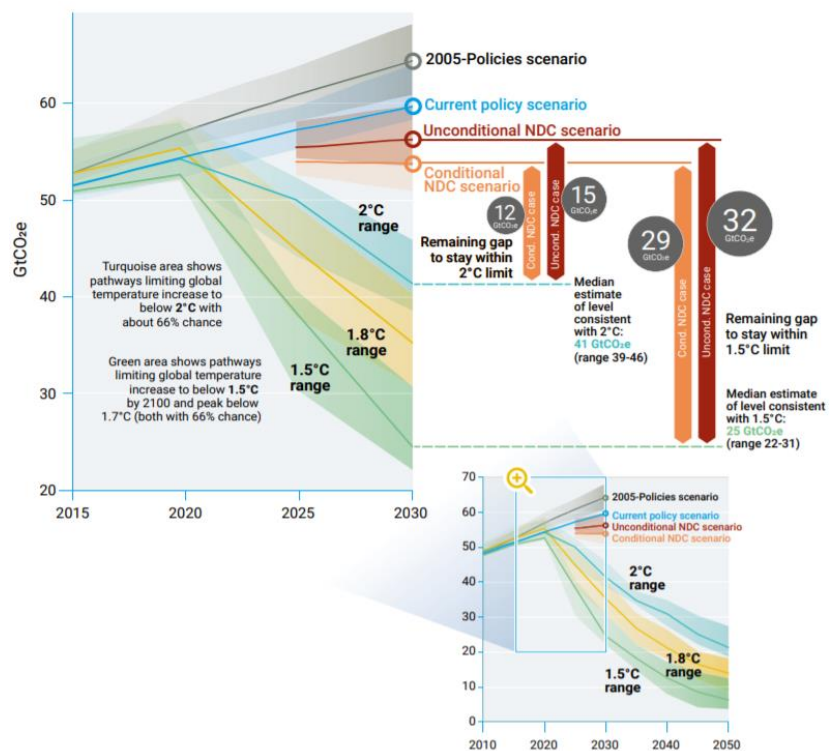


Figure 1: Global GHG emissions under different scenarios and the emissions gap by 2030 (UNEP Emissions Gap Report, 2019).



This relatively weak call for ambition does not deliver a clear political signal for countries to enhance their NDCs in 2020. However, this modest formal outcome is balanced with hundreds of announcements from Parties and the private sector demonstrating enhanced ambition.

According to data from Climate Watch, 108 countries have stated their intention to "enhance ambition or action" in their NDC, and a further 37 have stated their intention to "update" their NDC in 2020 (see Figure 2 below). With exception of EU, this does not include the major economies.

The Coalition of Finance Ministers for Climate Action launched the **Santiago Action Plan**, which complements the Helsinki Principles for mainstreaming climate change in economic and financial policies, and supporting global collective action on climate change. Fifty-one countries have now endorsed the Helsinki Principles and the Santiago Action Plan. The Santiago Action Plan focuses on "carbon pricing, macroeconomic and fiscal policies, public financial management as well as climate finance to achieve low-carbon and climate-resilient growth."

From the private sector, 177 companies pledged to set climate targets that align with limiting global temperature rise to 1.5°C above pre-industrial levels and reaching net-zero emissions by no later than 2050.

A record 631 institutional investors managing more than \$37 trillion in assets issued a joint statement, the **Global Investor Statement to Government on Climate Change**, which urges governments to step up ambition to tackle the global climate crisis. The Statement acknowledges the current "ambition gap" that will not prevent temperature rise beyond 1.5°C, and that "the global shift to clean energy is underway, but much more needs to be done by governments to accelerate the low carbon transition and to improve the resilience of our economy, society and the financial system to climate risks."

2020 promises to be a milestone year for climate action, with the United Kingdom and Italy as joint Presidents of COP 26 in Glasgow tasked with driving enhanced ambition (including through Parties' communicating enhanced NDCs) and delivering on the rules for Article 6 of the Paris Agreement.

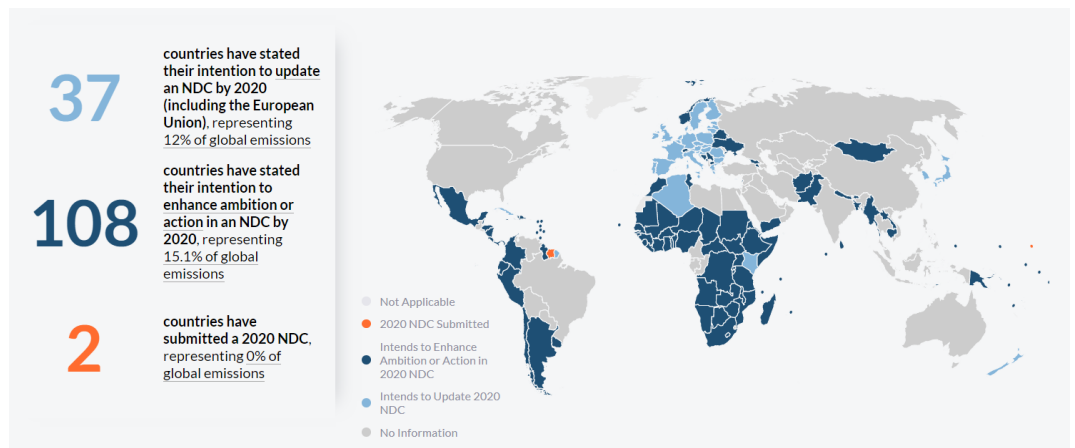


Figure 2: Climate Watch's 2020 NDC Tracker.

“Climate finance and private sector engagement promises to be high on the agenda for COP 26”

Climate finance and private sector engagement promises to be high on the agenda for COP 26, with Prime Minister Boris Johnson appointing the outgoing Bank of England Governor Mark Carney as the Prime Minister's Finance Advisor for COP 26. Carney was also the chair of the Financial Stability Board and a key proponent of the Taskforce on Climate-Related Financial Disclosures (TCFD).

2.3 Loss and damage

Parties were required to complete their review of the Warsaw International Mechanism for Loss and Damage (WIM) of COP 25.

The WIM addresses loss and damage associated with the impacts of climate change, including extreme events and slow onset events, in developing countries that are particularly vulnerable to the adverse effects of climate change.

At COP 25, Parties agreed to the establishment of the **Santiago Network for Averting, Minimizing, and Addressing Loss and Damage**, which has been characterised as the "implementation arm" of the WIM and will provide technical assistance to developing countries. The final decision text also noted that the Green Climate Fund (GCF) was previously invited to continue providing financial resources for activities related to loss and damage.

This represents an important practical outcome that may result in enhanced support for developing countries. However, it did not meet the full demands of developing country Parties, who sought to secure new and additional funding to enhance action and support.

2.4 Gender

A key outcome of COP 25 was the adoption of an **enhanced five-year Gender Action Plan**, which aims to advance knowledge and understanding of gender-responsive climate action and its mainstreaming in the UNFCCC, as well as women's full, equal and meaningful participation in the UNFCCC process.

The enhanced Gender Action Plan builds on the original gender action plan agreed at COP 20 in Lima, and will be reviewed by the UNFCCC's Subsidiary Body on Implementation (SBI) in 2024.

The enhanced Gender Action Plan sets out five priority areas, including:



Capacity-building, knowledge management and communication

- to enhance the integration of gender considerations into climate policy and action, and facilitate outreach, knowledge-sharing and the communication of activities undertaken to enhance gender-responsive climate action and its impacts in advancing women's leadership, achieving gender equality and ensuring effective climate action;



Gender balance, participation and women's leadership - to achieve and sustain the full, equal and meaningful participation of women in the UNFCCC process;



Coherence - to strengthen the integration of gender considerations within the work of UNFCCC constituted bodies, the secretariat and other United Nations entities and stakeholders and promote the implementation of gender-related mandates and activities;



Gender-responsive implementation and means of implementation - to ensure the respect, promotion and consideration of gender equality and the empowerment of women in the implementation of the Convention and the Paris Agreement;



Monitoring and reporting

- to improve tracking of the implementation of and reporting on gender-related mandates under the Lima work programme on gender and its gender action plan.

The COP decision adopting the new gender action plan acknowledges the need to respect human rights, the rights of indigenous peoples and the imperatives of a just transition of the workforce, an acknowledgement that civil society generally applauded.

2.5 Oceans

Also called the "Blue COP", there were high expectations from many Pacific Island countries for COP 25 to recognise the links between the health of the climate and the health of the ocean, building on the IPCC's [Special Report on the Ocean and the Cryosphere in a Changing Climate](#)

Momentum for the ocean-climate nexus had been building since the Ocean Pathway Partnership was launched at COP 23 under Fiji's Presidency, which aimed to integrate oceans in the UNFCCC process and to ensure inclusion of oceans in NDCs.

The Ocean Pathway gave rise to Friends of the Ocean and Climate, which is a network of countries and organisations who support ocean-climate action. This network pursued bilateral meetings during the negotiations with the aim of garnering support for the major decision text of the COP, the Chile Madrid Time for Action, to recognise the ocean-climate nexus.

The Chile Madrid Time for Action decision requested the Chair of the Subsidiary Body for Scientific and Technological Advice (SBSTA) to convene a dialogue at the Bonn intersessional meeting in June 2020 on the ocean and climate change and to consider how to strengthen mitigation and adaptation action in this area. This decision also invited Parties and non-Party stakeholders to submit input by 31 March 2020 to inform this dialogue.

In addition to these formal outcomes, there were over 90 ocean-related events at COP 25, ensuring that it maintained momentum as a "Blue COP". In particular, the Moana Blue Pacific Pavilion hosted back-to-back events relating to all aspects of the ocean-climate nexus, including the impact of climate change on maritime boundaries in the Pacific, the impact of climate change on Pacific Blue Economies, building the resilience of ocean economies and carbon markets in the Pacific with a focus on blue carbon.

“ there were over 90 ocean-related events at COP 25, ensuring that it maintained momentum as a "Blue COP" ”

2.6 Nature-based solutions

Nature-based solutions were high on the agenda, with the Chile Madrid Time for Action underlining "the essential contribution of nature to addressing climate change and its impacts and the need to address biodiversity loss and climate change in an integrated manner".

It was also agreed that the topic of the Standing Committee on Finance's 2020 Forum will be the financing of nature-based solutions.

2.7 Common timeframes

At COP 24, Parties agreed to apply common time frames to their NDCs to be implemented from 2031 onwards, however there was no decision on what that timeframe will be.

During COP 25, Parties continued to express a wide range of views on:

- Whether a 5 or 10 year NDC cycle better facilitates ambition, or hybrid proposals for example rolling cycles whereby Parties communicate 2 consecutive 5 year NDCs;
- How to improve consistency and transparency while maintaining the nationally determined nature of Parties' targets; and

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- The relationship between the timeframes of NDCs and the technical expert review required under the Transparency Mechanism.

Parties did not reach a decision on this agenda item, and negotiations on this issue will continue at the next intersessional meeting in Bonn in June 2020.

2.8 Article 6

Article 6 of the Paris Agreement enables Parties to voluntarily cooperate to implement their Nationally Determined Contributions (NDCs) and pursue higher ambition through the use of:



Internationally transferrable mitigation outcomes (ITMOs) under Article 6.2;



A new mechanism under Article 6.4 which many expect to build upon the existing project-based mechanisms under the Kyoto Protocol—the CDM and Joint Implementation (JI); and



A framework for non-market approaches under Article 6.8 which is intended to capture actions that drive cost-effective mitigation (and adaptation) without relying on market-based approaches or mechanisms that use transferable or tradeable units.

For each of these three approaches, Parties to the UNFCCC and its Paris Agreement were to reach agreement by COP 24 in December 2018 on, respectively: (i) guidance; (ii) rules, modalities and procedures, and (iii) a work programme.

Parties failed to reach agreement at COP 24 in December 2018. Despite unprecedented focus on Article 6 from Parties and the private sector at COP 25, and significant efforts by negotiators, Parties also failed to reach agreement at COP 25 in December 2019.

Parties instead agreed to continue work at the intersessional meeting in June 2020 with the aim of reaching agreement at COP 26 in November 2019 (see the decision text [here](#)). Parties "noted" the draft decision texts prepared by the Chilean Presidency in the final days of the COP while recognising that these draft texts do not represent a consensus between the Parties.

At COP 25, Parties came close to reaching agreement on the guidance for Article 6.2. Parties also streamlined the draft decisions texts across all three streams into logical formats with limited repetition. This is indicative of the improved understanding that Parties reached in relation to the purpose, scope and coverage of the Article 6 rules.

However, Parties could not reach agreement on several of the key political issues for the modalities, procedures and guidelines for Article 6.4.

If agreed, the rules for Article 6 will be agreed as a package - i.e. Parties will not accept agreement on Article 6.2 while issues under Article 6.4 or 6.8 remain outstanding.

Specifically, Parties achieved good progress on:



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- The characterisation of ITMOs (e.g. as real, verified, and additional);
- The participation responsibilities of Parties that choose to engage in cooperative approaches under Article 6.2 and 6.4;
- Parties that have emissions intensity targets (rather than absolute reduction targets) or that use non-GHG metrics will be able to participate in the 6.2 and 6.4 mechanisms;
- The application of corresponding adjustments (i.e. the accounting tools to ensure that there is no double-counting when mitigation outcomes are transferred between Parties), including in relation to different types of NDCs e.g. single-year vs. multi-year NDCs, and GHG vs. non-GHG metrics;
- Parties trading ITMOs will have to use a registry (with the option of using a domestic registry that meets designated standards, or an international registry to be established by the Secretariat);
- Requirements relating to transparency, including reporting, technical expert review, recording and tracking.

There was also general acceptance that agreement on some issues could be delayed to a future work programme, for example elaboration of the special circumstances of the least developed countries (LDCs) and small island developing States (SIDS), and further guidance for non-GHG metrics.

Nevertheless, many political issues remained, including:

- The transition of the Kyoto Protocol's Clean Development Mechanism (CDM) to the Article 6.4 mechanism, which includes issues relating to the transfer of projects, methodologies and units;
- Whether an overall mitigation of global emissions is required for Article 6.2 in addition to Article 6.4 (a compromise position is to encourage voluntary cancellation of a percentage of traded units for Article 6.2);
- Whether a share of proceeds for adaptation finance should be mandatory for Article 6.2 in addition to Article 6.4 (again, a compromise position is to encourage a voluntary contribution to the Adaptation Fund);
- The eligibility, accounting, limits and safeguards relating to the ITMOs from sectors outside a Party's NDC;

Whether, and how, corresponding adjustments should apply to the 6.4 mechanism.

After 24 hours of overtime negotiations, it became evident that Parties were still unable to resolve these key issues. In particular, the carryover of units generated under the Kyoto Protocol, the avoidance of double counting under the 6.4 mechanism, and the operationalisation of the share of proceeds and overall mitigation of global emissions proved insurmountable.

In the closing days of the negotiations over 30 countries led by Costa Rica and Switzerland and including the UK, Germany, France and many Pacific Island countries released the San Jose Principles for High Ambition and Integrity in International Carbon Markets. They urged for an Article 6 rule book that at minimum:

- Ensures environmental integrity and enables the highest possible mitigation ambition;
- Delivers an overall mitigation in global emissions, moving beyond zero-sum offsetting approaches to help accelerate the reduction of global greenhouse gas emissions;
- Prohibits the use of pre-2020 units, Kyoto units and allowances, and any underlying reductions toward Paris Agreement and other international goals;
- Ensures that double counting is avoided and that all use of markets toward international climate goals is subject to corresponding adjustments;
- Avoids locking in levels of emissions, technologies or carbon-intensive practices incompatible with the achievement of the Paris Agreement's long-term temperature goal;

- Applies allocation methodologies and baseline methodologies that support domestic NDC achievement and contribute to achievement of the Paris Agreement's long-term temperature goal;
- Uses CO₂-equivalence in reporting and accounting for emissions and removals, fully applying the principles of transparency, accuracy, consistency, comparability and completeness;
- Uses centrally and publicly accessible infrastructure and systems to collect, track, and share the information necessary for robust and transparent accounting;
- Ensures incentives to progression and supports all Parties in moving toward economy-wide emission targets;
- Contributes to quantifiable and predictable financial resources to be used by developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation; and
- Recognises the importance of capacity building to enable the widest possible participation by Parties under Article 6.

“There is increasing urgency to reach agreement as we approach 2021, as many Parties have indicated that they intend to rely on the Article 6 mechanisms to achieve a proportion of their NDC targets.”

While the failure to reach agreement on Article 6 at COP 25 was disappointing, many commentators agreed that no agreement was better than an agreement which would have allowed double counting and thereby undermined the integrity of the Paris Agreement. If rules were agreed which allowed doubled counting, Parties could demonstrate achievement of their targets on paper despite CO₂ emissions continuing to rise.

At COP 26, reaching agreement on Article 6 will again take centre stage. There is increasing urgency to reach agreement as we approach 2021, as many Parties have indicated that they intend to rely on the Article 6 mechanisms to achieve a proportion of their NDC targets. The improved technical understanding of Article 6.2 in particular lays the groundwork for an intense political effort from the United Kingdom and Italian Presidency's of COP 26 to resolve the remaining issues.

3. Outlook for 2020

3.1 Carbon markets

As noted above, there was unprecedented focus on carbon markets from countries and the private sector at COP 25. The International Emissions Trading Association (IETA) hosted back-to-back panels every day during the COP, with attendance often at full capacity.

Carbon markets are seen by many as critical to private sector engagement, unlocking greater ambition and achieving cost-effective emissions reductions". During COP 25, IETA presented a study demonstrating how "a robust Article 6 (including land-use) could generate savings of no less than \$250 billion a year and reduce an extra 9 billion tonnes of CO₂ by 2030 compared with purely national action.

“Carbon markets are seen by many as critical to private sector engagement, unlocking greater ambition and achieving cost-effective emissions reductions.”

In 2020, we are likely to see:

A

Increased activity in Article 6 pilot projects, which aim to test approaches to and elements of the new market mechanisms under Article 6 of the Paris Agreement

While the failure to reach agreement on Article 6 at COP 25 caused some in the investment community to react with concern that this delay will lead to a slowing of capital for another year, we expect some early action and pilots to continue to scale-up. In particular, Switzerland indicated that they would proceed with Article 6 pilot projects on the basis of the high standards of environmental integrity and accounting in the San Jose Principles for High Ambition and Integrity in International Carbon Markets. The Asian Development Bank has launched its ITMO Pilot Facility, to support countries in Southeast Asia develop Article 6 pilot projects.

B

Implementation of regional and domestic carbon markets, with many new domestic carbon markets emerging to support the implementation of Parties' NDCs

Many Parties' are progressing on the development of regional, national and sub-national carbon markets, not least China, whose national emissions trading scheme is due to commence in 2020. Japan is continuing to expand its Joint Credit Mechanism (JCM), which many consider is an Article 6 pilot project. The JCM is a crediting framework that facilitates the implementation of mitigation actions as well as low carbon technologies and infrastructures to contribute to the reduction of GHG emissions in developing countries, and the credits generated from such projects are shared between Japan and the host country.

A number of countries are currently considering linking their domestic emissions trading schemes with other countries, for example with Swiss and EU ETSs, and Pakistan is investigating the development of a domestic carbon market and the potential to link it with China's ETS. Indonesia has also announced its intention to establish a pilot emissions trading scheme for the power and industry sectors this year.

The World Bank announced its new Partnership for Market Implementation, which builds on the Partnership for Market Readiness and will provide technical assistance to countries in the design, piloting and implementation of carbon pricing and market instruments.

C

Some key decisions on the implementation of the International Civil Aviation Organization's (ICAO) Carbon Offsetting Scheme for International Aviation (CORSIA), with Phase 1 of CORSIA due to commence in 2021

Phase 1 of CORSIA is due to commence in 2021. A number of key decisions are due to be made in ICAO's next meeting in March 2020 in Montreal, which broadly include which offsets can be used for compliance with CORSIA, and how to avoid the double counting of emissions reductions between airlines and countries. A technical advisory panel is due to make recommendations on the eligibility of 14 global offset programmes to supply to CORSIA from 2021.

Between 2021 and 2035, CORSIA could generate demand for between 1.6 and 3.7 billion tonnes of carbon offsets. In order to be eligible for CORSIA, the World Bank's Forest Carbon Partnership Facility (FCPF) has made revisions to its deforestation reduction programme methodology. We anticipate that other existing offsets programs may take similar steps in order to help meet CORSIA's high demand for offsets.

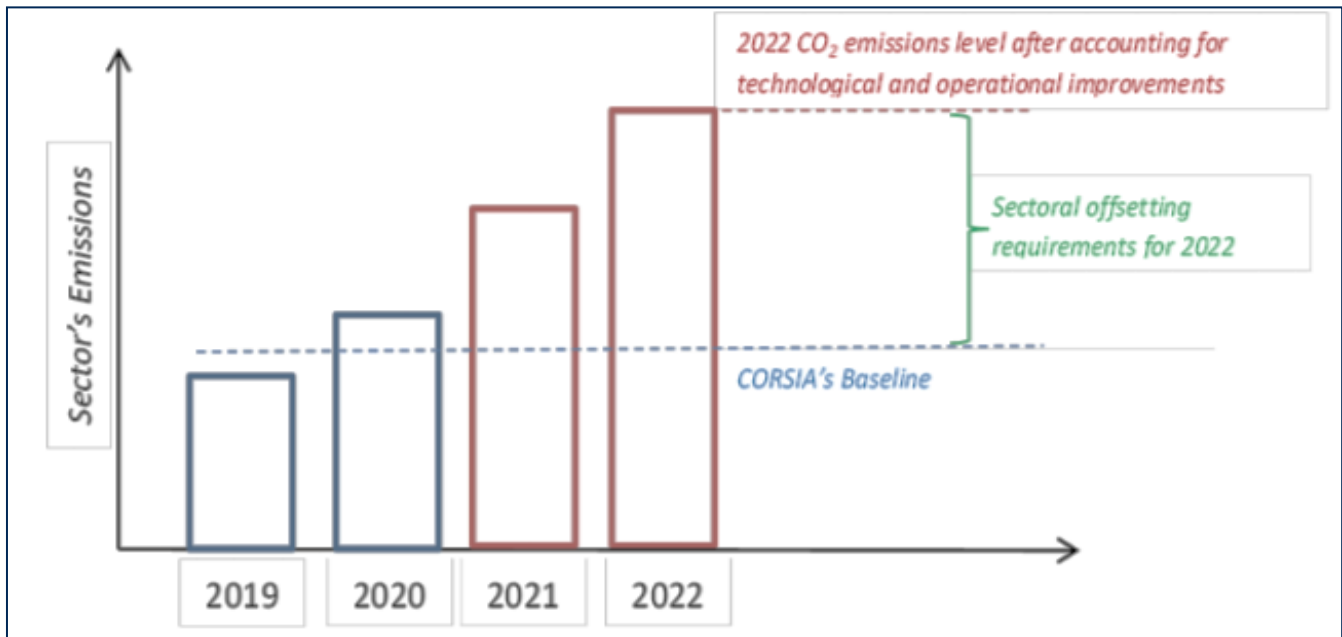


Figure 3: CORSIA's approach to achieving carbon-neutral growth through offsetting requirements (ICAO, 2018).

D

Continued growth in the voluntary market

The volume of transactions in voluntary carbon markets hit a 7 year high in 2018, according to *Financing Emissions Reductions for the Future: The State of the Voluntary Carbon Markets 2019*. This was partly driven by growing demand for nature-based solutions, with REDD+ being the most popular type of offsets programme, and a 264% increase in the volume of offsets generated through forestry and land use activities.

During COP 25, there was considerable debate about the role of voluntary carbon markets post-2020, and the relationship between the voluntary carbon market, Article 6 of the Paris Agreement and CORSIA. Participants in voluntary markets should closely consider the implications of the draft Article 6 rules, for example the application of corresponding adjustments and the avoidance of double counting. Voluntary carbon markets may have to consider making changes to existing methodologies, for example by re-defining additionality criteria, to ensure they continue to have high levels of integrity post-2020.

3.2 Domestic implementation of the Paris Agreement through the enactment of new climate change laws

As countries move towards domestic implementation of the Paris Agreement, many have introduced domestic climate change laws which incorporate emissions reduction targets and establish frameworks for mitigation and adaptation actions. We anticipate that this trend will continue in 2020.

New Zealand passed the **Climate Change Response (Zero Carbon) Amendment Act 2019**, which sets a target for New Zealand to reduce net greenhouse gas emissions (excluding biogenic methane) to zero by 2050, and to reduce biogenic methane emissions to 10% below 2017 levels by 2030 and 24–47% below 2017 levels by 2050.

The Act:

- Establishes a series of carbon budgets to act as stepping stones towards the long-term target;
- Requires the Government to develop and implement policies for climate change adaptation and mitigation; and
- Establishes an independent Climate Change Commission to provide expert advice and monitoring to help keep successive governments on track to meeting long-term goals.

Similarly, Fiji's **Climate Change Bill 2019** establishes a long-term emissions reduction target of net-zero by 2050 and requires the Minister responsible for climate change to determine 5 year carbon budgets from 2026 to 2050. The Bill is a holistic framework to guide Fiji's response to climate change, and:

- Expressly incorporates the key operative provisions of the Paris Agreement;
- Establishes a governance framework and obligations for decision-makers;
- Establishes a national measurement, reporting and verification framework, a carbon offsets framework and a registry;
- Authorises actions in relation to mitigation, adaptation, the relocation of at-risk communities, oceans and sustainable finance; and
- Requires companies to disclose the financial risks that climate change presents to their business and measures adopted to reduce these risks.

On 31 December 2019, Peru Passed **Regulation No. 30754 - the Framework Law on Climate Change**. The law mainly seeks to establish a series of mechanisms and guidelines to reduce the country's vulnerability to the effects of climate change, promote investment in sustainable and low carbon activities, and facilitate compliance with the Paris Agreement.

The European Union announced its **Green New Deal**, which is the flagship of the new European Commission (2020-2025). The main "headline" is that the EU Member States have agreed (by unanimity minus one, Poland) to put into law a formal commitment that the EU will be carbon neutral by 2050. Whilst such a legislative commitment can be reversed in future (if, for example, non-EU countries fail to follow the EU's lead and the final stages of decarbonisation hit European competitiveness too hard), it does mean that all EU policy and legislation moving forwards will be predicated on putting the EU in a place to meet the 2050 commitment. The effect of this should not be underestimated.

“The European Union announced its Green New Deal, which is the flagship of the new European Commission (2020-2025).”

The key initiatives within the **Green New Deal** are:

- Increasing to 50–55% the EU's existing 2030 commitment to cut CO₂ by 40% compared to 1990 levels;
- The ETS will be revised in line with the 50–55% objective, and will be extended or its impact strengthened to other sectors (candidates include air transport, maritime, road transport, energy intensive industry...). In parallel the Commission will propose a carbon border tax to protect EU industry at risk of "carbon leakage" from imports; the Commission recognising that the EU cannot solve climate change on its own and that international action remains the highest priority;
- Member States are expected to increase their existing renewable energy and energy efficiency objectives. To meet the current 2030 renewable energy target, the EU will already need to invest in between 150–200% of the wind and PV capacity that it installed between 2009–2020. Under the Green New Deal, the (already ambitious) renewable targets at Member States level are therefore set to further increase. The opportunities for large scale offshore wind and PV, with the consequent grid development, will dwarf the admittedly enormous changes that have taken place over the last decade;
- (Close to) zero-carbon hydrogen will be an essential part of the EU's energy mix as it moves towards a carbon-free future. The next Commission will signal the kick-start of this industry, in much the same way that the EU catalysed the exponential growth of the wind and PV markets in 2009;
- The state aid rules will be revised to reflect the Green New Deal objectives;
- emissions standards for vehicles will be significantly strengthened; and
- the Sustainable Finance Initiative will be reinforced, and the Commission will develop an EU green bond standard.

3.3 Targeting net zero emissions by 2050

In addition to the commitments identified above of New Zealand, Fiji and the EU, the Chilean Presidency re-launched the Climate Ambition Alliance during COP 25, which is an alliance of 73 Parties to the UNFCCC, 14 regions, 398 cities, 786 businesses and 16 investors who are working towards achieving net-zero CO₂ emissions by 2050.

During COP 25, Lord Nicholas Stern observed that the concept of reaching net zero emissions is much more firmly understood than at previous COPs. We used to talk about reducing emissions by 90% - now it is understood that achieving net zero emissions as soon as possible is critical to limiting temperature increase to 1.5 to 2 degrees.

In Australia, research by ClimateWorks Australia found more than 25 percent of Australia's ASX200 listed property companies have a target to reach net zero emissions for their owned and managed assets. Nine of Australia's 20 largest banks are targeting net zero emissions for their operations by 2050, and the "Big Four"—Westpac, ANZ, NAB and the Commonwealth Bank of Australia—are targeting 100 percent renewable energy for their electricity supply by 2030.

“We used to talk about reducing emissions by 90% - now it is understood that achieving net zero emissions as soon as possible is critical to limiting temperature increase to 1.5 to 2 degrees.”

Earlier this month, Microsoft announced plans to be 'carbon negative' by 2030. Toyota plans to reach zero CO₂ emissions in all manufacturing plants worldwide by 2050, and reduce emissions from its vehicles by 90 per cent compared to 2010 levels in the same period.

3.4 Climate Disclosures

In 2017, the Taskforce on Climate-related Financial Disclosure (TCFD) released recommendations for identifying, assessing, and disclosing climate risk and opportunities. Since its release, those recommendations have been embraced by hundreds of major international firms, as well as by financial regulators around the world.

More recently, we are seeing government agencies, and governments themselves, adopting TCFD. In some cases, they are passing it into law.

For instance, France has already legislated to require companies to report on climate risk, and New Zealand just announced that it will require an assessment of climate change impacts of government policies, bills and spending initiatives and has been consulting with stakeholders on the possible adoption of the TCFD framework as its official compliance benchmark. Fiji's Climate Change Bill also includes disclosure requirements and recommends TCFD as 'industry best practice' (Climate Change Bill 2019, s 105).

“ More recently, we are seeing government agencies, and governments themselves, adopting TCFD. In some cases, they are passing it into law. ”

These developments will likely have a significant impact on business and investments in those jurisdictions. As organisations begin to comply with the requirements to more fully disclose the various ways their assets and operations could be impacted by climate change, they will generate significantly more information that will be accessible to customers, clients, investors, journalists, activists and the general public.

We have already seen a sharp increase in shareholder activism around ownership of coal, and involvement in coal mining. We anticipate that the increased availability of information will lead to more such activism, with the potential for climate-related litigation, among other flow-on results.

3.5 New Technologies

In 2020, we anticipate continued growth in interest in **hydrogen** as a low- or zero-carbon energy source and storage option.

Throughout 2019, we saw the publication of major reports, strategies and road maps relating to the development of hydrogen industries by international organisations, industry groups, and countries.

Hydrogen technology is not new, but several factors have led to the renewed enthusiasm for it. Governments, companies and researchers recognise that hydrogen could fill certain important gaps in the "renewable" energy space, notably with respect to storage of energy, so that it is available at times when sun or wind power is not. It can be manufactured in a variety of ways, with varying levels of carbon emissions; only hydrogen produced using renewable power, or by incorporating CCS, will have emissions benefits. The fact that much of the infrastructure developed for existing natural gas industries (including storage caves, and, to some extent, pipes) makes hydrogen an appealing option for some energy companies.

“ In 2020, we anticipate continued growth in interest in hydrogen as a low- or zero-carbon energy source and storage option. ”

Hydrogen can also be transported, making it a potential export product. Australia's Chief Scientist, when launching Australia's National Hydrogen Strategy, said Australia could be a hydrogen superpower, and referred to the potential trade as, "exporting sunshine."

Second, we anticipate continued growth in investment in **nature-based solutions**. During COP 25, IETA launched "Markets for Natural Climate Solutions", a new initiative at COP dedicated to advocating for market solutions for nature-based abatement which aims to build a global market from offsets generated from natural carbon projects and enable private sector investment at scale. Other focus areas at COP 25 were the role of nature-based solutions in climate resilience and improving environmental and social performance, and how to leverage enhanced private sector finance.

As well as generating emissions reductions, nature-based solutions can generate valuable environmental, social, cultural and economic co-benefits which may contribute to national development objectives. During COP 25, participants discussed the need for carbon sinks comprising 10GT, or 700 million hectares, globally by 2050 to achieve net zero emissions.

Third, we have also seen a resurgence of interest in **carbon capture, utilisation and storage** (CCUS / CCS). While 5-10 years ago the focus was on CCS in the energy sector (i.e. applied to coal fired power stations), today the role of CCS is understood to be in the hard to abate industrial sectors (e.g. steel and cement) and bioenergy with carbon capture and storage (BECCS). Public and private sector representatives came together during COP 25 to discuss policy support for CCS, including carbon markets paired with more specific incentives.

3.6 Climate resilient infrastructure

In 2020, we will also see increased interest in large-scale infrastructure projects that are resilient to the growing risks posed by extreme weather and other impacts of climate change, and also have mitigation co-benefits.

Priority areas will be upgrading electricity transmission and distribution infrastructure, internet and telecommunications infrastructure, transport systems and fuel options, and water infrastructure.

Companies and investors are becoming increasingly aware of the financial impact that climate change is having on physical impacts. According to the Carbon Disclosure Project, companies are estimating that \$1 trillion is at risk in lost assets because of climate change over the next five years, with the financial services industry accounting for 80% of that exposure.

At the UN Secretary General's Climate Summit in 2019, the Government of the United Kingdom, the Government of Jamaica, Willis Towers Watson, the Global Commission on Adaptation and the World Economic Forum launched the private-sector led **Coalition for Climate Resilient Investment**, which aims to transform infrastructure investment by integrating climate risks into decision-making and drive a shift toward a more climate resilient economy.

Ninety trillion (USD) is earmarked globally for infrastructure up to 2030. To ensure longevity, it is critical that the majority of this is robust enough to withstand more frequent and severe extreme weather events and other impacts of climate change.

“Companies are estimating that \$1 trillion is at risk in lost assets because of climate change over the next five years, with the financial services industry accounting for 80% of that exposure.”

Client Alert: A Year for Climate Action

Madrid COP 25 Outcomes and Your Guide to Climate Action in 2020

Contact us



Ilona Millar
Partner, Sydney
+ 61 2 8922 5710
ilona.millar
@bakermckenzie.com



Paul Curnow
Partner, Sydney
+ 61 2 8922 5173
paul.curnow
@bakermckenzie.com



Graham Stuart
Partner, London
+ 44 20 7919 1977
graham.stuart
@bakermckenzie.com



Greg McNab
Partner, Toronto
+ 1 416 865 2311
greg.mcnaab
@bakermckenzie.com



Renata Amaral
Principal, Sao Paulo
+55 (11) 3048-6927
renata.amaral
@trenchrossi.com



Sanjay Khanna
Director and Futurist,
Whitespace Legal Collab,
Toronto
+1 416 814 4443
sanjay.khanna
@bakermckenzie.com



Alexandra Carranza
Associate, Lima
+ 51 1 618 8576
alexandra.carranza
@bakermckenzie.com



Sophie Whitehead
Associate, Sydney
+ 61 2 8922 5146
sophie.whitehead
@bakermckenzie.com



Sharona Coutts
Associate, Sydney
+61 2 8922 5778
sharona.coutts
@bakermckenzie.com

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Baker & McKenzie
ABN 32 266 778 912

Tower One - International Towers Sydney
Level 46, 100 Barangaroo Avenue
Barangaroo NSW 2000
Australia

P.O. Box R126
Royal Exchange NSW 1225
Australia

Tel: +61 2 9225 0200
Fax: +61 2 9225 1595

DX: 218 SYDNEY

www.bakermckenzie.com

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