Veritas Global
Economics and Strategy Advisory

Addressing Climate Change Mitigation

The inconvenient gap between ambition and reality

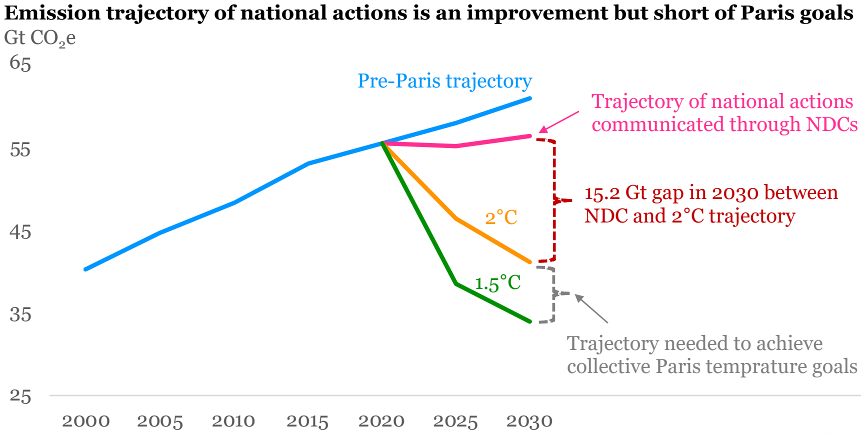
Governments need to further scale-up efforts to achieve the Paris Agreement temperature goals.

The Paris Agreement is a landmark agreement through which governments agreed to address climate change. It aims to hold the increase in global average temperature to well below 2°C and pursue efforts to limit the increase to 1.5°C above pre-industrial levels.

Nationally Determined Contributions (NDCs) communicated by governments under the Paris Agreement represent an improvement in the global GHG emissions trajectory. However, the planned actions are not sufficient to achieve trajectories that would be consistent with the Paris Agreement temperature goals.

The UNFCCC estimates that compared with the emission levels under least-cost 2°C scenarios, aggregate emission levels resulting from the implementation of NDCs are expected to be higher by 15.2 Gt of CO_2 equivalent in 2030 (See Chart). Our estimates indicate that the NDC emission trajectory is most consistent with about a 3°C warming. Also see our 17 April 2019 Policy Pulse update.

Emission trajectory of national actions is an improvement but short of Paris goals



Source: Data sourced from UNFCCC compiled by Veritas Global.
Notes: To illustrate the emission trajectory, a straight line extrapolation of emissions is presented between each of the available data points. Emission scenarios are based on central scenarios selected by UNFCCC, which sometimes represents an aggregation of scenarios from IPCC AR5. Pre-NDC scenario includes int bunkers.

Multilateral and regional development banks (MDBs) play a catalytic role for climate action through supporting innovation and provision of finance. In Dec 2018, MDBs providing over $140 billion of finance per year to developing economies adopted a new framework on how to align operations with the Paris Agreement. MDBs need to continue to lead on these efforts. Other providers of capital, especially institutional investors, also need to align their investments with the Paris Agreement.

Context: market failure reasons

1. Those emitting greenhouse gases (GHGs) do not incur the damages from these emissions. For example, a company producing steel with high GHG emissions will not be significantly impacted by climate change.
2. The costs of controlling GHGs fall on current generations, while the benefits occur well into the future.
3. GHGs are not harmful to the local environment but rather contribute to a global environmental problem. Mitigating climate change depends on scale of collective action but those that do not participate in mitigation efforts still benefit from actions of others. Therefore, there is a strong incentive to free-ride.

Key initiatives

Governments have set up new institutions, most notably the Green Climate Fund (GCF), to address the climate change challenge. It is critical that the new institutional architecture, especially the GCF, is well resourced. This requires a significant increase in financial contributions.

International industries – aviation and maritime – have also taken steps to address climate change. Most notably, international aviation adopted a mandatory Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). The industry needs to continue to focus on the full implementation of the scheme. In parallel, commercialization of sustainable alternative fuels needs to be a top priority.

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