EU23 SPANISH PRESIDENCY COUNCIL OF THE EUROPEAN UNION

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

Madrid, 29 September 2023

Subject: **Second workshop under the Sharm el-Sheikh Dialogue on Article 2, paragraph 1(c) of the Paris Agreement and its complementarity with Article 9.**

Mandate: In a message to Parties and Observers on 24 April 2023, the President of CMA 4 invited Parties and relevant organisations and stakeholders to submit their views three weeks in advance of each workshop in order to inform the scope and focus of the Sharm el-Sheikh dialogue. The President requested views for input to the second workshop no later than 14 August 2023. The objective of the second workshop under the Sharm el-Sheikh dialogue is to build on the discussions during the first workshop and to advance the understanding on the scope of Article 2, paragraph 1(c) and its complementarity with Article 9 of the Paris Agreement.

1. Introduction/Background

This submission builds on the EU and its member states' previous submission (June 2023) on views on Article 2, paragraph 1(c) and Article 9 respectively, their connections and complementarity (including co-benefits, interlinkages and potential trade-offs), focusing on delivering clear messages for a useful and meaningful report of the workshops to CMA5.

2. Scope, urgency, challenges and opportunities of implementing Article 2.1(c) and Article 9, at international level

Article 2.1(c) sets the bar of global climate ambition on finance - In tandem with efforts to realize Article 2.1(a) and 2.1(b) of the Paris Agreement, realizing Article 2.1(c) will strengthen the global response to the threat of climate change and is to be pursued in accordance with the key principles of the Paris Agreement, paraphrased in Article 2 in its entirety. Thereby, efforts to achieve Article 2.1(c) are an integral part of pursuing ambition under the Paris Agreement and it is to be pursued by all according to their common but differentiated responsibilities and the dynamic nature of their respective capabilities.

It is essential to rapidly shift finance flows globally to support a pathway towards low GHG emissions and climate resilient development in line with the 1.5 degree limit. This is critical to make rapid and durable progress towards achieving the Paris Agreement goals.

Implementing Article 2.1(c) entails systemic policy actions on finance (**domestic and international, private and public)** - Achieving Article 2.1(c) is a key enabler and condition to mobilize finance at the scale needed to cope with climate change worldwide and to make the move from billions to trillions in Paris-aligned investments. As such, 2.1c is critical to transform economies and their companies, and steer investments into new green industries, and climate-resilient development, thereby creating new economic prosperity, especially in developing countries.

But it is not limited to mobilization of finance **-** which is one of the positive cascade effects.

Realizing this systemic policy actions on finance calls for a reform of the economy and the financial sector placing consistency with the Paris Agreement at its core. This requires enhanced multilateral cooperation and strong domestic and international policy signalling. In order to realize a deep transformation, it starts with domestic policies, tackling financing of the economy as a whole into planning and implementation. As with all policies, policies on the implementation of Art. 2.1.c require thorough analysis and evaluation and may require readjustments over time to ensure effective implementation. In this context, developing countries should be supported to implement Art. 2.1c, including through scaled-up capacity-building, technical assistance as well as financial assistance (e.g., through GCF, MDBs, public climate finance, etc.).

Benefits of pursuing Article 2.1(c) are larger than costs, given the political will - Public and private finance flows towards the fossil-fuel based economic activities are still larger than those for global climate adaptation and mitigation actions. Although climate finance needs to increase many-fold, the issue is not the lack of global capital but the poor management and persistent misallocation of capital with respect to mitigation and adaptation objectives. This addresses public as well as private capital flows. Directing and redirecting finance and investments towards climate action – not least in the poorest and most vulnerable countries – is not a quick fix. While challenges of the transition are numerous and have to be managed carefully including in ensuring that no one is left behind, ensuring growth while transitioning and tackling domestic issues, the opportunities and societal benefits are much greater. Achieving Article 2.1(c) holds the potential to catalyze and channel finance towards global climate action through the creation of the supporting policy frameworks, enabling environments, regulations, and incentives. Therefore, Art. 2.1c implementation is indispensable to close the financing gap for global climate action and, by extension, create new economic prosperity, especially in developing countries.

Climate finance architecture needs to consider alignment of finance flows – Thus far, the climate finance architecture has neglected the role and magnitude of redirecting existing misallocated (with respect to mitigation and adaptation goals) finance flows. Climate finance architecture should monitor actions and flows that contribute to the global effort of achieving the goals of the Paris Agreement.

Implementation of Article 2.1(c) happens on the ground, but policy signalling and government's commitment are necessary - The first workshop under the

Sharm el-Sheikh Dialogue proved that this conversation has been missing from the intergovernmental process. Although necessary elements of making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development, require action beyond the mandate of the Paris Agreement, non-party stakeholders confirmed the value of policy-signalling, among others underlining the call on MDBs in the Sharm el-Sheikh Implementation Plan. Although the required action might often take place outside of the intergovernmental processes, it is worth remembering that to a large extent, Parties are shareholders of external stakeholders (e.g., MDBs), from whom we should increasingly ask to see more climate action, which can be further strengthened by CMA decisions. Strong policy signals from CMA can also help to prevent unintended negative consequences of policies implementing Article 2.1.c.

CMA can push governments to do more - Based on the first dialogue, the EU and its Member States believe that they are contributing positively to the Paris Agreement-process by highlighting the much-needed space to discuss what needs to happen, by whom, where and how. Thus, we are looking forward to continuing fruitful discussions at the second SSH-dialogue and beyond. The EU and its Member States are still of the view that continuing the conversation is best done in a broader political context of a dedicated and permanent agenda item starting from CMA5 to contribute to the fulfilment of the goal in its own right but not least as a critical enabler for Articles 2.1(a) and 2.1(b) of the Paris Agreement and to allow for deeper conversation, exchanges of views and action points.

3. Effects of actions implementing Article 2, paragraph 1(c), of the Paris Agreement

Countless studies confirm that the costs of an efficient transition to achieve the Paris Agreement goals can yield far higher benefits – Progressing as quickly and boldly as possible towards the objectives of the Paris Agreement is by far the best way to slow down climate change. It may take more effort in the short run, but in the long run it will cost less overall. More decisive policies in the finance sector and aimed at allocating capital and financial resources ensuring coherence with the goals of the Paris Agreement will aid a speedier transition; moving at the current pace is simply not enough as it pushes up risks and costs for the economy and financial system. Firms and households will benefit from a faster transition: while a speedier transition initially involves greater investment and possibly higher energy costs, financial risks decrease significantly in the medium term. It is critical that, during this transition, affected communities and economies are supported. This also relates to the international sphere, where developing countries should be supported when implementing Art. 2.1c, including through scaled-up capacity-building, technical assistance and financial assistance. Of course, Art 2.1c is no replacement/substitute for Art 9

Instruments to implement Article 2.1(c) are various and nationally determined - The workshop also uncovered valuable discussion on different instruments, levers and policies. These can positively contribute to the alignment and realignment of financial flows and could be tailored and implemented in national plans to ensure a country-driven approach that supports the realization of national plans and priorities. Such policies addressing the implementation of Article 2.1.c can form a central element of Nationally Determined Contributions (NDCs).

Policy actions and international solidarity are key levers for the transition - The transition towards low greenhouse gas emissions and climate resilient development goes through making finance flows consistent with the objectives of the Paris Agreement. The transition entails deep transformation of the economies with potential “winners” and “losers” within these economies. That is why national policy actions, complemented with international solidarity, can smooth the unintended consequences of the transition and instead seize on all the opportunities it has to offer such as the creation of new economic prosperity, green jobs, a healthy environment and a sustainable economy that benefits all. In this context, it is key that developing countries receive support in implementing Art. 2.1c like the support provided for article 2.1a and 2.1b.

4. **Ensuring that finance supports country-driven action to realize Article 2 of the Paris Agreement, and the role of Article 2, paragraph 1(c) in relation to Article 9**

Article 2, paragraph 1(c) and Article 9 are in synergy - The EU and its Member States believe that the focus on the **synergy between** Article 2, paragraph 1(c) on Article 9 proved helpful in establishing multiple Parties' understanding that **there is no complementary relationship between the two.** In the sense that Article 2.1c is not a “complement” to Article 9 (as in “contributing to finance flows under” Article 9, in a way that makes 2.1c lower in “hierarchy” to Article 9), but rather the overarching finance goal/framework within which Article 9 sits. Similarly, it cannot be said that Article 9 “complements” Article 2.1c. Article 2.1c can, however, facilitate and accelerate mobilisation of resources from all sources under Article 9. The EU therefore prefers to talk about “synergies” between the two articles.

Article 2.1(c) and Article 9 of the Paris Agreement are in synergy with each other; they have different purposes; they are neither interchangeable nor mutually exclusive. Rather, the actions and levers put in place under Article 2.1(c) are key enablers and necessary conditions to accelerate and channel finance from all sources to complement the provision of climate finance and the global effort in mobilizing climate finance.

Article 2.1(c) calls on all Parties to make financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development, as a pre-condition to achieve the mitigation and adaptation goals. Article 9, on the other hand, deals specifically with financial resources provided and mobilised to assist developing country Parties. Article 2.1c applies to all finance flows, which includes international finance flows such as those under Article 9, among others.

Importantly, actions implementing Article 2.1c can contribute to facilitating and accelerating the mobilisation of resources from all sources under Article 9 and enhancing their impact.

Resources provided and mobilised under Article 9 can in turn be used to facilitate/enable implementation of Article 2.1c in the respective countries or regionally/internationally, triggering a virtuous cycle.

Implementing Art. 2.1c does not replace obligations under Art. 9. The EU and its MS stress that individual Parties' obligations under Article 2.1c do not replace the obligations of developed country Parties under Article 9, and therefore must not distract from or create impediments for finance flows under Article 9.

Alignment of finance flows helps to unlock further resources to support developing countries - The purposes of the two articles are neither interchangeable nor mutually exclusive, with the link between the two articles being that actions and levers put in place under Article 2.1(c) are key enablers and necessary conditions to accelerate and channel finance from all sources. If the right enabling environments are in place to guide and prioritize investments that are consistent with low GHG emissions and climate-resilient pathways, then domestic and international, public and private finance could be mobilized and will be available for and incentivize Paris-aligned investments for adaptation and mitigation at exponentially higher rates. As such, taking immediate and comprehensive action to further the achievement of Article 2.1(c) will also contribute towards increasing the impact of mobilized finance under Article 9, with developed country Parties taking the lead as part of a global effort.

5. **Linkages and moving forward inside and outside the intergovernmental process relevant to Article 2, paragraph 1(c) of the Paris Agreement, and its synergy with Article 9**

The intergovernmental process can send policy signals towards actual commitments from governments - The recent IPCC AR6 Synthesis Report states that there is sufficient global capital to close global investment gaps but that there are barriers to redirect capital to climate action. In order for all Parties to be serious in pursuing also the third, widely neglected, objective of the Paris Agreement, which is the key enabler for effective mitigation and adaptation action, a policy space within the UNFCCC is needed. Serious commitments towards concrete delivery of actions and policies in the finance sector and toward redirecting finance flows are crucial in this critical decade.

The actual implementation will happen outside of the intergovernmental process - The momentum for a fundamental shift in finance at scale towards a 2.1(c)-aligned pathway is massive with reference to the vast recent developments such as the MDB-reform agenda and the achievements in sustainable finance. The actual changes in the allocation of global finance flows will happen thanks to actions from individual private and public actors worldwide, which will follow the incentives set by Parties' policies.