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**SUBMISSION BY SWEDEN AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES ON THE SHARM EL-SHEIKH DIALOGUE ON ARTICLE 2, PARAGRAPH 1(C), OF THE PARIS AGREEMENT AND ITS COMPLEMENTARITY WITH ARTICLE 9 OF THE PARIS AGREEMENT**

Stockholm, 28 June 2023

**Subject: Organization of the Sharm el-Sheikh dialogue on Article 2, paragraph 1(c), of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement – views for input to the first workshop**

*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 discussions of the Sharm el-Sheikh dialogue. The President requested views for input to the first workshop no later than 28 June 2023.*

## 1. Introduction/Background

The Paris Agreement sets three overarching goals that together will strengthen the global response to the threat of climate change in the context of sustainable development and efforts to eradicate poverty, namely Article 2.1(a), 2.1(b) and 2.1(c). The EU views Article 2.1(c) not only as a goal in itself but also as a critical enabler to realize the other goals of the Agreement.

Pursuing ambition under the Paris Agreement requires an economic and financial strategy, bringing about a fundamental transformation of all economies and a major shift in the structure of the domestic and global economy, financial markets, and investments. The importance of Article 2.1(c) has also been recognized in the recent IPCC AR6 Synthesis Report, which states that there is sufficient global capital to close global investment gaps but that there are *barriers to redirect capital to climate action* (section C.7).

The momentum for a serious 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 (e.g. the G20 Sustainable Finance Roadmap). The EU and its Member States welcome and are encouraged by the wide conversation on the mobilization of climate finance but believe that a political space within the UNFCCC is fundamental to implement the third pillar of the Paris Agreement and to allow deeper conversation, exchanges of views and action points. Thus, the EU welcomes with appreciation this first step of having the Sharm el-Sheikh dialogue on Article 2, paragraph 1(c), of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement and looks forward to engaging with Parties in furthering the alignment of finance flows and to further enhance a common understanding of the topic. The EU and its Member States are of the view that this is best done in a broader political context of a dedicated and permanent agenda item starting from COP28.

## 2. Article 2.1(c)

Article 2.1(c) calls for a reform of the economy and finance that places consistency with the Paris Agreement at its core. This starts with domestic policies, which every Party should elaborate and implement to achieve the Paris Agreement goals. It is, therefore, a global effort. It concerns all actions, strategies, incentives, and regulations regarding orienting finance flows towards climate objectives. It tackles the financing of the economy as a whole, meaning the allocation of public and private, domestic and international finance in any country. For instance, public and private finance flows towards the fossil economy are estimated to be greater than those for global climate adaptation and mitigation action. This is limiting available financial resources for global mitigation and adaptation efforts, and is a direct hindrance for the realization of limiting global warming to 1.5°C.

Moreover, accelerating efforts to achieve Article 2.1(c) is a key enabler and precondition to mobilize finance at the scale needed to address climate change worldwide, including to support developing countries in their pathways towards low GHG emissions and climate resilient development. Therefore, Article 2.1(c) has double objectives: to scale-down flows that are detrimental to achieving climate neutrality and resilience, and to channel finance flows towards low GHG emissions and climate resilient development pathways.

The process of making financial flows aligned with a pathway towards low GHG emissions and climate resilient development is complex and involves a vast number of actors on both domestic and international level. It is central to share and learn from best practices and approaches in light of different national contexts that can contribute to this development to realize the full-scale impact.

Efforts towards aligning financial flows are pursued also in the EU, climate finance is embedded in a comprehensive set of regulatory, fiscal, market-based, and other climate change policies that aim to disincentivize investment in polluting technologies and incentivize investment in low or zero-greenhouse gas emissions and climate resilient development.

In the recent years, the EU and its Member States have launched policy initiatives relevant to the realization of the Paris Agreement's goal of making finance flows consistent with low GHG emissions and climate resilient development. For example, by making existing markets and projects more investor-friendly, creating investment opportunities with reliable returns, and providing political and financial risk assurance to encourage private actors to invest in climate projects and disinvest from carbon-intensive sectors.

The EU has adopted a sustainable finance strategy to green the financial sector. We are intensifying our work with international partners through the International Platform on Sustainable Finance (IPSF) and the Coalition of Finance Ministers for Climate Action (CFMCA). Through the IPSF, we are exchanging and disseminating information to promote best practices, compare different initiatives and identify barriers and opportunities for sustainable finance.

Parties to the Paris Agreement are responsible for developing national Article 2.1c-policies – in light of different national circumstances – with the objective to achieve the Paris Agreement in the context of sustainable development and efforts to eradicate poverty.

## 3. Article 9

The EU and its Member States believe that Article 9 is at its core about solidarity. It is a commitment to support developing countries that are the most at risk and vulnerable to the adverse effects of climate change and have significant capacity constraints – towards climate-resilient and low greenhouse gas development in the context of sustainable development and poverty reduction. Therefore, the EU and its Member States stand by their commitment to lead the mobilization of financial resources to assist developing country Parties in their mitigation and adaptation efforts, and in their efforts to make financial flows consistent with the Paris Agreement.

The EU and its 27 Member States are together the largest contributor to international public climate finance to developing countries, contributing over EUR 23.5 billion (approx. eq. of USD 27 billion) in 2020, as a contribution to the collective "$100 billion goal" made by developed countries and will continue to do so. As part of a global effort, the EU will continue to take the lead in mobilising climate finance from a wide variety of sources, instruments, and channels (including instruments to unlock the huge potential of private finance through the targeted use of public climate finance) and a variety of actions.

Together with other developed country Parties, and those country Parties that are in a position to do so, the EU and its Member States will continue to provide support for developing countries with special attention towards those that are the most vulnerable to the adverse impacts of climate change.

Public finance is scarce and cannot alone deliver the trillions of dollars of investment required annually for achieving the goals of the Paris Agreement. Nonetheless, public finance plays an important role in support for adaptation and supporting the most vulnerable countries and communities. The scale of investments needed requires action by all countries to mobilise private investment and shift finance flows towards low GHG emissions and climate-resilient development. Cooperation is the key lever, as it can foster sharing of best practices and peer learning that enables the effective implementation of initiatives specifically aimed at making finance consistent with climate objectives.

## 4. Connections and complementarity between the two articles (co-benefits, interlinkages, trade-offs)

Article 2.1(c) and Article 9 of the Paris Agreement have different purposes. The first is about a deep transformation of the economy and financial sector that should be consistent with a pathway towards low GHG emissions and climate-resilient development, which all Parties must work towards achieving over time. The latter is about the global effort of mobilizing climate finance to support the climate ambition of developing countries in coherence with Article 2.1(c) objectives, in which developed countries takes the lead. Nonetheless, finance mobilized under Article 9 is part of achieving the goal set by Article 2.1(c).

Article 2.1(c) is **<u>not</u>** about the provision of international public climate finance from developed to developing countries. It requires actions from all Parties to put in place systems for non-Parties – notably the private sector and international organizations – to make finance flows consistent with the goals of the Paris Agreement, including the mobilization of international climate finance.

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. In this context, the private sector has a pivotal role to play, with the public sector needed to provide appropriate financial groundwork, strong policy guidance, incentives, regulations and enabling conditions, to reach the necessary scale of investments to achieve a global transition towards low GHG emissions and climate resilient development. 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 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.

Achieving the goal of Article 2.1c **does not in itself complement** the commitments under Article 9 for developed countries to lead the mobilization of climate finance to developing countries. Rather, by channeling financial flows towards a low GHG emissions and climate resilient development pathway, it accelerates and facilitates the mobilization of climate finance from all sources under Article 9 without being a substitute to this commitment.

Achieving Article 2.1(c) holds a potential to catalyse and channel finance towards global climate action through the creation of the supporting policy frameworks, enabling environments, regulations, and incentives. Realizing this potential starts with domestic policies.

As part of the global effort to support developing country Parties in their mitigation and adaptation efforts, developed countries and those countries that are in a position to do so should increasingly complement these efforts with supporting efforts that contribute to actively shifting financial flows towards consistency with the Paris Agreement. The EU and its Member States are continuing and increasing engagement with developing country Parties and communities aimed at making domestic and international, public, and private finance flows consistent with low GHG emissions, climate resilient pathways.

## 5. EU vision of SSH dialogue

**Structure:**

The workshops should ensure **broad participation** from both Party and non-Party stakeholders as well as civil society. It should be structured as a proper dialogue, with speakers and discussants, not only as a "one way" workshop. The structure should **foster an exchange of good practices, projects, measures, and examples from countries** to show what is out there and what is possible to be implemented, to facilitate the exchange of ideas and enhanced understanding among all Parties and involved stakeholders on the matter.

It should encourage participation of representatives of finance ministries, non-state actors, international financial institutions including multilateral development banks, private sector, financial sector, civil society, youth, indigenous peoples, academia, and external technical experts, with special consideration to gender and the most vulnerable and less represented groups. It should also be ensured that Gender balance is applied in the speakers, facilitators, and moderators, by adopting the **No Women no Panel policy**, which is also the UN approach.

The format should be facilitative and not exclusively formal. Sessions could start with panel expert input for all participants and continue in a setting similar to the GST World Café, with balanced and substantive reports back. At the second workshop, there could be a final session at the end with only country delegates, focused on conclusions and possible next steps.

**Topics**:

Possible topics for the workshops could include, for example:

- Structuring Article 2.1c policies (or at least providing a list of policy fields/options to implement Article 2.1c). Concrete examples may help Parties to find a common understanding of Article 2.1c.

- Sharing best practices at the local and national level, and practical lessons learned from efforts to align finance flows with long term goals of the Paris Agreement

- Mainstreaming climate aspects (mitigation and adaptation) into all relevant national and international economic and financial policies, e.g. using the "do no significant harm" principle.

- Fiscal policies:

- Ways to implement carbon pricing (including emission trading schemes and taxation policies);
- Removing fossil fuel subsidies;
- Integrating climate considerations and transparency, efficiency and effectiveness into budgeting processes;
- Improving integration of climate considerations in public investment decision-making.
- Financial market/sector policies (sustainable finance), i.e. incorporating climate aspects into financial sector policies to improve/mobilize/align private sector finance.

Further, it could be relevant to look into available background policy papers on specific topics that may help shape the debate during the workshops.