World Business Council for Sustainable Development

CLIMATEFOCUS

ECOFYS

The private sector and the UNFCCC

Options to enhance private sector engagement

Executive summary

Both governments and the private sector recognize the need to work together to combat global climate change. The ultimate challenge for governments lies in developing a global framework that will promote investments in mitigation and adaptation. Policymakers need to develop a delivery-oriented architecture, supported by policies, measures and rules that promote real emission reductions, in a cost-effective, economically-feasible way. Governments also recognize that the private sector, with its capacity to invent, adapt and invest in clean technologies, is a critical agent for the transition to a global low-carbon economy. The private sector will provide most of the investment needed to move industries on a low-emissions track and will catalyze the development of new technologies, knowledge and know-how.

The private sector is ready to support governments in this effort. Increasingly, businesses realize they need to prepare for and adjust to domestic and international carbon constraints. They recognize the opportunities and challenges that are best addressed through the creation of incentives under a transparent, stable and cost-efficient international framework. Companies are increasingly factoring climate-related issues into their investment decisions. Business also recognizes the opportunities provided through national and international climate regulation.

Governments need to design a new structure to facilitate the engagement of the business sector and maximize its energy and innovation. Negotiators under the UNFCCC—a government process—currently talk more frequently *about* business than *with* business. The expertise and interest of the business community is not, as yet, reflected in the procedures of the process—at least not on the level necessary for effective interaction. There have been attempts over the years to include private sector considerations, but these initiatives have not resulted in any formal or systematic way of tapping the much-needed private sector expertise.

Study overview

This study evaluates private sector engagement in the UNFCCC process and other international processes and presents options for improved engagement. It reviews the existing business engagement practices in the UNFCCC process, and evaluates the lessons learned and the areas where the private sector could engage more constructively. This study also reviews business engagement models outside the UNFCCC. To evaluate the views of stakeholders on private sector participation, the study provides a summary of outcomes from five global workshops and surveys. Finally, the study proposes options for private sector engagement in the intergovernmental process, and the principles and criteria that need to be considered. Illustrative options for private sector engagement in the UNFCCC process are also provided.

Private sector engagement is essential for success

A well-designed business engagement process could allow the private sector to offer its particular expertise to the UNFCCC process in a number of ways:

- **Share expertise.** The private sector can advise government negotiators and national experts on the conditions favorable for leveraging finance, deploying technologies, and implementing national and sectoral low-carbon development plans. It can call on extensive sectoral knowledge and expertise to steer business operations and investments toward a low-carbon pathway.
- **Mobilize resources.** As an essential actor in mobilizing finance, business expertise is crucial in establishing the appropriate investment structures and in targeting investments in mitigation and adaptation. Financiers and investors may help policy makers to choose investment designs that prove resilient and workable.
- **Provide technology.** Properly-designed policies can channel finance into low-carbon technologies that are in the research and development phase, as well as into technology demonstration and deployment. Business will be crucial in providing low-carbon technology, introducing them to the market and transferring the know-how to build and operate the technology, where needed.
- **Account for GHG reductions.** Business is instrumental in providing the means to gather, collect, and process information and accurate data, and to verify measures and actions. However, business needs to be involved in establishing and understanding what data is needed and how measures and actions can best be verified.

Business understands that international climate policies can influence their operations in several ways, and seeks to turn them into opportunities. International standards, rules and commitments lead to domestic emissions-constraining policies, which can take the form of energy efficiency standards, renewable energy quotas, carbon taxes and emissions trading schemes. More directly, business operations may be affected by new market instruments that allow for their direct participation in treaty compliance at the international level, financial flows from international funds and markets, and agreements promoting technology transfer and deployment.

Businesses come in all shapes and sizes. There are many business voices, geographic differences, and sectoral perspectives, not to mention considerable competition between companies and organizations. A key challenge for governments lies in creating an improved mechanism for effective input from the broad variety of business participants. Allowing for greater private sector involvement will require governments to manage and deal with a range of issues:

- Balancing the requirement for meaningful business participation with the need for an expeditious, effective governmental decision-making process;
- Managing controversies or frictions that may arise from a new (or enhanced) set of relationships, such as between the private sector and political actors, between the private sector and other civil society groups and among the private sector itself;
- Ensuring balanced input between more and less powerful groups, such as small- and medium-sized enterprises (SMEs), trade unions, small developing countries, local communities and social networks;
- Addressing the risk of lobbying that naturally and legitimately stems from business participation. Companies will always defend their perspectives, with some having more resources to advance their positions than others.

Governments should establish mechanisms to ensure adequate levels of engagement for different private sector interests. Any enhanced mechanism or forum for business must be designed with clear boundaries defining the level of engagement. Rule-making and ultimate supervision of implementation will remain the sovereign privilege of states.

Evolution of private sector engagement under the UNFCCC

Current rules enable observers, including the private sector, to interact through non-governmental organizations (NGOs) within the intergovernmental process. Observer organizations, accredited by the Conference of the Parties (COP), have increased their participation over the years. Indeed, NGOs attending UNFCCC sessions outnumber government delegates by a wide margin, with a range of business representatives in their ranks. In particular, under the Kyoto Protocol, there are four main areas where the private sector engages within the existing processes: the Clean Development Mechanism (CDM) in non-Annex I countries, Joint Implementation (JI) in Annex I countries, the Compliance Committee and the Adaptation Fund. The greatest interest for private sector engagement lies in the CDM and JI, which create direct business incentives.

Current stakeholder processes within the UNFCCC only allow observers to have a passive role. There are no comprehensive/systematic stakeholder processes in place and the modes of involvement, in some cases, are seen to be inadequate. Business is rarely approached as a stakeholder within formal international engagement processes. Informal processes are currently more relevant than formal processes for influencing decision-making at the international level. One exception is the Expert Group on Technology Transfer (EGTT), where discussions are under way to formalize the current and future informal involvement.

Although the UNFCCC process allows for a robust observer community, the current opportunities for engagement do not allow the private sector to contribute to more informed decision-making in the areas that require private sector involvement for successful implementation. The full benefits of business participation have not yet come to fruition, particularly as the current format for business participation lacks coordination, direction and output. Formal opportunities for engagement are provided by the UNFCCC, and through the application of UN procedures. Deepening the involvement of business observers to a more meaningful level will require additional action by parties.

Lessons from other intergovernmental processes

Substantive engagement of the private sector, even through formal channels, is not new in intergovernmental processes. Valuable lessons and examples exist. The private sector engages, formally and informally, in several intergovernmental processes and bodies. In general, under multilateral environmental regimes, the private sector has been granted limited formal avenues for communicating with the international institutions and bodies that create and implement rules.

Most structures for engagement are designed to allow the private sector to provide technical or scientific expertise. The Climate Investment Funds (CIF), a collaborative partnership among multilateral development banks; the Intergovernmental Panel on Climate Change; the Montreal Protocol; the Organization for Economic Co-operation and Development through its Business and Industry Advisory Committee; and the Asia-Pacific Partnership on Clean Development and Climate all provide structures that directly engage the private sector.

Engaging stakeholders in an international consultative process

In preparing this report, the project organizers convened **stakeholder workshops in Beijing, Washington, Hong Kong, Sao Paolo and Brussels.** Workshop participants included business representatives, government officials, experts and NGO representatives. The questions focused on why business should engage, in which specific areas, how engagement would take place and who would be represented. Participants held a common view that two levels of participation are needed for business:

- **A general role** for interacting with the process and providing business views on cross-cutting and general issues. A focal point or selected representative could engage in general discussions, after compiling input from business through, for example, national or regional business groups.

- **An advisory role for technical and sectoral issues**, such as through an advisory board or roster of experts to advise technical meetings.

A general view among workshop participants, as well as from an online survey, was that business involvement is currently more effective at the national than at the international level. There is a perception that engagement nationally is more timely, more concrete, closer to implementation and organized in a way that allows the private sector to add value—as issues have a more direct and tangible impact on individual companies. Engaging in international processes, especially the UNFCCC, is seen to have too little impact on decisions and often reflects the views of the 'lowest common denominator.' However, there was unanimity in acknowledging that a higher level of greater international involvement by the private sector was necessary.

Private sector participation will help to ensure that businesses are committed to finding solutions that help meet climate mitigation and adaptation goals. Businesses wish to ensure that policies do not distort business/competition and set realistic goals and political instruments. Private sector engagement in all areas of the UNFCCC process is seen as important, from high-level policy-making, development of tools, implementation, Measurement, Reporting and Verification (MRV) to compliance. A clear preference was given to mandatory consultation processes and expert meetings.

Options to enhance private sector engagement

Enhancing private sector participation in the UNFCCC process will enhance the likelihood of achieving successful and sustainable policies to address global climate change. As governments seek to build a new international framework for cooperation, they should also strive to incorporate mechanisms that make more efficient use of the considerable expertise and skills available from the private sector. A number of options for enhanced engagement—for organizing and channelling private sector inputs—could help make implementation more effective.

An enhanced role for the private sector in the UNFCCC process could take many forms. These could include becoming a more *active observer* or an *advisor,* providing governments with specific business perspectives and know-how. An advisory role, if effectively designed, could help UNFCCC negotiators channel greater technical expertise into their discussions and add value to criteria-setting by ensuring that the mechanisms and standards developed at the international level can be implemented on the ground. This role could be filled by a business association, by a private company or by an individual expert and would be tailored to fit the specific needs, as no single solution fits all. A mixture of representation would likely be the most effective option and provide the needed flexibility.

An enhanced role for the private sector in the UNFCCC process will require effective coordination. Coordination will allow information to be channelled effectively between the private sector and the UNFCCC. Coordination will help establish a platform for information exchange, and, perhaps most importantly, ensure transparency and trust—both within the business community and between the private sector and governments. There are several options, either within the UNFCCC institutional framework (e.g., within the UNFCCC Secretariat) or outside (e.g., an external business organization), to enhance coordination of private sector engagement with the UNFCCC and the Kyoto Protocol mechanisms:

- *Status quo:* Under the current form of engagement, a recognized business and industry constituency actively participates in the process. Maintaining this approach will not incur additional costs or time delays. However, business input remains generic, scattered and provided through an *ad hoc* process led by a small group of companies and individuals.

- *Single coordinating entity*: This would be an enhanced status quo option, with the creation of a central coordinating body—either a new body or the offspring of an existing body. Under this option, a single entity coordinates all engagement needs and private sector inputs (such as statements, expert reports, and workshop organization). This option could provide advantages such as improved efficiency, better expertise, broader representation and more institutional memory. However, it might not be flexible enough to adapt to the varying needs of the process and to the various interests of the private sector. Indeed, for the business community, it could prove more divisive than unifying.
- *Windows options (issue-based or sectoral approach)*: This option provides a tailored arrangement per area of engagement, with the form of involvement varying according to the different area (e.g. carbon finance mechanisms, REDD, technology, MRV). A competent lead organization would steer the engagement in each particular area, with methods of engagement and experts that vary as needed. Several areas could be dealt with simultaneously. The flexibility and specificity of this option provides incentives for engagment for both governments and the private sector. However, the topical approach risks losing sight of the interconnections between issues, and without some form of coordination, could create multiple and parallel engagement tracks.
- *Hybrid options*: Hybrids of each of these models should also be considered, as they could maximize the benefits of each option.
    - A hybrid option in the windows approach includes a coordinating entity within the UNFCCC Secretariat that would manage the overall coordination with the private sector. Then dedicated engagement areas would be created as windows (e.g. carbon markets, technology, etc) and managed by different business entities. This option could probably help to overcome the shortfalls of the windows approach in terms of coordination and institutional memory. At the same time, the benefits of the windows model—recognition, broad participation, incentives for engagement, expertise, flexibility and trust building—would be strengthened if the UNFCCC is involved.
    - A *phased approach* would be another hybrid possibility. This option would establish a coordination structure in a particular area (e.g. technology) as a pilot experience, with a view to expanding to other areas, thus ensuring a degree of coordination between the new engagement areas and synergy across them. However, this approach might take more time to develop, as it would need to create necessary competences for new areas of work.

An effective selection process for observers/advisors is an essential element of engagement. Options would be selected depending on the engagement area and its stage in the negotiations.

The communication and transparency to the wide business community, before and after engagement, is very important. The success of enhanced private sector engagement dependson establishing rules and procedures that guarantee a simple, dynamic, flexible, transparent and inclusive process. The process should seek to channel information—both top-down and bottom-up—between all relevant stakeholders. A key challenge will be to effectively bring in the private sector voice from developing countries.

Constructive private sector participation will be crucial in many key areas:

Carbon market mechanisms

Market mechanisms are essential for increasing the cost-effectiveness of emissions reductions and for providing opportunities for private sector investment in low-carbon technologies and products. Mechanisms such as the CDM and JI have already gathered broad participation and interest from the private sector. In addition, new and enhanced market mitigation mechanisms are currently being discussed by countries and experts, including the crediting of sector-based activities in developing countries ('sectoral crediting'). The private sector has gained considerable experience in carbon finance and there is wide consensus that its engagement can continue to grow, both in intensity and in the quality of its interaction with the different bodies and panels.

In further refining and developing the market mechanisms under the climate regime, governments should recall an essential fact: the more constructive and inclusive the interaction between the private sector and the decision-making process, the more operational and implementation-oriented the mechanisms become. Business can effectively contribute to the further development of carbon finance by sharing its expertise in carbon markets, providing inputs to the further development of the mechanisms, and facilitating low-emission technology development and deployment.

Carbon finance mechanisms warrant the direct participation of companies, associations and technical experts. The *direct participation of companies* is probably more suitable for the questions of *implementation* with which these actors are directly involved (e.g., elaboration of methodologies, validation, review and approval of projects). *Business associations*, given they reprersent differentsectors and opinions, could participate *at policy level***,** including in setting standards and guidelines.

The coordination of private sector input would vary depending on who provides the input, and whether the input refers to rule-making or implementation. Individual experts would likely be assigned a role on the different CDM bodies and panels. Guidelines on conflicts of interest and a code of conduct would help ensure that private and public individuals exercise their tasks in their personal capacity. Companies questioning or requiring clarification in relation to the Board rulings could channel their input directly or through an appointed focal point within the UNFCCC Secretariat and through hearings involving the Board or Committee.

As to the *broader institutional structure*, an appointed focal point (either the UNFCCC Secretariat or another entity) could organize regular interactive sessions between UN body members, representatives of governments and verifiers, and representatives of investors and project sponsors. Business associations may also help to establish active, advice-centered (on request or mandatory) engagement at the level of the Executive Board. A separate international selection process among companies listed as project participants in carbon finance transactions could be organized by the UNFCCC Secretariat in order to guarantee wide participation of stakeholders and, in particular, reach private actors from developing countries.

Technology Mechanism

The Technology Mechanism aims to accelerate technology development and transfer in support of action on adaptation and mitigation. The Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA) has elaborated the functions and structure of a potential Technology Mechanism, which was endorsed by the Copenhagen Accord. Participation of the private sector in constructive and functional ways will be crucial for the Mechanism's success. The majority of resources and technological solutions are, or will be, provided by private firms. Their ability and willingess to interact and cooperate will, in large part, determine whether technology transfer will take place.

The Technology Mechanism as envisioned will consist of a *Technology Executive Committee* and a *Climate Technology Centre and Network*. Developing and transferring low-emission technologies involves many business actors that could engage informally and formally, as advisors or experts, in the Technology Committee or the Climate Technology Centre and Network. Expertise could come from: project development experts; technical assessment experts; project implementation experts; operational and maintenance experts; policy and finance specialists.

For representative needs, business associations or the UNFCCC may select—through a transparent and open process—observers and advisors. For targeted advisory engagement, specific Terms of References (TORs) tailored to the particular needs, would provide details on the role(i.e. description, responsibilities, duration, reporting, etc.).

Finance

Secretary-General's High Level Advisory Group on Climate Change Financing

While it is unclear how this group will evolve, there are a number of possibilities for engagement. Private sector representatives could share expert knowledge on financial mechanisms and the policy incentives required to drive private finance to developing country mitigation and adaptation actions. Contributions might include advice on existing barriers to investment, ideas on public-private investment structures to leverage private funds, and recommendations on enabling policy environments, among others.

Green Climate Fund

The Green Climate Fund is intended to support projects, programs, policies and other activities in developing countries related to mitigation including REDD-plus, adaptation, capacity-building, technology development and transfer. The Copenhagen Accord does not detail how the fund should be operated and governed. The role of the private sector could be more operational, for example, by evaluating project proposals, recommending detailed investment and policy models and providing regional and country-specific expertise. Project developers and technology owners could provide advice, at the technical level, on appropriate technology choices, infrastructure needs and evaluation of project proposals from a technical perspective.

Enhanced business engagement would be delivered through:

- Global briefings by the Advisory Group on Climate Change Financing and the leaders of its work streams
- Facilitation of review and comment process on proposed outlines of working streams and the policy and technical decisions related to the fund
- A channel to allow to individual working streams
- A platform for information exchange to test new ideas

Nationally Appropriate Mitigation Actions (NAMAs)

NAMAs are not yet clearly defined—either in terms of what they actually are or how they will be funded. The Copenhagen Accord states that "internationally supported Nationally Appropriate Mitigation Actions (NAMAs) shall be registered and are subject to international Measurement, Reporting and Verification (MRV)." The draft AWG-LCA negotiation text calls for an independent expert panel for the development of National Communications and related reporting. Apart from this, no reference is made to possible involvement of expert advice in the definition of actions and methodologies.

There are a number of areas where business could be involved both at the *national level in developing countries* and at the *international level*. These include providing information on emissions and reduction at sectoral level, engaging in setting baselines or in defining criteria and guidelines for

NAMAs. Here, input could range from providing expertise in reviewing proposals or support for matching proposals and funding at the international level.

REDD+ (Reducing Emissions from Deforestation and Forest Degradation)

REDD (or REDD+) aims to provide incentives to reduce emissions from deforestation and forest degradation in developing countries, through the mobilization of financial resources from developed countries. The motivation of the private sector to participate in a REDD mechanism is associated with financial rewards (e.g. from the generation of carbon credits or payment for ecosystem services schemes) or compliance with future legislation.

A REDD mechanism would likely see the *participation of individual experts, companies, and business associations*. Individual experts could be assigned a role where technical and objective assessment is required (for instance, setting performance criteria for REDD activites and social and environmental standards). Provided the private sector is allowed to interact directly with international REDD bodies on discrete projects and activities, companies could be involved in the implementation and approval of such projects. They could also provide independent verification and certification of results. Business associations could put forward common positions or facilitate discussions on specific issues.

Private sector expertise in designing and implementing an international REDD mechanism could be accessed through *a single advisory body for REDD*. The private sector could be represented on such an advisory body, jointly with community, indigenous people and NGO representatives. This panel would advise parties on technical (MRV, reference levels) and implementation matters (carbon market regulation, compliance). Private sector representatives would be coordinated by a body exercising the function of the secretariat of the international REDD mechanism or domestically by state parties.

Conclusions

Governments are seeking to take global climate cooperation to the next level and, if they are to achieve their objective, the private sector must be part of the process. International negotiations need to be informed about how market forces should be harnessed within broader, sectoral and economy-wide emission reductions. Timely involvement of the private (for-profit and not-for-profit) sector can be an important factor in bringing about successful implementation of an international agreement. A structured, real and effective form of participation is needed for the private sector to ensure that its potential can be translated into tangible results.

Efforts to move toward implementation require a more formalized way of engaging the business sector. The UNFCCC process currently witnesses a degree of informal business participation unique in international decision-making. But is there a better way to channel the talent and interest of business? The majority of financial resources and technological solutions are, or will be, provided by private companies. Therefore, their ability to interact and cooperate with government will, in large part, determine the level of success in building an effective international climate regime.

Current participation lacks coordination, direction and output; and does not have clear entry points into the negotiations. The question is no longer "whether business is active and engaged," but rather "whether the engagement achieves the goal of informing the decision-making process to provide a workable institutional framework, armed with clear, viable, effective and efficient rules."