



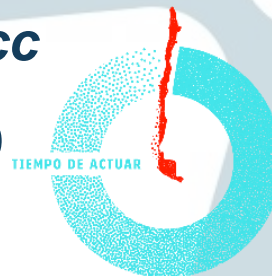
Markets, ambition and finance

COP 25: too much on the plate...

Axel Michaelowa, supported by the Perspectives COP 25 Team

michaelowa@perspectives.cc

Perspectives, Dec. 19, 2019



COP25
C H I L E
MADRID 2019


Topics

- **The Katowice “leftover”**
- **Key tasks of COP 25**
- **Aims and strategy of the Chilean presidency**
- **External influences on the COP**
- **Relevance of topics and the elephants in the room**
- **Spirit of the negotiations**
- **Markets, WIM, transparency ...**
 - Key outcomes and unfinished business
- **Finance and related initiatives**
- **Outlook towards COP 26**



Photo: ENB

Key milestones of the international climate regime



UN Framework
Convention on
Climate
Change 1992



Kyoto
Protocol
1997



Marrakech
Accords
2001



~~Copenhagen
failure
2009~~



Paris
Agreement
2015



Katowice
Decisions
2018



All I want
for Xmas is
Article 6



COP25
CHILE
MADRID 2019

Madrid COP targets as per UNFCCC

- **Adopt the modalities and procedures for the market mechanisms under Article 6 in order to complete the Paris Rulebook**
- **Review of the Warsaw International Mechanism on loss and damage and its long-term vision**
- **Various other decisions**
- **Essentially “monothematic” COP**



United Nations Framework
Convention on Climate Change

Shifting aims of the Chilean presidency

- **“Blue COP”**
 - Highlight the role of the oceans
- **“Ambition COP”**
 - ‘Ambition alliance’ of countries committed to raise their NDCs or achieve carbon neutrality by 2050 launched at UN SG climate summit in September 2019
 - Challenge: Chile could not revise its own NDC upwards due to its social unrest
- **Last moment shift of COP to Madrid due to social unrest in Santiago**
 - Huge planning changes for Presidency

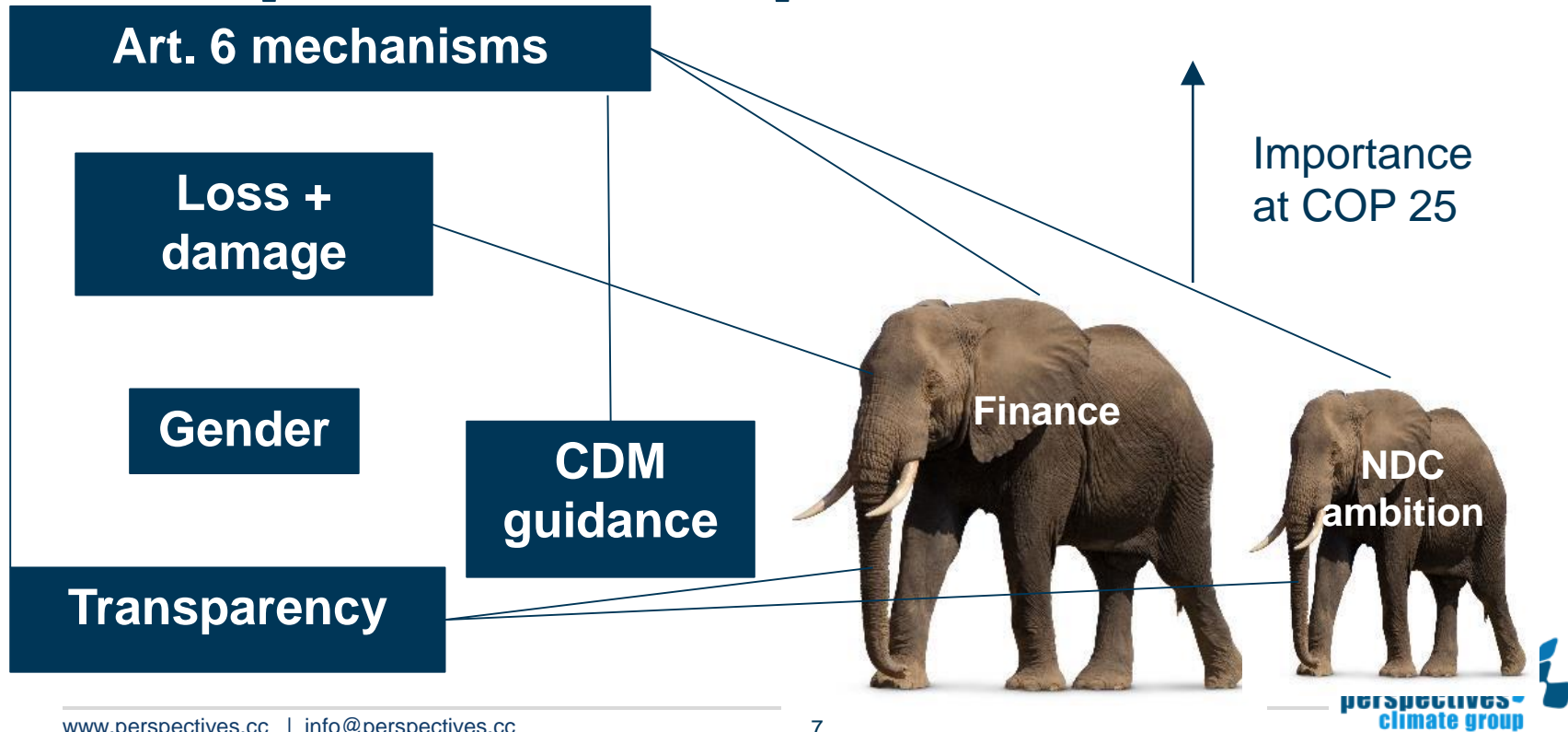


Spain comes to the rescue of the COP

- **Magnificent, spacious site**
 - COP under one roof at Madrid Fairground
 - Only five minutes to cross the whole area by foot
 - Excellent, easy-to-understand layout
- **All prior arrangements honoured**
 - Full observer accreditations
 - Full programme of side events
- **Further expansion of country pavilions**
 - Make up over 1/3 of COP space
 - Still no coordination of side event programmes



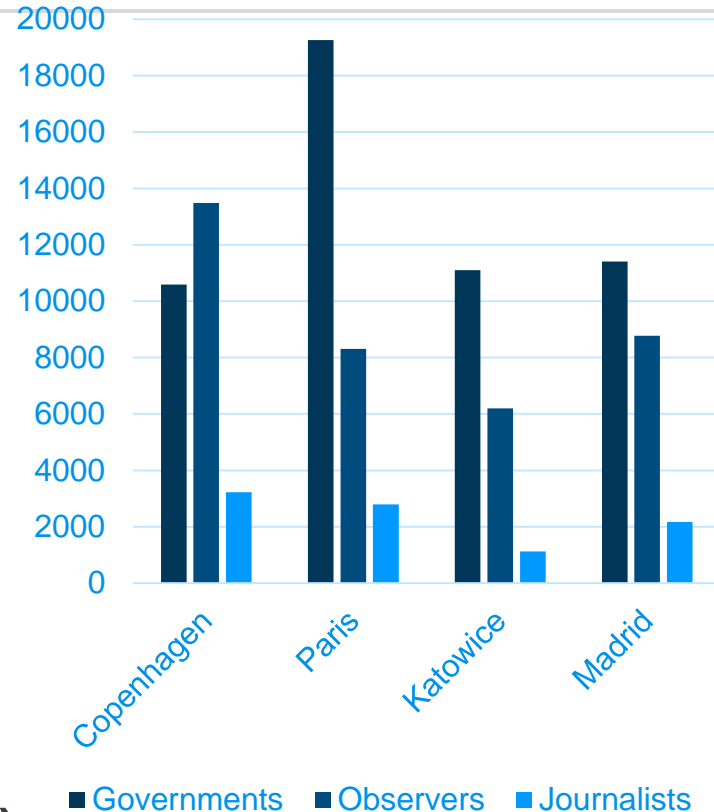
Relative importance of formal COP 25 negotiation topics and the elephants in the rooms



Strong media and NGO participation in COP 25

▪ Larger than Katowice, but below records

- **22,354** total (Katowice 18,420 Paris 30,372, CPH 24,072)
 - 11,406 country delegates (Katowice 11,100, Paris 19,260, CPH 10,591)
 - 8775 observers (Katowice 6193, Paris 8314, CPH 13,482)
 - 2165 journalists (Katowice 1126, Paris 2798, CPH 3221)



Perspectives at COP 25



Mixed external influences on the COP

■ Positive

- Fridays for Future movement has made climate policy #1 political topic in large parts of Europe and led to electoral landslides for green parties
- Ocean/cryosphere and land IPCC reports reinforce message of urgency provided by 1.5°C report
- EU Green Deal to inject ambition

■ Negative

- Continued consolidation of populist regimes
- Social unrest in a large number of countries mostly Latin America



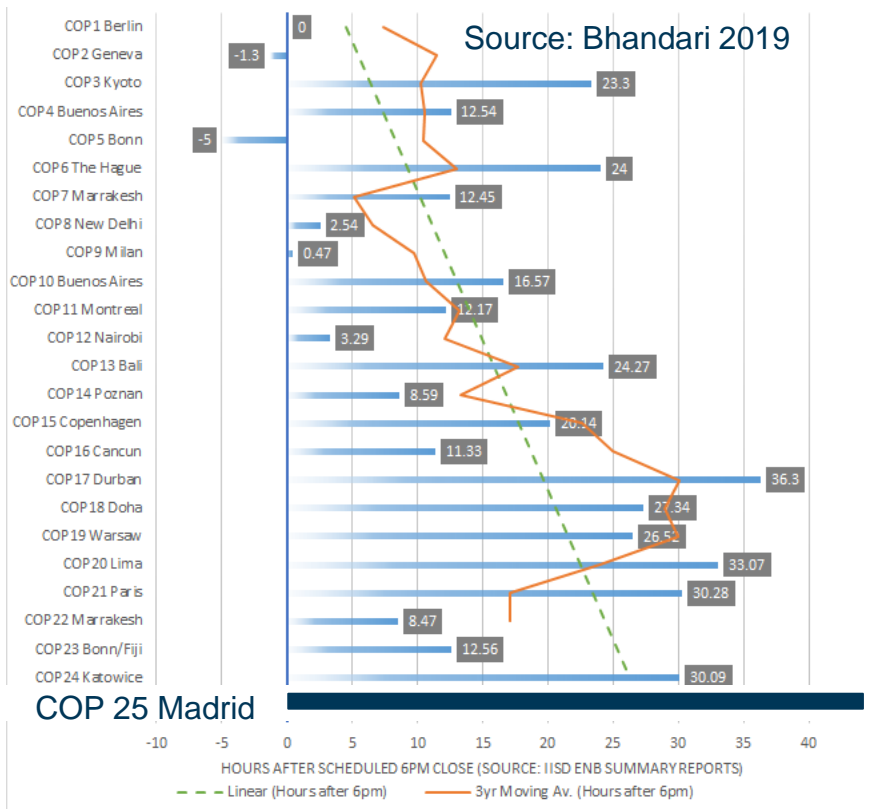
Spirit of the negotiations

- Good start **without procedural delays**
- Good first week **with detailed technical work**
- **Too late** Chilean presidency engagement
 - Minister Schmidt realized **only in the final 48 hours** that she would have to focus on Article 6
- **No real leader emerged in time**
 - China throwing various spanners, as did the US
 - High quality carbon market club on the penultimate day: San José Principles
- **Split of Environmental Integrity Group on Article 6**
- **2 day over-run**, beating the previous record (Durban) with general exhaustion and **crash of UNFCCC doc system**



Photos: ENB

Overtime in COP history and Madrid's record



- Clear tendency for **overtime increase over time**
- Normally, only “**broad**” COPs require a lot of overtime – Madrid was an exception here



44

Photo: Axel Michaelowa

Media response to COP 25 outcomes

Le Monde
La COP25 s'achève sur des avancées quasi insignifiantes dans la lutte contre le changement climatique
La conférence s'est terminée, avec quarante-deux heures de retard, par la signature d'un accord minimal avec des pays plus divisés que jamais sur des sujets clés.

COP25 summit fails to address key carbon markets issue
Final declaration called for fresh proposals on pledges on reducing carbon emissions to be in place by COP26. 

EL PAÍS
La Cumbre del Clima fracasa en su objetivo de regular los mercados de carbono
El débil resultado de la COP25 agranda la brecha entre los Gobiernos y la ciencia sobre la crisis climática

Europe

The Washington Post

U.N. climate talks end with hard feelings, few results and new doubts about global unity



Fuertes críticas: El preocupante fracaso de la COP25

Como "la COP de las lágrimas", así pasa a la historia esta cumbre que estuvo marcada por la decepción, pena e indignación, de quienes cifraron las esperanzas de acciones concretas para detener el calentamiento global.



La COP25, un coup d'épée dans l'eau dans la lutte contre le réchauffement climatique

Antonio Guterres, UN secretary general

"I am disappointed with the results of COP25. The international community lost an important opportunity to show increased ambition on mitigation, adaptation and finance to tackle the climate crisis."

KOMPROMISS BEI KLIMAKONFERENZ

„Ein Angriff auf das Herz des Pariser Abkommens“

“فریدریش ایبرت” و “العمل المناخي” في COP25.. شراكة استراتيجية لمكافحة التغير المناخي

The UN climate talks are over for another year – was anything achieved?



A conference marked by squabbling and deferral yielded little progress despite protests

COP25 脱温暖化の取り組みを着実に
2019/12/16 05:00

Discussions on “ambition” in cover decision

- **“Chile Madrid Time for Action” text for CP.25 and CMA.2 sparked some heated discussion on the explicit request to Parties to update and enhance their NDC in 2020**
 - For NDC update, now only referral to the relevant paragraphs 1/CP.21 and *urging* of Parties to consider the significant gap between PA goals and current emission levels
 - Strengthened language on adaptation
 - NDC language only possible after establishment of a “**pre-2020 ambition and implementation**” roundtable to overcome China’s and India’s resistance

Article 6: rationale for international carbon markets

- **“Parties recognize that some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contributions to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity”**
- **Potential to improve the economic efficiency of NDC implementation or ambition of NDCs according to general equilibrium modelling presented at COP by IETA:**
 - Savings up to USD 250 billion / year (2030 horizon), or
 - Increase the ambition by 5 GtCO₂ / year

https://www.ieta.org/resources/International_WG/Article6/CLPC_A6%20report_no%20crops.pdf

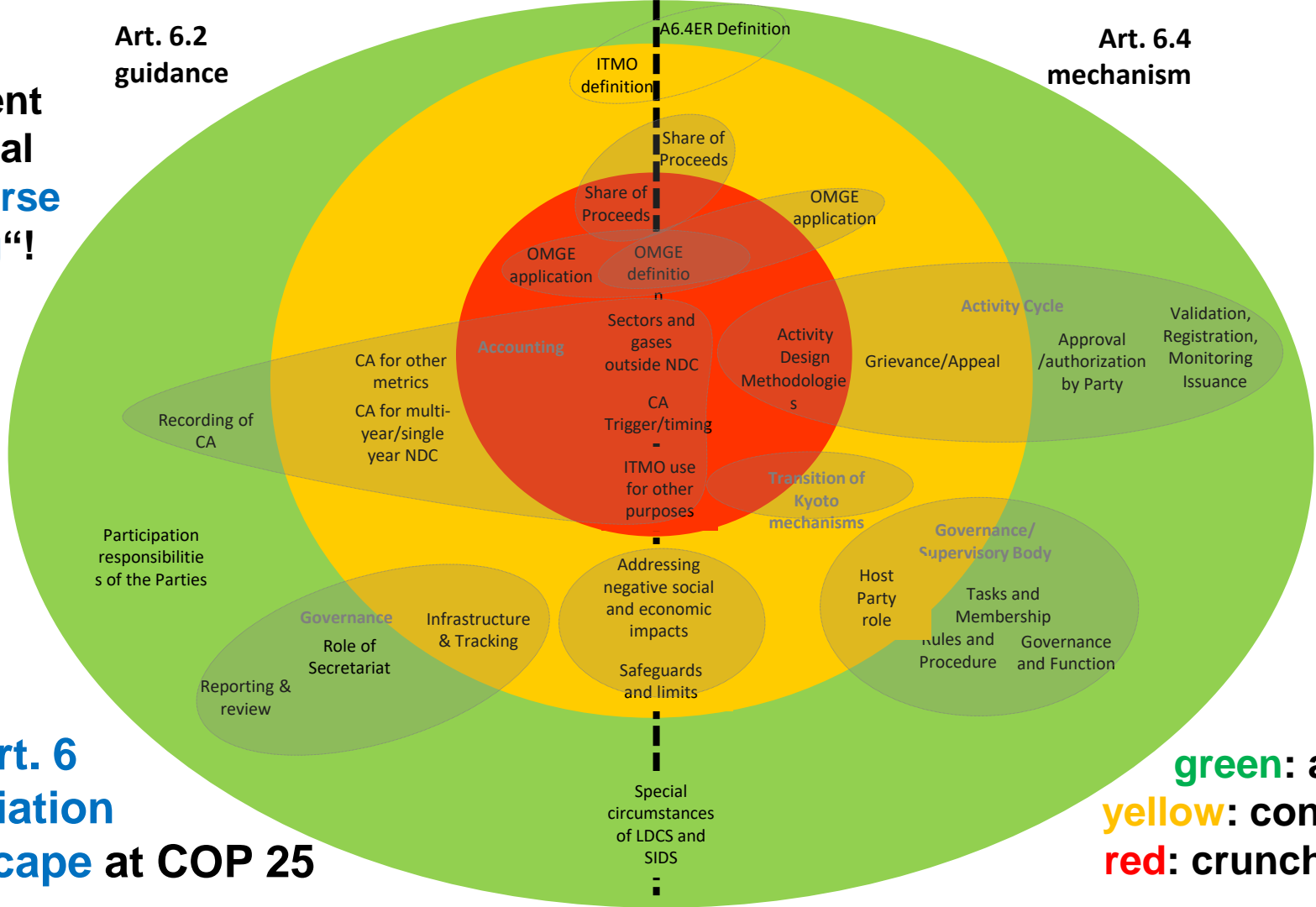
Unpacking Article 6 of the Paris Agreement

	Art. 6.2 “Cooperative Approaches”	Article 6.4 “Sustainable Development Mechanism”	Art. 6.8 “Non- market mechanisms”
ITMO transfers	Yes	Yes	No
Corresponding adjustments	Yes	Yes	No
Governance	UNFCCC “guidance”	UNFCCC “supervision”	TBD
What does it look like?	Int. Emissions Trading / JI Track 1	CDM / JI Track 2	Climate finance? Adaptation?

Art. 6.2
guidance

Art. 6.4
mechanism

Excellent
potential
for “horse
trading“!



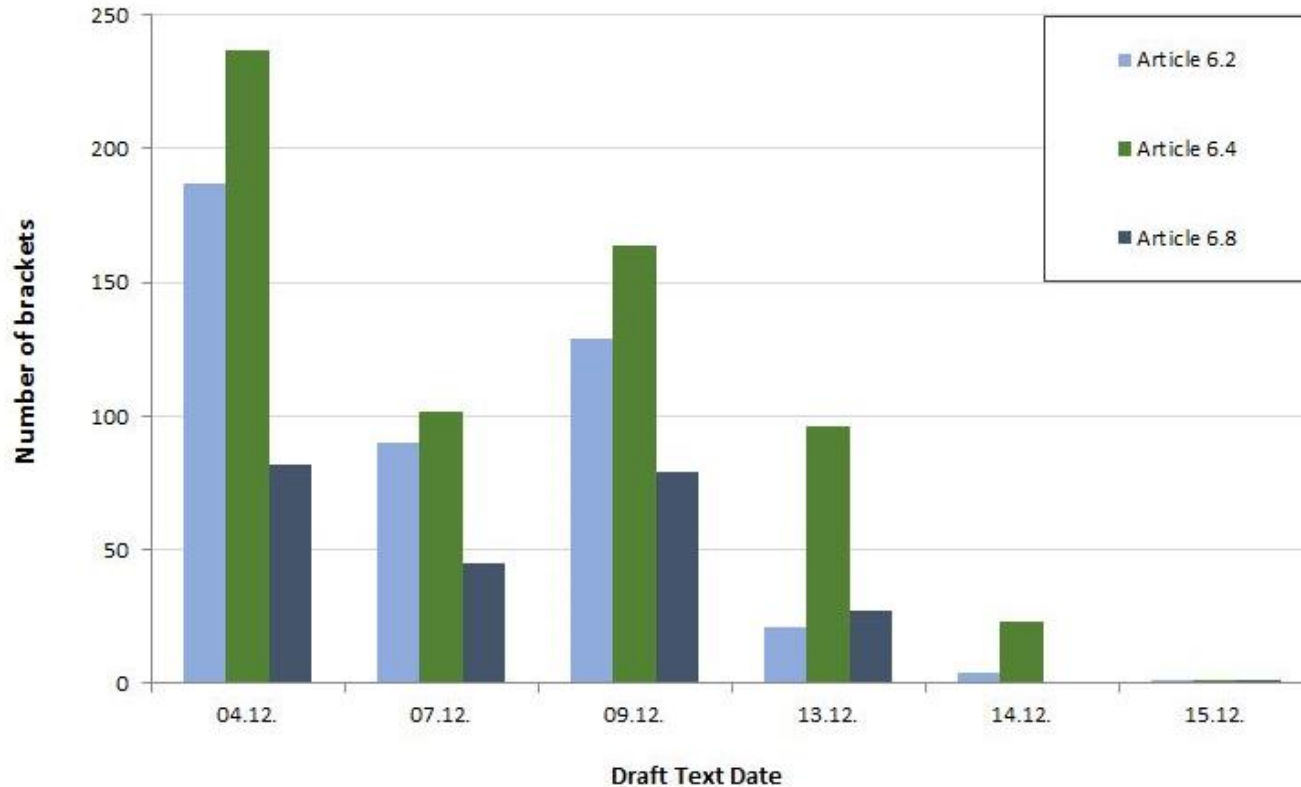
The Art. 6
negotiation
landscape at COP 25

green: agreed
yellow: contested
red: crunch issue

The negotiation process on market mechanisms

- **Basis: three texts** for Art. 6.2, 6.4 and 6.8 emanating from **SB 50 (June 2019, Bonn)**
- **1st week under SBSTA: many layers of informals**
 - Text 4 December
 - Text 7 December
 - Text 9 December, after **several heads of delegation meetings**
- **2nd week under Presidency: parallel process with ministers**
 - Hiatus until Friday!
 - Text 13 December, **good progress** compared to previous text
 - Text 14 December, **carefully drafted** – numbers for key compromises
 - Text 15 December, **hastily pieced together**, many issues deferred
- **Outcome: deferral based on three presidency text versions**

Evolution of brackets in Art 6 negotiation texts



Three crunch issues identified at end of 1st week

■ **Corresponding adjustments (CA)**

- All transfers under Art. 6 trigger a CA (*industrialized countries, AILAC, AOSIS, Africa, LDCs*)
- All Art. 6.4 “first” transfers should be **exempted** (*Brazil*)
- “**Outside**” NDC should be **exempted** (*various developing countries*)
- Multi- vs single year target accounting approaches
 - only **emissions trajectories** and **averaging** (industrialized countries, AILAC..)
 - Free choice - “**anything goes**” (China, South Korea)

■ **Taxation of transactions under Art. 6.2 for adaptation**

- **Mandatory** taxation (all developing countries)
- **No taxation**: All industrialized countries

■ **Transition of CDM activities and units**

- **Full** (Brazil and India, later joined by China) vs **no transition** (EU)

Development of compromises on crunch issues

- **Corresponding adjustments (CA)**
 - **Grace / opt in period** in which no CA is to be done (6.4): **5-10 years**
- **Taxation of transactions under Art. 6.2 for adaptation**
 - **“Strongly encouraged”** contribution to adaptation finance, **“commensurate”** to that mandated under Art. 6.4
 - **Mix / link of overall mitigation of global emissions** and adaptation tax: **2% each** under Art. 6.4, with a view to increase the former
- **Transition of CDM activities and units**
 - **Activities:** Need to **re-register** and **update their methodology** by **2023**
 - **Units:** **Vintage** cut off date **linked to project registration:** in text **2013-2016**, in room 2008 proposed by Brazil. Presidency proposed **reserve** for non-transitioned credits to be opened in the future in case of need

Other important issues on market mechanisms

- **Other metrics: not much contested, but devil in detail**
 - Buffer registry and conversion factors
- **Scope:**
 - “**Avoidance**” (of emissions from vegetation / fossil fuel resources) and **removals** through forestry – former were out, latter in
- **Baselines and additionality: highly contested**
 - Benchmarks, BAT, “beyond business as usual”
- **Duration of crediting periods – 3x5 years as compromise**
- **Host country governance: somewhat contested**
 - Crediting periods, baseline approaches, DOE accreditation
- **Art. 6.8 governance: sidelined due to absence of Bolivia**
 - Essentially foreseen to be **deferred to 2025**

Art. 6: Market mechanisms: again deferred

- **Early morning session Dec. 15 3:30 am**
 - Brazil refuses to accept compromise text due to obstinacy on getting concrete numbers for CA exemption period and CDM transition cutoffs
 - African Group only accepts text with mandatory adaptation tax while US does not accept such a tax
- **Final plenary agrees on deferral to COP 26**
 - Generally reconciliatory statements focusing on the progress made
 - Switzerland says it will go ahead with Art. 6.2 pilots applying the San José Principles



Photos: Axel Michaelowa

High integrity markets – the San José Principles

Launched by **nine countries** in the early morning of 14 December, led by **Costa Rica** and **Switzerland**:

- **Ensure environmental integrity** and enable the highest possible **mitigation ambition**
- **Deliver an overall mitigation in global emissions**, moving beyond zero-sum offsetting approaches to help accelerate the reduction of global greenhouse gas emissions
- **Prohibit the use of pre-2020 units, Kyoto units and allowances**, and any underlying reductions toward Paris Agreement and other international goals
- **Ensure that double counting is avoided** and that **all use of markets toward international climate goals is subject to corresponding adjustments**

High integrity markets – the San José Principles II

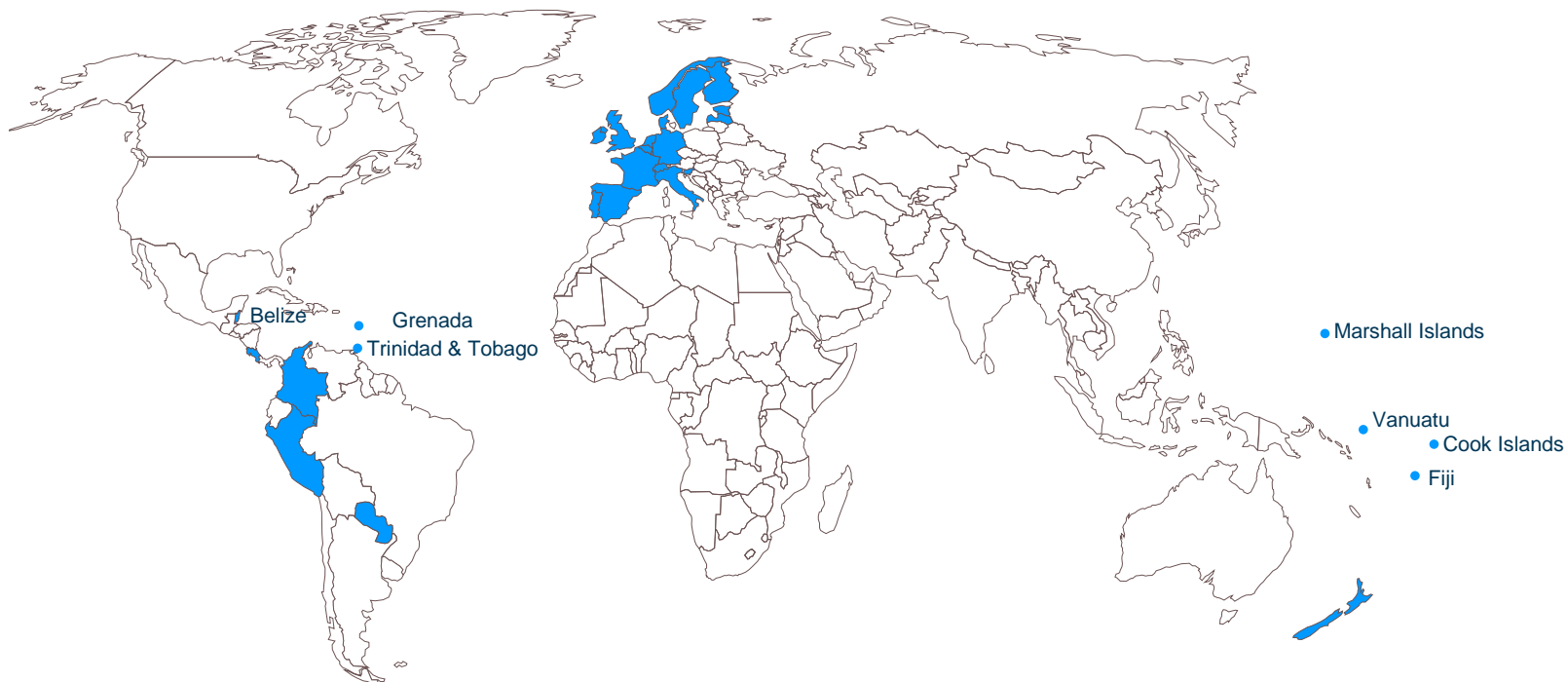
- **Avoid locking in levels of emissions, technologies or carbon-intensive practices incompatible with the achievement of the Paris Agreement’s long-term temperature goal**
- **Apply allocation and baseline methodologies that support domestic NDC achievement and contribute to achievement of the Paris Agreement’s long-term temperature goal**
- **Use CO₂-equivalence in reporting and accounting for emissions and removals, fully applying the principles of transparency, accuracy, consistency, comparability and completeness**
- **Use centrally and publicly accessible infrastructure and systems to collect, track, and share the information necessary for robust and transparent accounting**

High integrity markets – the San José Principles III

- **Ensure incentives to progression and supports all Parties in moving toward economy-wide emission targets**
- **Contribute 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**
- **Recognize the importance of capacity building to enable the widest possible participation by Parties under Article 6**

Within less than 24 hours, 22 other countries joined, among which various large EU countries but also many AILAC members and some small island states

Signatories of the San José Principles



Loss and Damage: Review of WIM

▪ Two questions on the table

- **Governance: Is the WIM under the broad mandate of COP or CMA? (currently ambiguous, but negotiations take place within CMA)**
 - Latter interpretation would exclude **non-PA parties** (the US) and “not involve or provide a basis for any liability or compensation” (1/CP.21, para 51)
 - US was stubborn, deferred to COP 26
- **Review and Guidance (“long-term vision”) to the WIM: contentious as LDCs and SIDS want an “implementation branch” and “new and additional finance” for L&D; industrialized countries oppose this, in particular US**
 - L&D was brought up under all agenda items related to finance (in particular GEF, GCF, SCF) by **developing countries**, strongly **opposed by the US**

WIM: Negotiations and final outcome

Demands by G77/China

- Collaboration of SCF and WIM ExComm on guidance for financial mechanism (GCF, GEF) and “adequate, scaled-up, new and additional funding” by GCF
- Dedicated expert group on “Action and Support” with a clear first mandate
- “Santiago Network on Addressing Loss and Damage” to broaden access to technical expertise and support implementation of L&D in developing countries

Final outcome

- No reference to adequate, new or additional funding, weakened call to scale up finance.
- Expert group on “action and support” established, but with a more general mandate
 - Provisions to explore financing opportunities inside/outside the UNFCCC
 - Collaboration and organization of events
- Santiago Network established to “catalyze” technical assistance and implementation.

Gender Action Plan

- **Review of the Lima Action Plan and adoption of a new “Enhanced Lima Work Programme”**
- **Objectives and priorities:**
 - **Systematic integration** of gender considerations in climate policy through capacity-building, knowledge management and communication
 - Full, equal and meaningful participation of women in **UNFCCC process**
 - Strengthened integration of gender considerations within the work of **UNFCCC constituted bodies** and **Secretariat**
 - Gender-responsive implementation and means of implementation of UNFCCC and Paris Agreement
 - Improved **tracking** of the implementation of and reporting on gender-related mandates under the Lima work programme / gender action plan

Gender Action Plan II

- **Central contentious issues concerned **human rights** and **finance**, as well as reference to the work programme in COP decision**
- **Text adopted with a weaker formulation on finance, and reference on gender work programme in COP decision, as it was pushed for (in particular by Latin American countries).**



Negotiations related to adaptation

- **Adaptation overall not contentious topic in the negotiations...**
 - Work on Koronivia continued on nutrients and fertilizers and food insecurity
- **...but global goal on adaptation and how to measure it discussed controversially under the CMA**
 - Adaptation Committee to consider approaches to reviewing progress by 2021.
- **Reference to IPCC special land use report was controversial throughout, due to opposition in particular by Brazil**
 - Sovereignty concerns regarding Amazonia
 - Attempt to block negotiations

Negotiations related to transparency

- **Transparency was not at the forefront of attention, as the negotiations showed a high level of technical detail and no deadline had to be met**
- **Discussions were mostly about how to integrate flexibility in the tables on NDCs and Finance**
 - Other contentious issues: **metrics** for projections and the role of **transport sector** in projections
- **Three informal notes were produced per agenda item, but in the end, the second note (7.12.2019) was referenced in the decision → finalization of tables at COP 26**

Finance: key developments

- **Final text on [Warsaw International Mechanism](#): final text removed all reference to any developed country obligations on finance**
- **[No outcome on long term finance discussion as expected](#): discussion of next long-term goal scheduled to start at COP 26**
- **A group of 51 finance ministries known as the [Coalition of Finance Ministers for Climate Action](#) laid out their [“Santiago Action Plan”](#)**
 - to “bring considerations of climate change into the [mainstream](#) decision-making about economic and financial policies”

New financing initiatives

- **EIB announced that it will cease all fossil fuel financing including gas from 2022 onwards**
- **Adaptation Fund mobilized USD 89 million from 11 governments in 2019- new pledges in October/COP25:**
 - **National governments:** Germany (\$33 million), [Switzerland](#) (\$15 million, [linked to Art. 6.2 pilot with Peru](#)), Norway (\$15.3 million), [Poland](#) (\$1 million, [first time contributor!](#)), Ireland (\$0.3 million). [Sweden](#) (\$53 million for 2019-22, [first multi-year donation](#)), Spain (\$2.2 million)
 - **Regional and subnational contributions:** Walloon (\$4.2 million), Flanders (\$1.9 million), Brussels (\$0.4 million), [Quebec](#) (\$2.2 million, [first time contributor](#))

New financing initiatives

▪ Partnership for Market Implementation (PMI):

- Successor of the PMR, administered by the World Bank
- Support for carbon pricing implementation for 10 countries with high readiness and support for further 20 countries to develop and implement carbon pricing instruments
- Start in July 2020, \$ 100 million capitalization. Target: \$ 250 million USD over 10 years.
- Support from, among others Norway (7 million €), Germany (10 million €), Japan, Spain, UK



New financing initiatives

- **New call for projects under the International Climate Protection Initiative (IKI):**
 - **\$ 35 million in 5 years** for small scale and medium-size activities (600-800 k EUR)
 - **Strong local/domestic participation** with the consortium to be composed by local entities so knowledge stays in host countries (50% of the funding)
 - Looking to support **energy transition and phasing out coal while addressing equity and justice**



Interesting things “on the side”

- **End of first week, large climate march in Madrid (organizers speak of 500,000 participants)**
- **Greta Thunberg drew huge crowds wherever she went but did not really influence the “inside”**
- **Angry ad hoc protesters in front of the Plenary were rounded up and thrown out but in an unprecedented move the UNFCCC Secretariat did not revoke their accreditation in an effort to calm the situation**



Photo: Diane Husic

Key messages from COP 25

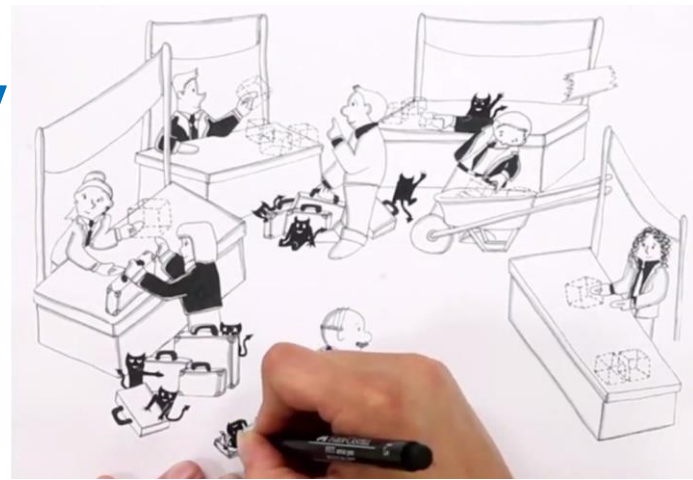
- **The COP failed on its key topic – markets remain in limbo despite clear progress**
 - Old fault lines on accounting, CDM transition and taxing Art. 6.2 transactions unsurmountable
 - Presidency engaged too little and too late, Minister Schmidt initially shunned the topic
 - No Latin American solidarity, Brazil again is the bad guy
- **Finance-related differences on loss and damage were plastered over**
 - WIM decision grants some respite before the serious finance discussion begin at COP 26
- **No progress on ambition**



Photos: ENB

Whither market mechanisms?

- **Countries wanting to use Article 6 may try to set up rules their own way**
 - Art. 6 pilots concentrated within the membership of the San José Principles?
 - What will the large emerging economies do?
- **What will be the role of the World Bank that is trying to develop key elements of Art. 6 infrastructure?**
 - Will the World Bank apply the San José Principles?
 - What will other MDBs do?



Source: *Carbon market regulation movie*:
<https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=video&cd=1&cad=rja&uact=8&ved=0ahUKEwiOxNC657rmAhWQEBQKHVf1AcUQtwIIKTAA&url=https%3A%2F%2Fwww.youtube.com%2Fwatch%3Fv%3DYLZqq0NTSXU&usg=AOvVaw0GHR4jGEEESf oF4qQSfHEX/>

Next steps in international negotiations

2020

COP 26 in Glasgow. Market mechs decision

2021

COP 27 in UAE (?). Update of NDCs finalized

2022

COP 28 in Africa

2023

Global Stocktake

Outlook to COP 26: negative emissions COP?

■ Glasgow COP: “Net-zero” theme

- UK exemplary planning process to net-zero: Committee on Climate Change
- Challenging political priorities in a period of Brexit-turmoil

■ Traction of carbon removal: several UK-based activities

- DRAX power plant biomass-CCS
- World’s first net-zero region (in Humber)?
- CO₂-transport network planned with access to Norwegian off-shore CCS
- World’s first removals tech research programme (NERC-funded £8.6 million)



Outlook to COP 26: a charged programme

- **Picking up the pieces from COP25: Finally an Art. 6 rulebook?**
 - Most of the contentious issues likely to be re-opened
- **Adoption of the reporting formats and tables to operationalize the Enhanced Transparency Framework**
 - How to operationalize flexibility while ensuring harmonization?
- **Reality-check on Paris ambition cycle**
 - Will Parties have submitted enhanced NDCs and LEDS?
- **Again a finance COP: considerations of the new collective finance goal after 2025 will start**
 - Likely to be highly acrimonious

Thank you!

Axel Michaelowa
Senior Founding Partner

Perspectives Climate Group
michaelowa@perspectives.cc | www.perspectives.cc