COP23
Summary Report

Climate Challenges
Market Solutions

Welcome! Bula! Willkommen!

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Described by many as a technical, procedural COP, the talks in Bonn – presided over by Fiji – had a lot to do. Picking up from where things left off in Marrakech last year and, for some issues, from the intersessional meeting in Bonn earlier this year, Parties got down to the serious work of preparing the rulebook to bring the Paris Agreement to life and setting the stage for next year’s global stocktake of progress towards the agreement’s goal to limit the average temperature increase to 2°C.

For IETA, our main priority was to see the draft rules for Article 6 progress. Specifically, the rules for paragraphs 2 (cooperative approaches), 4 (emissions mitigation mechanism) and 8 (non-market approaches). While progress was made, there were signs of a rocky road ahead, with the re-emergence of common but differentiated responsibilities (CBDR) in several negotiating streams.

Nonetheless, Parties managed to forge compromises and, after several delays, COP23 finally concluded early on Saturday morning.

The key outcomes from the two weeks include:

- The **Fiji Momentum for Implementation**, which confirms the goal to adopt the Paris Rulebook at COP24 next year in Katowice, Poland, also sets out the design of the facilitative dialogue – now renamed the Talanoa dialogue – which will launch in January. This also clarifies that global stocktakes on pre-2020 efforts will occur at both COP24 and COP25.

- The **Talanoa dialogue** will be structured around three main questions: where are we; where do we want to go; and how will we get there?

- A mandate for the chair of the Subsidiary Body for Scientific and Technological Advice (SBSTA) to prepare an informal document for the three components of Article 6 – essentially a draft negotiating text – ahead of SBSTA 48 in April/May 2018.

- The option to add an extra negotiating session in September/October 2018; this will be decided at SBSTA 48.

- Adoption of the Gender Action Plan, which aims to ensure a role for women in all climate change decisions and projects, both at a national and international level.

- The establishment of the Local Communities and Indigenous People’s Platform, to both support the role of indigenous communities in the climate change response and recognise the responsibility of governments to respect their rights when deciding climate policies.
Article 6: Discordant end to harmonious talks

The Article 6 negotiations fall under the auspices of SBSTA. Ahead of COP23, a wealth of work had been undertaken, including a round of submissions and a workshop on the weekend of 4/5 November. When SBSTA 47 opened on 6 November, a contact group for matters relating to Article 6 was established, co-chaired by Kelley Kizzier (EU) and Hugh Sealy (Maldives), and three informal documents capturing these discussions were released. The three documents were structured around:

- Article 6.2 (cooperative approaches, i.e. rules undergirding Internationally Transferred Mitigation Outcomes or ‘ITMOs’),
- Article 6.4 (the emissions mitigation mechanism) and,
- Article 6.8 (non-market approaches).

All three documents, and all iterations of subsequent notes, are available on the SBSTA 47 in-session documents webpage, under agenda item 11.

The main focus of the group was to get down on paper draft section headers and elements for the rules for each of the three components over week 1, then spend the remaining couple of days ahead of SBSTA 47’s close on conclusions and agreeing the next steps.

Over the course of week 1 of COP23, there was an overall air of collaboration and willingness to progress in the Article 6 negotiations – thankfully, all of these activities remained open to observers. The Parties met in a series of informal meetings, cycling through each strand in turn. The most controversial strand, Article 6.2, grew exponentially during the talks, with the third and final iteration ending as a 26-page document. Of just headers and possible elements. By comparison, the final Article 6.4 document stands at 13 pages and the Article 6.8 one at five.

The task over the next year is to add substance while ensuring that the final guidance (for 6.2), rules, modalities and procedures (6.4) and work programme (6.8) do not become unwieldy. Indeed, some observers noted that there are some proposals on the table that risk undermining the usefulness of Article 6, and the contribution it could make to reducing emissions. These include a proposal to limit the mechanism only to activities additional to a country’s Nationally Determined Contribution (NDC), which raises questions about the use of any resultant credits towards another country’s NDC. Other controversial proposals would see the application of the share of proceeds to ITMOs and restricting mitigation outcomes from being transferred more than once.

For comparison’s sake, during the COP, we calculated that 66 pages of the 197-page Marrakech Accords – the rulebook for the Kyoto Protocol – are dedicated to the flexibility mechanisms of the 1997 treaty. The combined Article 6 drafts total 44 already, although we appreciate that not every element in the current drafts will be elaborated on and will be dropped before the final version is adopted.

Worryingly, after a constructive first week, at the 11 November meeting to finalise the informal notes, Brazil and a few other Parties brought up CBDR. This was with a view to having it included in the preamble to the Article 6.2 notes on cooperative approaches, linked to moves by other Parties to keep the guidance for users of ITMOs separate from those for countries issuing ITMOs. The co-chairs swiftly ended the discussion and cancelled a later meeting in an effort to preserve the work done that week.

As week 2 began, things rapidly fell apart. The co-chairs presented draft conclusions at their first meeting on the Monday, which Parties had not seen in advance. After discussion,
the meeting was suspended so that Parties could review the drafts, one for each strand. The three were largely similar, and proposed:

- to welcome the informal documents prepared by co-facilitators, capturing the discussions at the roundtables on 4/5 November;
- to take note of the informal notes prepared over the course of week 1;
- that Parties and observers are invited to submit to a new round of submissions on elements in third iterations by 31 January 2018 for consideration at a future roundtable;
- that the SBSTA chair prepare a document containing draft elements related to the three agenda items, based on these submissions, previous submissions, and discussions by Parties;
- a new roundtable of discussions before SBSTA 48, which begins 30 April 2018, and a related informal document capturing the discussions.

When the group reconvened, Saudi Arabia, Egypt on behalf of the Arab Group, Venezuela and Like-Minded Developing Countries (LMDCs) said they didn’t support these conclusions. Instead, this bloc pushed for simple procedural conclusions, simply taking note of the third iterations and continue discussion at SBSTA 48. A significant number of other Parties wanted to continue work on the conclusions, with a view to adopting them. The co-chairs proposed to use the session to advance discussions, insert the aforementioned proposal as another option in the drafts, and go through the texts paragraph by paragraph.

It later emerged that these Parties were blocking progress on Article 6 to tie it to negotiations on response measures (essentially measures to avoid negative economic impact of climate change mitigation in some economies). The Arab Group in particular was pushing for roundtables and another round of submissions on response measures, which others were blocking, hence the retaliation in the Article 6 talks.

After some discussion, the negotiators settled on a version of the note that only took note of the informal notes, the existing submissions and that asked the SBSTA chair to prepare draft text. They then broke again for a few hours to huddle and consult among themselves to see if they could bridge their differences. Saudi Arabia, the Arab Group and LMDC bloc held back to see what was going on in other rooms. They managed to talk across rooms during this gap, with some horse trading between Article 6 and response measures. Word then broke that there had been a breakthrough.

At 3pm, the group met for the third time. Having led the consultations, the EU presented the compromise, and the texts were ultimately adopted and passed to the SBSTA plenary to be adopted – following a surreal moment, where Saudi Arabia agreed to the compromise if the co-chairs sang… a clip of their performance of “Ooh child” is available here. And let’s hope indeed that things are going to get...
The final conclusions for all three are again similar, and essentially:

- Take note of the submissions by Parties ahead of COP23;
- Take note of the third iterations of the informal notes drafted in Bonn;
- Request the SBSTA Chair to prepare an informal document for each of the three strands ahead of SBSTA 48, drawing on prior submissions and the third iterations of the notes.

The conclusions for Article 6.2, Article 6.4 and Article 6.8 are all available online.

While not perfect, it’s encouraging that there was a willingness to push ahead and ensure the work done in Bonn retains a formal status in proceedings. Our main ask for COP23 was to see some text emerge, so we welcome the outcome.

For business, there are a handful of mentions of incentivising the private sector and ways to involve the private sector in the new emissions mitigation mechanism – as stated in the Paris Agreement. This is one thing IETA will watch very carefully in the months to come, as the rules are fleshed out. We anticipate the SBSTA chair’s text to be available in March, and will update our members accordingly.

Minimal guidance for the CDM

Attention to the CDM has waned in recent years; gone are the days of lengthy discussions and 60+ paragraph texts. In Bonn, the first contact group meeting for the CDM – which sits on the CMP (Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol) agenda – met at the end of week 1. Starting with a 22-paragraph text, over the following week, it was culled. In the end, just 5 paragraphs survived in the final decision. Five fairly bland paragraphs that offer little to those seeking a clue as to the CDM’s future; the main substantial guidance is for the Executive Board to continue simplifying the process to develop and approve standardised baselines, a move which IETA has long supported, and to support any national authorities which request help with developing standardised baselines.

While the future of the CDM as we gear up for the Paris Agreement continues to be unclear from this text alone, there was one interesting development at this COP, in the text relating to the Adaptation Fund’s board report. In adopting the report, the CMP approved a decision for the Board, which is responsible for the monetisation of the ring-fenced credits under the share of proceeds provisions in the CDM, to serve the Paris Agreement subject to decisions at the third part of the first Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA 1.3) next December.

It further states that it will decide whether the Adaptation Fund should exclusively serve the Paris Agreement, “under the guidance of and accountable to the Conference of the Parties serving as the meeting of Parties to the Paris Agreement”, following a recommendation to the CMP from the CMA in 2019. This marries up with the CMP guidance on the CDM noting that the CDM Executive Board has adopted a business and management plan until 2019.

Reading between the lines, it does not look like there will be a decision on bringing the CDM into the Paris Agreement until 2019 at the earliest – although that doesn’t rule out discussions next year.

Finance and technology prepping to scale up

On finance and technology, a couple of things of note for IETA members. The COP decisions on the Green Climate Fund encourage the Fund’s board to begin its first “replenishment round” and also for it to begin reporting on its support for technological innovations and/or scaling-up, so as to inform the Technology Mechanism.

On the Climate Technology Centre and Network (CTCN), the COP renewed its agreement with UNEP to host the facility for a further four years. However, it also flagged concerns about long-term sustainable financial support for the CTCN, and reminded

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1 Under the share of proceeds, 2% of each batch of CERs issued to a project is put into the Adaptation Fund to support developing countries most vulnerable to climate change implement adaptation measures. The funds from the sale of the CERs cover administration costs of the fund in addition. Article 6, paragraph 6 of the Paris Agreement calls for a share of proceeds from the new emissions mitigation mechanism to support adaptation measures in developing countries most vulnerable to the adverse impacts of climate change and administrative costs.
The input to the dialogue will include the IPCC’s special report on the impacts of a global average temperature increase of 1.5°C, expected to be released in September or October 2018. Parties, stakeholders and expert institutions will also be invited to prepare analytical and policy relevant inputs to inform the dialogue and submit these by April for discussion at the May meeting, and by end of October for discussion at COP 24.

As more information is available, IETA will update our members accordingly.

**Other developments during COP23**

As is often the case, a rash of other events of note were announced during the two weeks. Herewith, a quick summary of some of the key ones.

- The America’s Pledge initiative, led by Governor Jerry Brown and Mike Bloomberg, officially launched on 11 November, with the release of a new report on US climate action. The initiative, to quantify the emission reduction pledges of a variety of US non-state actors such as states, cities, and businesses, would have the third-largest economy in the world if it was a country. It is intended to help fill the void left behind by President Trump’s decision to withdraw the US from the Paris Agreement. The report is the first communication to global community specifically addressing the scope and scale of non-federal climate action in the US following the country’s withdrawal from the Paris Agreement.

- On 13 November, Canada, Mexico and a coalition of 15 US State Governors signed a Joint Declaration to jointly strengthen climate action. California, Washington, New York, Oregon and Virginia are among the US state signatories. The declaration forms a new North American Climate Leadership Dialogue to address topics such as clean transportation, carbon pricing initiatives and reducing short-lived climate pollutants. Progress will be shared at September’s Global Climate Action Summit in San Francisco.

- The EU and China announced on 14 November they will step up cooperation on carbon markets. The announcement followed a declaration by the EU and California that they will intensify collaboration and hold regular meetings on design and implementation of their emissions trading systems.

- Environment Canada and Climate Change announced on 16 November that it will invest C$1.6 million dollars to support Pacific Alliance countries (Chile, Colombia, Mexico, Peru) to reach NDCs and enhance MRV activities. IETA, with technical support from ClimateCHECK, will manage the project funding.

- Singapore became the 20th country to sign the Ministerial Declaration on Carbon Markets on 16 November. Signatories to the declaration, organised by New Zealand in the waning hours of
the Paris COP in 2015, commit
to developing standards and
guidelines for the environmental
integrity of international market
mechanisms used towards NDCs.

- A further 25 national and sub-
national jurisdictions have signed
on to the UK and Canada’s
alliance to phase-out coal in their
energy systems.

On the sides of COP23…

IETA hosted an impressive 70+ events
over the two weeks, supported by
several partners. The IETA team also
participated in several events at other
fora as well. Here is a quick round-up
of some of the key events.

- There was a large and impressive
US subnational delegation at
COP23 in Bonn, with many
California legislators and advisors
present (Brown, De Leon, Garcia,
Lara, Wieckowski, Bloom, Reyes),
Governor Inslee (WA), Governor
Kate Brown (OR), and Governor
McAuliffe (VA) were also in
attendance. Special recognition
to Craig Ebert and the CAR
team for doing a remarkable job
facilitating the participation of US
state legislators and Canadian
provinces in Bonn.

- We also saw a large and
impressive delegation of
Canadian provincial officials – all
of whom participated in events at
IETA’s BusinessHub during Week
2. Specifically, the Environment
Ministers from British Columbia,
Ontario, Quebec, and Nova
Scotia all joined various events
across the week – including as
audience members for other
sessions!

- Towards the end of week 2, we
hosted a “fireside chat” between
Dirk, Amy Steen of the UNFCCC
and Martin Hession, a negotiator
for the EU, focused on Article 6.
Martin described the final Article
6.2 informal note as “messy”, but
hoped this would be tidied going
forward – while noting the tight
deadline to finalise the rules. Amy
remarked on the progress made
during Bonn, which she attributed
to the fact that negotiators got
straight to work with the informal
note. She also commented that
Article 6.4 is easier than 6.2, as
it’s based on a supervisory body
and has a relationship to the
CDM. The ultimate mandate to
the SBSTA chair to draft a text
ahead of the next meeting is a big
step, she added.

- Canadian Environment and
Climate Change Minister
Catherine McKenna moderated
an excellent panel on Canada
and the CPLC at the IETA
Business Hub in week 2. In
her opening remarks, Minister
McKenna said: “I helped negotiate
Article 6 – I apologise for the
language.” She also stressed the
important role business plays
in helping drive political action.
“When business is saying to
put a price on carbon and are
willing to work with you on it, it
makes a difference,” she said.

- The China Pavilion hosted a day
dedicated to carbon markets in
week 2. Li Gao, Director General
at the NDRC, opened the day. High-level speakers
included Xie Zhenhua, the
special Representative of Climate
Change of China and the first
Climate Leader in China, who said
that the national emissions trading
system is pending final cabinet
approval before launching.
California Governor Jerry Brown
also spoke and he congratulated
China for its efforts and that it’s
crucial the national ETS works “as
well as humanly possible”.

- Our official side event, co-
organised with EDF, focused
on environmental integrity in
markets. One of several sessions at COP23 to feature more women than men, the speakers included Annie Petsonk from EDF, Kay Harrison from the New Zealand government, Claudia Octaviano from INECC in Mexico and Jonathan Grant from PwC. The speakers talked about their perspectives on ensuring integrity in markets – from accounting to registries – and on the need to avoid creating perverse incentives. Kay and Claudia stressed the importance of ensuring the new mechanism established by Article 6.4 creates the right incentives for the low-carbon transition, and that whatever the final units are, they represent real, genuine reductions, while Jonathan was clear that without environmental integrity, business will not invest at scale. Annie laid out her thoughts about the future of CERs and the interplay with Article 6 and CORSIA – spoiler alert, she doesn’t see a legal basis at present for CERs to be used in these markets, absent a COP decision.

- ICAO, IETA and IATA hosted a CORSIA event at the end of week 1, focusing on all efforts to address emissions from state action plans and get ready to set a sector baseline for aviation. We heard case studies on how Dominican Republic, Kenya and Jamaica are all implementing actions now to reduce emissions through a variety of on the ground measures. It was inspiring to see how sectoral approaches can kick off real action.

- In week 1, we had a packed room for an interactive discussion about the future of offsetting and the new mitigation mechanism established by Article 6.4. Featuring remarks from David Hone of Shell, Mary Grady of American Carbon Registry, Jan-Willem van de Ven of the EBRD and Sam Hoffer from VCS, the panellists and audience covered issues such as accounting, the scope of the new mechanism, the interaction of the mechanism with Nationaly Determined Contributions, a role for existing standards and protocols, and ensuring environmental integrity. Mary commented that an open architecture, which would allow the use of existing standards and protocols, could work, pointing to California’s cap-and-trade system as a model. Sam stressed the need for good governance, to ensure there is no double-counting of reductions. Markets could help increase climate finance flows, said Jan-Willem. This would help multilateral development banks which are being asked to finance things such as urban transport, he said, which take a long time to plan and implement – so he argued for not linking crediting periods to the NDC review cycles. “If you go on with climate finance but no markets, you’re going to have lots of well-financed zero-carbon projects, but you’ll still have the emissions down the road,” David replied, arguing that the world needs the emissions accounting effect of a market. “How many cycles of NDCs do we need before everything is inside the NDC? If we’re looking at five to six cycles, we’re well off track of what the Paris Agreement is trying to achieve.” he added.

- The second in ICROA’s biannual series of workshops on scaling voluntary action under the Paris Agreement, ‘Pathways to increased voluntary action by non-state actors’, took place in week 1. The session started with an overview of ICROA’s new guidance report, before moving into a moderated discussion on key supply and demand issues. ICROA believes that, if we are to start closing the ambition gap in the Paris Agreement, voluntary action must play the fullest role possible. Consequently, ICROA’s next steps will be to work more closely with national governments on ways to design, implement, account for and govern initiatives aimed at promoting voluntary action. ICROA’s next event in their series of workshops will be held at Innovate4Climate in Frankfurt in May 2018.

- Although not on the official negotiating agenda, there was a huge focus on forests, REDD+ and land use at COP23 side events, demonstrating the urgency to address this sector in the climate change picture. At IETA, we held a panel discussion focused on the financing conundrum and how to ensure the right conditions for results based payments can reach the communities needed to make
positive impact.

• I4CE hosted a side event entitled on the EU ETS and other climate policies, where the research institute presented a new report on the role of the EU ETS in 2030 climate and energy packages. Panellists, including IETA’s EU policy director Julia Michalak, discussed whether the revised EU ETS directive will be sufficient to make the EU ETS a driver of decarbonisation in industry and energy sectors in Phase IV. They also touched upon the interactions of renewable energy and energy efficiency policies with the EU ETS.

• IETA’s EU ETS in the Paris vision side event saw lead European Parliament negotiator Julie Girling share with participants her assessment of a preliminary agreement on the EU ETS review, which was finally reached on 8 November. After a presentation of the key elements of the agreement, the panellists – which also included Kari Kankaanpaa from Fortum and Suzana Carp of Sandbag – discussed whether the deal reached is in line with the Paris Agreement climate target and the EU’s long-term mitigation objectives and if other adjustments to the EU’s carbon market are needed.

• On 17 November – the day after ECCC’s major Pacific Alliance announcement – IETA and ClimateCHECK co-hosted a popular NextGen MRV Governance & Blockchain Roundtable at IETA’s Business Hub. The Roundtable was followed by a social gathering with winners of the inaugural COP Hack4Climate event.

• We partnered again with CMIA on the COP Carbon Pricing Champion Award. In week 1, we honoured New Zealand for its ETS review, which will enhance the environmental integrity of its market and also prepare it for potential future linkages, and also for its continued leadership internationally on markets. Kay Harrison, lead markets negotiator for New Zealand, came to the IETA Business Hub to receive the award. In week 2, the Pacific Alliance countries (Chile, Colombia, Mexico and Peru) were the winners, in recognition of the Cali Declaration and carbon pricing cooperation across the region and beyond. Chilean Environment Minister Marcelo Mena collected the award, alongside Enrique Lendo Fuentes, head of international affairs at SEMARNAT in Mexico.

• Towards the end of the second week, the German Pavilion was host to the launch of Innovate4Climate, which will be held 22-24 May 2018 in Frankfurt. Dirk joined speakers from the World Bank, BMUB, the Spanish office on Climate Change and BMZ to formally launch next year’s event.

• IETA continued to play an active role in the wider BINGO community at COP23. In week 1, ICROA director Simon Henry had the opportunity to speak for BINGO on the CDM and JI (he starts 05.57 and again 12.50), while our China representative Min Li delivered the closing statement on behalf of business and industry NGOs at the Subsidiary Bodies’ closing plenary (she starts at 27.30). We were also involved in drafting talking points for the community on conflict of interest and why business is a part of the process; please contact Katie Kouchakji if you would like a copy of them to
And finally… a big thank you to all of our partners and speakers. Our COP activities are only possible because of your support. Thanks from all of us at IETA to American Carbon Registry (ACR); Asian Development Bank (ADB); Carbon Pricing Leadership Coalition (CPLC); Business Council for Sustainable Energy (BCSE); German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB); Chevron; Climate Action Reserve (CAR); Climate Home (formerly RTCC); Delphi Group; European Bank for Reconstruction And Development (EBRD); Edison Electric Institute (EEI); Enel Foundation; Global Carbon Capture & Storage Institute (GCSSI); GEM /CTX Group; Harvard Project on Climate Agreements; International Atomic Energy Agency (IAEA); International Carbon Action Partnership (ICAP); International Centre For Trade And Sustainable Development (ICTSD); International Energy Agency (IEA); International Petroleum Industry Environmental Conservation Association (IPIECA); Mars Inc.; Ministère du Développement Durable, de L'Environnement et de la Lutte Contre les Changements Climatiques (MDDELCC) Quebec; Organisation For Economic Co-Operation And Development (OECD); Pacific Gas and Electric Company (PG&E); Statoil; TRI; World Bank Group and YC Consultants.

Dirk was honoured to speak at two of the many market focused events held at the China Pavilion during COP23
Climate Challenges. Market Solutions.