IETA Warsaw COP 19: Member Brief

COP 19 showed us that much more work is needed to make the links between finance and markets in order to spur private sector investment onto a 2 degrees pathway

The 19th Conference of the Parties to the UN Framework Convention on Climate Change (COP) and the 9th Conference serving as the Meeting of the Parties to the Kyoto Protocol (CMP) were held in Warsaw, from 11-22 November (although it spilled over to Saturday 23 November). This was also the 2nd official meeting of the Ad Hoc Working Group for the Durban Platform for Enhanced Action (ADP). The first week of the negotiations also saw the 39th meetings of the Subsidiary Body for Implementation (SBI) and Subsidiary Body for Scientific and Technological Advice (SBSTA) convene. Both the SBI and the SBSTA continue to be technical forums to work out the details of UNFCCC architecture on issues as far ranging as market mechanisms, adaptation and REDD+.

More Drama and Tension than a 'normal' COP

The talks took place against a difficult background. Typhoon Haiyan had just struck the Philippines when the meeting began, while Australia's government – supported by Canada – stated it would not begin to contribute to the Green Climate Fund and consequently began efforts to repeal its carbon pricing programme. During the opening plenary of the talks, the Filipino lead delegate announced that he would fast; ideological divisions between developing and developed countries couldn't have been starker this year.

By the end of week one, Japan became caught up in a media frenzy when it announced it would weaken its 2020 emissions target from a 25% below 1990 goal to a 3% increase above 1990 levels, blaming the loss of nuclear power generation post Fukushima – although speculation is this was a ploy to force the nuclear debate at home. This overshadowed its earlier pledge of $16 billion for climate finance by 2016. This leaves Japan as the only Annex 1 country under the Kyoto Protocol to actually decrease its emissions reduction goal – and in fact reverse its first commitment period cuts.

Efforts intensified in week two, with significant progress for REDD+ on both technical assessment (an achievement given much contention throughout the years) and financing, which boosted sentiment amongst various delegatations. On Saturday afternoon, after more than 30 hours of non-stop negotiations, ministers achieved a breakthrough in the ADP talks, closely followed by agreements on financial arrangements. With these two agreements on the ADP and finance in place, the COP was finally able to close.

The main outcomes from COP 19 included:

- An agreement to table post 2020 emissions reduction contributions by Q1 2015
- Agreement on the Warsaw Framework for REDD+ finance
- Establishment of the Warsaw International Mechanism for Loss and Damage
- Finalising the institutional arrangements between the Green Climate Fund and the COP

These are analysed in more detail below, as well as some of the areas where agreement could not be reached and more work is needed. For a full list of the final texts and decisions adopted in Warsaw, please see http://unfccc.int/2860.php; this will be updated in the days to come with the final versions.

Durban Platform for Enhanced Action (ADP): Inching towards the 2015 Agreement in Paris

After a marathon negotiating session, spanning more than 30 hours, Parties finally reached a deal on an **ADP text** in the afternoon of Saturday, 23 November. Talks had stalled over the use of the word 'commitments' in paragraphs 2b and 2c, which was ultimately changed to "contributions", with the following caveat: "without prejudice to the legal nature of the contributions".

Opposition to including a deadline in paragraph 2b, calling for said contributions to be tabled by the first quarter of 2015, was defeated, although the final wording was tweaked to read that this deadline applies to "by those Parties ready to do so", from an earlier draft of "those Parties in a position to do so". The information to be provided in these proposals will be determined at COP 20.

Green NGOs reacted to the compromise with outrage, concerned that the substitution of 'contributions' for 'commitments' could be read as watering down the text and possibly reversing the Durban pledge for all countries, developed and developing alike, to take action to restrain emissions from 2020. Green groups have described the outcome as "a mixed bag", but there seems to be acceptance that – while far from perfect – the compromise at least keeps the show on the road. It remains unclear what the ramifications of 'contributions' will mean-and how it will be interpreted in political capitals—particularly Washington, Beijing and Brussels.

It is also worth noting that the US was a big proponent of the Q1 2015 deadline for targets, to allow ample time for review by all stakeholders and any revisions needed. On the domestic front, this deadline also fits in with the quadrennial energy review underway, which will inform President Barack Obama's climate plan, announced in June 2013. One of the three main themes of the plan is to lead international efforts to fight climate change.

One of the most significant paragraphs for business in the ADP text is 5c, which encourages governments to **promote the voluntary cancellation of certified emission reductions (CERs)** "without double counting, as a means of closing the pre-2020 ambition gap". This is a major step towards bringing the Clean Development Mechanism (CDM) into the new deal under the UN climate convention and not confine it to just the Kyoto Protocol, where it is currently housed. IETA's interpretation of the inclusion of this clause in the ADP text is that it may reflect tacit approval by all countries that the CDM will play an important role in achieving mitigation in the pre and post-2020 periods.

This also tallies with an EU position throughout the two weeks, to use the CDM to achieve net mitigation and not just offset developed country emissions. The decision is at odds with one in Doha last year, to restrict access to CERs to just Kyoto Protocol participants, but that is no bad thing for the carbon market, given the current lack of demand for CERs. It could also position the CDM to form a part of emerging emissions trading programmes in host countries, such as China, Chile and Mexico, among many others.

Finance: Still the most contentious issue at UN climate talks

Climate finance, which continues to be a hot-button issue, saw a notable package emerge from Warsaw. Until the bitter end, developing countries urged developed parties to establish clear mid-term finance pledges and milestones towards mobilizing the $100 billion by 2020 – but, with the exception of an additional $6 billion pledged in Warsaw, clear mid-term finance commitments and timelines didn't materialize.

The "Finance COP" did, however, result in critical decisions that should provide guidance for Parties to go from Warsaw to Paris – including decisions related to the Green Climate Fund (GCF), the long-term finance plan, loss and damages, and REDD+.

On the **Green Climate Fund** (GCF), institutional arrangements were finalised between the GCF and the COP. Initial capitalization for the GCF is expected to begin next year.

As mentioned above, Parties were not able to come to a clear road-map for **long-term finance** (LTF). Warsaw's LTF Work Program decision underscores the need for developed countries to "maintain continuity of mobilization of public finance at increasing levels from fast-start finance period…from a wide range of sources, public and private, bilateral and multilateral, including alternative sources, in the context of meaningful mitigation actions and transparency of implementation".

The decision also recalls that a significant share of new multilateral funding for adaptation should flow through the GCF, and it requests developed nations to prepare biennial submissions on updated strategies and approaches for scaling-up climate finance from 2014 to 2020. Finally, Parties have decided to convene a biennial High-Level Ministerial Climate Finance Dialogue, starting in 2014 and ending in 2020.

Warsaw's decision on the **Standing Committee on Finance** (SCF) report resulted in COP's endorsement of SCF's Work Plan for 2014-15, while taking note of SCF's planned 2014 activities related to the biennial assessment and overview of climate finance flows. COP 19 also took note of SCF's report on its inaugural stakeholder folder, co-organized by IETA and the World Bank and held on the margins of CARBON EXPO 2013 in Barcelona. The group now turns attention to organizing its **2nd Annual SCF Stakeholder Forum** (likely late-spring 2014) – an event where IETA could again be in a position to support the Committee on building private sector elements into the forum agenda and/or targeting private sector participants/speakers.

Loss and damage made substantial progress this year, with a 'Warsaw Mechanism for Loss and Damage' approved by the COP. Financing for this mechanism remains an open issue, but an institutional framework and independent executive body will start to take shape next year. Loss and damage for countries most vulnerable to the effects of climate change will now have a permanent place for discussion and finance under the UNFCCC.

REDD+: Years of hard work led to the 'Warsaw Framework for REDD+ Finance'

Negotiators also agreed **the Warsaw Framework for REDD+ finance**, completing several years of work and backed by $280 million of support from the UK, Norway and the US. The final text allows for a rigorous, transparent framework for measuring emissions reductions from reduced deforestation, along with how safeguards for the environment and livelihoods has been met. This progress paves the way for future REDD+ public-private funding and could pose as a step in the right direction towards future market-based approaches for supporting finance on REDD+.

It takes a results-based finance approach, with cash distributed once developing countries have demonstrated reduced emissions from deforestation providing they submit additional information on safeguards – such as livelihood preservation and biodiversity – for local communities: key to ensuring the transparency and integrity of REDD+ investments.

Accompanying this was a broader text outlining the modalities for the measuring, reporting and verifying of emissions removed by forests/land-use projects. However, it notes that additional verification procedures could be overlaid for "results-based actions that may be eligible to appropriate market-based approaches that could be developed by the Conference of the Parties".

Market Mechanisms: More work needed before 2015

This COP did not produce a serious package of decisions on markets, despite the Polish Presidency highlighting that this would be a 'markets COP' earlier this year.

A mandated review of the **Clean Development Mechanism (CDM) modalities and procedures** was not completed, with negotiators blaming the loss of time in June 2013 (when a procedural spat with Russia over decision making under the UNFCCC delayed work). This review has been deferred to COP 20, although will be discussed at SBI 40 in June before then.

Prior to the negotiations next June in Bonn, the UNFCCC secretariat will prepare a technical paper by 19 March, tackling:

1. Membership and composition of the CDM Executive Board (e.g. including the private sector or civil society on the CDM Executive Board)
2. DOE (third party validation and verification firms) liability to compensate for CER issuances arising from significant deficiencies in validation, verification or certification reports
3. Programme of Activities (PoA) provisions
4. Crediting period duration (e.g. making the CER crediting periods shorter for certain project types)
5. Additionality requirements
6. Elaboration of the role of Designated National Authorities (DNAs)
7. Simplification and streamlining of the CDM project cycle for certain project types

As for **annual guidance to the CDM Executive Board**, it too is lacklustre. While governments noted their concern with the low CER price and the knock-on effect on institutional capacity, paragraphs that could have paved the way for more demand – such as inviting the Green Climate Fund to use the CDM or, at the very least, its methodologies and allowing for the voluntary cancellation of CERs – were culled.

However, a similar proposal to enable **voluntary cancellation of CERs survived in the ADP** text (as mentioned above), as a way for governments to ramp up mitigation efforts prior to 2020. As discussed above, this is the first step to bringing the CDM into the Paris deal and not confine it to just the Kyoto Protocol. **This is an important development for companies examining long-term commitments to the CDM process and project portfolios.**

Perhaps with this in mind, the annual guidance also took incremental steps to make the CDM fit for the future. Decisions were taken to further work on a sustainable development reporting tool for the CDM, and report back at CMP 10 (December 2014, in Lima). The CDM Executive Board has also been asked to continue work on streamlining methodologies for all project types and country-specific baseline and additionality thresholds for sectors in countries that are under-represented in the CDM. It also confirmed that projects cannot re-register once their crediting periods expire.

The review of JI guidelines was also deferred until next year, with discussion to continue at SBI 40 and a decision to be adopted at COP 20.

In the **annual guidance relating to JI**, governments also noted concerns about the impact of low prices on the mechanism, echoing the language in the CDM guidance. The text is relatively short, with no great surprises. The main task is for the Joint Implementation Supervisory Committee to elaborate on a proposal to merge its accreditation system for third-party verifiers with that of the CDM.

On the **framework for various approaches (FVA), new market mechanism (NMM) and non-market approaches (NMA)** – the holy trinity of the 2015 deal – negotiators, ultimately, failed to make any formal decisions in Warsaw, despite the best efforts of the Polish presidency and a willingness by many governments to find a deal.

There seemed to be consensus that the FVA would operate as an information-sharing platform, and towards the end of the first week of the meeting, it looked like there had been a breakthrough on this. However, by the following day, the agreement was off and the FVA/NMM/NMA package was deferred until SBSTA 40, to be held in June 2014.

There was an effort to revive the talks in week two, at a high-level, to facilitate the work in June. After a day of closed-door ministerial discussions, the COP president was forced to abandon efforts once and for all in Warsaw. IETA understands that work on the accounting standards advanced in these talks, however, which is key for the FVA's comparability function and to ensure environmental integrity and, if so desired, fungibility of units.

IETA also understands that part of the reason the talks stalled was due to resistance by some developing country representatives, who are concerned about the implementation of the NMM before 2020 – despite there being little need for it before the 2015 agreement enters into force. However, it is worth noting that not *all* developing countries feel this way; indeed, reports are that some are very much in favour of progress on markets overall at Warsaw but are being hampered by their more economically advanced partners. **IETA will continue to push hard for decisions to be made on a robust and flexible FVA and NMM—which must form a core part of the 2015 deal.**

On the surface, very little was agreed by SBSTA 39 for **nationally appropriate mitigation actions (NAMAs)**, but the three-page text sets out guidelines for the measurement, reporting and verification of NAMAs – although purely voluntary.

2014 Milestones: A make-or-break year for the 2015 Agreement?

If anything, Warsaw seemed to be the wake-up moment for the ADP negotiations: recognising that so much work needs to be done to ready a negotiating text for circulation in May 2015, and a desperate need to avoid a repeat of the Copenhagen debacle in 2009, the idea of hosting additional meetings next year was floated early on at COP 19. In the end, a high-level ministerial dialogue has been planned to coincide with the SBSTA and SBI 40th meetings in June, and another at COP 20. The planned climate summit, to be hosted by UN secretary-general Ban Ki-moon, in September next year was also noted in the ADP text.

As touched on above, the **CDM M&P review** will continue at SBSTA 40 in June, with a view to completing the review at COP 20 in Lima, Peru.

Negotiations in 2014 will play out against a backdrop of important scientific announcements: the IPCC Adaptation chapter will be released in March, followed by the economics chapter in April and the synthesis paper in late October. These reports will influence and guide climate envoys as they prepare positions for COP 20 in Lima (December 1-12, 2014) – and possible pledges of "contributions" in early 2015.

IETA's COP 19 Pavilion: A hub for business and markets/finance discussions throughout the 2 weeks

IETA this year teamed with friends and sponsors to host a space inside the main COP venue, where we conducted an intensive series of events. Highlights included:

- The first **business/youth dialogue**, looking at how the two communities could work together to effect change. We were encouraged by the endorsement of carbon markets by the youth panellists, who said they recognised that this is one of the fastest and cost-effective ways to tackle climate change. We hope this is the start of an ongoing dialogue between the two sides.

- **UN climate chief Christiana Figueres** gave IETA an hour of her time to talk with president Dirk Forrister and answer questions from the audience, covering ICAO's decision in October to develop a global market-based mechanism, the CDM and the role of business in climate policy formation. She was very optimistic on the future for the CDM and told the audience the mechanism "definitely has a role in the 2015 agreement".

- IETA hosted a high-level side event on **reconciling climate policy and challenges linked to competitiveness**. The distinguished panel included the UK's Secretary of State for Climate and Energy Ed Davey, MEP Romana Jordan from the European Parliament's Environment and Energy Committees, Bill Kyte from E.ON, and IETA's President and CEO Dirk Forrister. The focus was on finding ways to shape climate policy in such a way that it would work hand in hand with competiveness challenges, with all speakers agreeing that climate policy was not the cause of competitive difficulties that many businesses are currently faced with, and that it could even play a role in improving businesses' competitive advantage.

- The same day, we held another high-level event addressing **the next steps to reduce aviation emissions**, with presentations by MEP Peter Liese, Konrad Hanschmidt from Bloomberg New Energy Finance, Andreas Hardeman from the International Air Transport Association, and Jacob Werksman from the European Commission's climate division. Liese gave an update on the EU ETS amendment to take into account October's ICAO decision – and before the end of April 2014, otherwise the legislation applies as initially passed, which would contravene the ICAO agreement.

- Three experts on China's emerging carbon market joined Jeff Swartz to discuss the current **status and challenges of the pilot emissions trading programmes in China**, including: Li Junfeng, Director General of the National Climate Change Strategy Center (part of NDRC); Xueman Wang, Team Lead, World Bank Partnership for Market Readiness (PMR); and Lu Xuedu, Senior Advisor, Asian Development Bank. The discussion highlighted the challenge towards eventually covering emissions across the entire economy, but held out hope that this could be done with the right set of complimentary policies. The panellists said that pilots in Shenzhen, Beijing, Shanghai, and Guangdong will help show other regions how emissions trading can help provincial and municipal governments meet their carbon intensity and energy intensity goals.

- At the end of week 2, IETA co-hosted a **CEO breafast dialogue with the Global Environment Facility** (GEF). The roundtable, chaired by GEF's CEO Naoko Ishii and moderated by IETA's Dirk Forrister, focused on the vision for expanding private sector engagement on climate through stronger public private partnerships. The interactive gathering served as an opportunity for international business leaders to learn more about the unique role that the GEF (and partner agencies) can play in piloting and validating innovative approaches in the evolving architecture of environmental finance. Specifically, participants were invited to: discuss new low-carbon trends and highlight new needs (eg, the role of insurance in adaptation; how policy uncertainty affects carbon/climate financing); and brainstorm new pathways for financial innovation and new public private partnerships. For more information, or to participate in future activities with the GEF, contact Katie Sullivan on sullivan@ieta.org.

IETA IN THE PRESS DURING COP 19

- Dirk Forrister, president and CEO explains emissions trading to CCTV
- Dirk Forrister tells Bloomberg how markets can help countries transition from coal
- Coverage of IETA's chat with Christiana Figueres on Ecosystem Marketplace
- Jeff Swartz, IETA's international policy director, on loss and damages
- Reuters TV clip on the role of business at the UN talks, featuring Dirk Forrister (text only)
- Dirk Forrister talks to Platts about the state of play at the end of week 1
- Bloomberg on the CDM modalities and procedures review
- Opinion piece in Thomson Reuters Point Carbon's weekly report on why Warsaw offers potential to encourage market links
- Coverage of IETA's GHG market report and here too
- Jeff Swartz talks to Reuters about a proposed CER floor price

- Katie Sullivan writes about climate finance for the Environmental Finance COP blog
- BusinessGreen on the breakdown of negotiations for the framework of various approaches
- BusinessGreen on the REDD+ Declaration, launched on 16 November by IETA and partner organisations
- Behind paywalls: Argus on the China ETS side event; Platts talks to Dirk Forrister about the failure to progress on markets; Bloomberg quotes Jeff Swartz on the CER price floor proposal; and more
- Plus interviews with Argus Media, Ria Novosti and Bloomberg to be published in the coming days

++

Should you have any questions on the content of this Brief, please contact IETA's Brussels office on +32 2 230 1160 or Brussels@ieta.org