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COP25 Summary Report

Climate Challenges
Market Solutions



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COP25:

So near yet so far: Parties fail to bridge divide on Article 6



COP25 President Carolina Schmidt of Chile toiled tirelessly to create consensus, but entrenched positions undermined her work. (Photo: Reuters)

The UNFCCC's 25th Conference of the Parties (COP25) took place in Madrid, Spain from 2-13 December 2019, after the original hosts Chile decided they could not guarantee the safety of the event amid widespread social unrest.

Despite having just one month's notice, Madrid stepped up to the plate in fine style. Whatever the venue may have lacked in terms of ambience, it more than made up for in efficiency and scale.

However, after two weeks of arduous negotiations, COP25 failed to reach agreement on a set of rules for international cooperation on market mechanisms.

Entrenched views on key aspects of these rules made consensus impossible, even after the talks extended into Sunday morning. Parties will resume their negotiations at the next meeting of the Subsidiary Bodies in mid-2020.

But the failure to reach agreement on Article 6 does not prevent countries from pursuing cooperation through market opportunities. Indeed, a number of Parties were quick to emphasise this in their closing statements. IETA will work hard to support these efforts, as it has always done – but with increased emphasis.

Incoming COP 26 President Claire Perry O’Neill tweeted, “We will pull no punches next year in getting clarity and certainty for natural carbon markets and will work with everyone including the private sector for clear rules and transparent measurement.”

THE KEY OUTCOMES FROM COP25:



Article 6 negotiations at this year's COP enjoyed far greater participation from Parties and observers than they have at previous events.

The complete list of documents and decisions adopted at COP25 can be found [here](#).

Chile Madrid Time for Action: The [COP](#), [CMP](#) and [CMA](#) approved their respective decisions, tagged “Chile Madrid Time for Action”. The decisions stopped short of calling for Countries to put forward more ambitious NDCs next year – language that many Parties were hoping to see in the decision – but instead included softer calls on all Parties to enhance their ambition and commitment across all aspects of the UNFCCC’s work.

Article 6: Parties failed to reach consensus on decisions on Article 6.2, Article 6.4 and Article 6.8. The COP noted the draft decision texts and asked SBSTA to take up the matter at its next meeting in June 2020. Parties furthermore noted that “these draft texts do not represent a consensus among Parties”.

Long-Term Goal: ([Periodic review of the Long-Term Global Goal under the Convention](#)) The COP agreed on the scope of the second review, and confirmed it will start in mid-2020 and end in 2022.

Loss and Damage: ([Warsaw International Mechanism on Loss and Damage](#)) The review of the WIM did not achieve significant progress in Madrid as Parties differed over governance of the mechanism.

Gender and Climate Change: The COP welcomed the report on the Lima work programme on gender, and adopted an enhanced five-year work programme, which the Subsidiary Body on Implementation will review in 2024.

CDM Guidance: The CMP adopted a procedural decision for CDM guidance, bogging down calls from some Parties to use the leftover CDM funds to help standing up the new Article 6.4 mechanism.

Negotiators made little progress on the topics of Common Timeframes for NDCs and on the operationalisation of the Transparency Framework, with both issues ending with Rule 16: meaning no outcome and work being pushed to next year.



ICROA's Antoine Diemert spoke at a high-level meeting on tourism alongside UNFCCC Executive Secretary Patricia Espinosa

INTRODUCTION:



The Chilean presidency had characterised this year’s COP as a “COP of ambition”, setting in motion a process that they hoped would see nations announcing commitments to submit improved Nationally Determined Contributions at COP26 in Glasgow next year.

However, Article 6 loomed large over the event from the start. It overcame any attempts to remove it from the spotlight. The guidelines for market mechanisms under Paris also earned considerably more attention from the environmental NGO community than they normally do, and this underscored the relative prominence of the issue.

As always, the agenda was divided among the three governing bodies: the 25th Conference of Parties to the UNFCCC (COP25), the 15th Conference of Parties serving as the Meeting of Parties to the Kyoto Protocol (CMP15), and the second Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA2). Article 6 appeared under the jurisdiction of the CMA, with the preliminary technical discussions handled by the Subsidiary Body on Scientific and Technical Advice (SBSTA).

WEEK ONE:

The talks began with a set of texts produced in the mid-year negotiations in Bonn. Paul Watkinson (France) continued to guide the work as SBSTA Chair. His appointed co-facilitators, Peer Stiansen (Norway) and Hugh Sealy (Barbados), handled the daily grind of negotiations during the first week. Their task was to advance work on the texts until Monday 9 – and then hand over a cleaner draft (leaving only key political issues open) to the Chilean Presidency, which would advance work in the second week.

The fault-lines in the Article 6.2 talks were clear from the start. Just as in Katowice last year, there were divergences over:

- how to define and make corresponding adjustments in national balances for transfers of Internationally Transferred Mitigation Outcomes (ITMOs), including rules for tracking transfers and to apply adjustments to single-year and multi-year NDCs;
- how to treat transfers from outside the scope of an NDC;
- whether to cancel a share of units from 6.2 trading systems to ensure that there is an “overall mitigation in global emissions” from every trading mechanism;
- whether to take a share of 6.2 transfers to provide additional funds for the Adaptation Fund – as is expected for the 6.4 mechanism.

In Article 6.4, there were even larger differences over:

- carryover of Kyoto Protocol units (both AAUs and CERs) – or to limit them to certain registration years or issuance dates;
- whether to require corresponding adjustments for units produced by the new 6.4 mechanism;
- baseline and additionality provisions in a new system, where every country has NDC targets,
- how to operationalize the “overall mitigation in global emissions” requirement, including the level of a potential discount or cancellation, and
- how to levy the share of proceeds.



Stefano De Clara participated in a discussion on the voluntary markets at the Italian pavilion.

Parties began their work based on the text produced at the June meeting of the subsidiary bodies, but an updated and slimmer version was generated by Wednesday. This was an encouraging sign, because it reflected a number of compromises. Some Parties criticised the COP Presidency for having produced this iteration too quickly, saying that a shorter text only served to highlight the areas of disagreement.

The talks shifted into closed sessions (“informal informals”) on Thursday to go through text line-by-line, with the intention of producing another iteration by the weekend. There were further discussions on Article 6.2 and 6.4 covering accounting for single-year vs multi-year NDC targets, baselines and additionality, as well as some time spent on methodology options for the 6.4 mechanism.

Negotiating sessions continued in a closed setting on Friday, focusing on more detailed Article 6.2 topics. These included how to deal with NDCs that are measured in non-GHG metrics, timing of corresponding adjustments, whether adjustments should be done annually or over longer periods and methodologies for calculating NDCs. On Article 6.4, there was discussion of whether to review existing CDM methodologies and accreditation standards.

The second iteration of text duly arrived late on Saturday of the first week. The intention of the drafters was to refine the text to the point where the only remaining issues were the key elements that needed political decisions: limits and safeguards; metrics (whether Article 6 approaches will use tonnes of CO₂ only or also other measures); how to treat ITMOs that are generated inside/outside the scope of NDCs; non-NDC uses (such as CORSIA); accounting for 6.4 units; Share of Proceeds and OMGE; and the CDM transition.

However, the text was judged by our observers to be inconsistent and poorly drafted in places. In addition to the topics mentioned above, they highlighted concerns with sections covering corresponding adjustments, baselines, additionality and the criteria for transitioning CDM projects to the new mechanism.

Article 6 also has considerable implications for the voluntary sector. IETA members spent some time discussing the impact that elements, such as corresponding adjustments, inside/outside NDCs, Share of Proceeds and OMGE would have on that market.

The final sessions of talks within SBSTA became more businesslike, with Parties urged to restrict themselves to suggestions for improving the language in the proposals.

After the informal meeting concluded at around 1300 hrs on Saturday, the co-facilitators retired to produce a fourth version on Saturday evening around 17:00 pm. Initial impressions from IETA’s text experts were that the drafting had been done very carefully to improve the structure and flow of the proposals, but that difficult issues remained.

A proposed SBSTA meeting on Saturday night was cancelled, since few had had an opportunity to study the new text. Negotiators gathered privately on Sunday to focus on the divisive issues.



Hub Partners Mars hosted two sessions on land use, agriculture and forest protection

WEEK 2:

On Monday Parties continued private discussions – and ultimately decided to forward a slightly revised Article 6 text to the COP Presidency.

Following the usual COP process, SBSTA negotiations aimed to advance the technical work on the draft text as much as possible and then forward the outcomes of this process to the COP Chilean Presidency. The Presidency would take charge of advancing negotiations from that moment on, including drafting new texts and orchestrating the high-level (ultimately ministerial) engagement in the talks.

There was a considerable gap between the appearance of final SBSTA text on Monday 9 and the first 'Presidency' version that appeared on Friday December 13. During this period, negotiations were held largely in closed sessions, making it difficult to assess progress.



IETA staff were active participants in the daily BINGO briefings.

On Tuesday 10 December, the political phase kicked into high gear. The Presidency circulated the SBSTA texts among Parties and asked the climate ministers of New Zealand (James Shaw) and South Africa (Barbara Creecy) to facilitate discussions at ministerial level. Parties were encouraged to focus on where convergence could be found, including drafting compromise proposals, rather than adding new options.

The key issues on their agenda were metrics, inside/outside NDCs, Share of Proceeds, accounting for Article 6.4, OMGE and the CDM transition. These would require high-level political decisions. At the same time, additional issues needed resolution at the technical level. These included reporting and review cycles, baselines, additionality and Article 6.8. IETA observers and members coordinated our input to these issues and transmitted them to the Parties as well.

By Thursday 12 December it was becoming clear that there had been very little progress on any of the key elements. This prompted Carlos Fuller of Belize, lead negotiator for the Alliance of Small Island States, to convene a press conference at which he said “We are appalled at the state of negotiations.”

Simon Stiell of Grenada added, “There is a need for robust [market] mechanisms that will be part of robust climate action. But when some countries are championing double-counting and pre-2020 rollovers, they are undermining environmental integrity.”

The press conference was also notable for Costa Rica’s Minister Rodriguez naming Australia, Brazil and the United States as being the main obstacles to ambition.

Ministers James Shaw of New Zealand and Barbara Creecy of South Africa continued to hold bilateral meetings with Parties, “to test possible landing zones that we’ve heard.” as Minister Shaw said during a midday stock-taking plenary. He said a new text would be issued “very early” on Friday morning.



Simon Henry joined a panel discussion on finance for climate-smart rice

Article 6 draft text - Presidency iterations

The Chilean presidency produced three separate iterations of the draft texts for Article 6. Please see the links below. All the texts below have been carried forward as the basis for work in 2020.

Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement, available at:

- <https://unfccc.int/documents/204687> (third iteration, 15 December),
- <https://unfccc.int/documents/202115> (second iteration, 14 December), and
- <https://unfccc.int/documents/204639> (first iteration, 13 December);

Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement, available at:

- <https://unfccc.int/documents/204686> (third iteration, 15 December),
- <https://unfccc.int/documents/201918> (second iteration, 14 December), and
- <https://unfccc.int/documents/204644> (first iteration, 13 December); and

The work programme under the framework for non-market approaches referred to in Article 6, paragraph 8, of the Paris Agreement available at

- <https://unfccc.int/documents/204667> (third iteration, 15 December),
- <https://unfccc.int/documents/202118> (second iteration, 14 December), and
- <https://unfccc.int/documents/204638> (first iteration, 13 December).

The first “Presidency” version of the text, released on Friday 13, did not appear to resolve many of the key political issues under Article 6.4, but the texts on 6.2 and 6.8 seemed closer to resolution. As the talks moved into overtime, a coalition of Parties issued a set of principles that underscored the need for greater environmental integrity. The [San Jose Principles](#) call on Parties to commit to not use pre-2020 units, to embrace robust accounting, to call for more ambitious methodologies and baselines and to insist on transparency in accounting. This group grew to more than 30 countries by the time the COP ended.

At the same time the Presidency pushed out a second iteration of the text which virtually crystallised an agreement on the 6.2 text while leaving open key political questions on the 6.4 front, especially on:

- Delivery of OMGE in Article 6.4;
- Corresponding Adjustments for 6.4 – and outside NDC transfers;
- Baseline and additionality terms for the 6.4 mechanism; and
- Kyoto unit carryover.

These issues became the focus of the final political negotiations on Saturday 14.

By Saturday night it was clear that countries were in a deadlock around these issues, perceived as insurmountable red lines on both sides. In particular:

- Brazil, India and China and others pushed for a large carryover of Kyoto units,
- Brazil and China also pushed for lax accounting rules for 6.4.
- For the EU, the Environmental Integrity Group, AOSIS and others, the Kyoto carryover and 6.4 accounting were clear red lines, as from their point of view even the smaller concession would have undermined the system’s integrity.
- AOSIS and the African Group were not happy about the way the Share of Proceeds and OMGE were dealt with under Articles 6.2 and 6.4.

In a desperate attempt to avoid a ‘no deal’ outcome (i.e. the same as in Katowice), the Presidency tried to push forward a third iteration of the texts, which left Article 6.2 virtually untouched, and punted decisions on the key 6.4 issues mentioned above to later. This was not acceptable to several parties, either because it crossed red lines or because it was too vague on key issues.

CLOSING PLENARY

Parties convened just before 0900 on Sunday 15 December to bring the COP to a close. Following the impasse on the text, the Presidency proposed to adopt a Katowice-style decision (available [here](#)), which ‘notes’ the versions of the texts produced by the Presidency and tasks SBSTA with continuing the work in 2020, with a view to reaching agreement at COP26.

An initial attempt to carry forward only the last version of the texts was pushed back by several countries wanted to reference older versions of the texts as well.

In their closing statements, several Parties affirmed that the impossibility of finding agreement on the Article 6 rules will not stop international markets cooperation from moving ahead – while also noting that they intend to use the latest version of the Article 6.2 text as a basis to move forward with Article 6 pilots.



COP25 ended at 1:55pm on Sunday afternoon, making it the longest-ever meeting (Photo: UNFCCC)

ON THE SIDELINES OF COP25:

IETA came well-prepared to COP25. In advance of the summit we published our priorities for this year's negotiations, both for the [COP](#) as a whole, and for [Article 6](#) in particular. We also produced a short [explainer](#) for visitors to the IETA Business Hub.

Our media presence was considerably stronger than in previous years; to some extent this was not a surprise as IETA is the pre-eminent NGO working in the field of market mechanisms.

IETA enjoyed a high profile both inside and outside the negotiations. We welcomed negotiators from the EU, Africa, Asia and Latin America to the Hub, as well as leading academics and business executives. Our sessions were invariably very well-attended by both delegates and media, and the “lounge” area of the Hub was busy throughout the event.

We ran a very active social media presence throughout the two weeks, highlighting our events and running a campaign to support Article 6. The International Chamber of Commerce distributed badges reading “All I Want for Xmas is Article 6”, which we turned into a popular thread on Twitter with photographs of delegates proudly wearing the badge.



Our “#alliwantforxmasisarticle6” social media campaign was a great success

The series of IETA side events focused on the state of the negotiations were our best-attended side events, and we engaged closely with the press throughout.

On 4 December we joined with Natural Capital Partners to present the “[Net Zero Award](#)” to the United Kingdom on 4 December, in recognition of the country's early

adoption of emissions trading and its legally-binding target of net zero emissions by 2050. A member of the judging panel called it the “most robust net zero commitment of any G20 country.”

During the second week of the talks, IETA and the Environmental Defense Fund updated our [Katowice Declaration on Sound Carbon Accounting](#), to highlight the importance of robust measures to prevent double-counting, which remained a key point of disagreement among negotiators.

With Article 6 dominating the agenda at this COP, IETA was in a prime position to showcase our members’ and staff’s expertise. Throughout the two weeks we hosted side events at which experts provided updates on the state of the talks, while IETA staff appeared at a wide variety of events elsewhere in the halls.



IETA organised regular sessions providing insights into the progress of the talks.

On 5 December IETA launched a new initiative at COP dedicated to advocating for market solutions for nature-based abatement. “Markets for Natural Climate Solutions”. This initiative aims to build a global market for carbon credits generated from NCS projects from forests, soil and wetlands, enabling private sector investment at scale. Markets for NCS will support the transition to a low-carbon economy and promote increased ambition on climate action.

As part of the Business and Industry Day, our CEO Dirk Forrister presented the findings of our major research project this year, looking at the value of cooperation under Article 6.

IETA worked with researchers at the University of Maryland, the Electric Power Research Institute and Environmental Defense Fund on economic modelling to show

how a robust Article 6 (including land-use) could generate savings of no less than \$320 billion a year and reduce an extra 9 billion tonnes of CO₂ by 2030 compared with purely national action. We made these studies a strong theme of our engagement throughout the COP.

Nature-based solutions was a strong theme in this year's programme of side events. Eight separate events dealt with private sector finance for NCS, abatement and climate resilience, how NCS can improve environmental and social performance, ways to improve forest restoration and on how emerging markets can help drive demand for REDD+ activities. These complemented many other NCS events around the COP.

There were also sessions on carbon accounting in the land use and agriculture sectors, how innovative finance can scale up support for tropical forest protection through REDD+, on new measurement, monitoring, reporting and verification systems to reduce on-farm emissions and on agroforestry and climate-smart livestock production.

We also played host to the launch of this year's edition of the EcoSystems Marketplace [State of the Voluntary Markets Report](#). This event was extremely popular and demonstrated the high levels of interest in voluntary action alongside international and national market mechanisms.

Article 6 was the other major theme of the COP fortnight at the IETA Hub. We convened five side events which examined the potential for international cooperation and markets to help address the challenge of the Paris Agreement.

We welcomed negotiators from Africa, who reported on the experience of early pilot projects and on regional readiness for Article 6. Professor Robert Stavins of Harvard University moderated a high-level panel discussion on Article 6. Former IETA CEO Andrei Marcu also hosted several events looking at the progress of the negotiations.

Several sessions also looked at how Article 6 can help attainment of the Sustainable Development Goals, and ways to measure that progress.

There were also a number of sessions looking at existing markets: IETA members Vertis Environmental Finance presented a session looking at the outcomes from the third phase of the EU emissions trading system and the prospects for the fourth phase, which starts in 2021.



Belize led the AOSIS group at COP25 and pressed hard for a more ambitious outcome.

Another event by the Asia Society Policy Institute reviewed latest developments in efforts to link carbon markets in Asia, featuring speakers from Korea, Thailand, the Asian Development Bank and New Zealand.

The International Air Transport Association provided an update on the state of preparations to launch the CORSIA global aviation market. Germany's environment ministry, Airlines for America and the Oeko Institute participated in a session focusing on the technical rules for the new market.

IETA's Katie Sullivan moderated a discussion on carbon pricing and cross-border cooperation in the Americas, focusing on how different national and sub-national areas are collaborating towards the development of "carbon clubs."

North American delegates also discussed the challenges in decarbonising the transportation sector, reviewed the state of policies at local and regional level and considered the latest initiatives to drive low- or zero-carbon transportation.

Chevron moderated a discussion on the state of carbon capture and storage, while the Global CCS Institute presented ideas on how to boost today's roster of just 19 operational projects into the more than 2,000 operating projects worldwide that are needed to decarbonise the world's economies.

Global Environmental Markets, one of our main partners at the Hub, held several events this year at which they highlighted the opportunities for trading ITMOs and presented registry and trading software that is being used by the Spanish province of Galicia to trade local reforestation offsets.



IETA held its Annual General Meeting at the headquarters of Spain's soccer league, where members elected Jonathan Grant of Rio Tinto (left) the new Chair of the Council, succeeding Rick Saines of Pollination Capital (formerly of Baker McKenzie).

Other topics discussed at the IETA Hub included: markets and the low-carbon transition in Mediterranean countries; the impact of carbon pricing on competitiveness; monitoring, reporting and verification; emission reductions from nitric acid production; how business and investors can respond to climate risk; reducing methane emissions in Canada; abatement projects in Asia, and the role of voluntary markets.



IETA Hub Partners S&P hosted a very well-attended session on how responsible investment can accelerate the low-carbon transition.

IETA staff also made frequent appearances at other pavilions: Dirk spoke at events sponsored by China, the EU, the IEA, the World Bank, EPRI, the European University Institute and the EBRD.

Stefano De Clara participated in events held by the International Chamber of Commerce, the Italian Government and Brazil, while Katie Sullivan spoke at Canadian-sponsored events.



On to COP26 in Glasgow! (Photo: UNFCCC)

THANKS TO OUR PARTNERS

Finally, we'd like to thank every one of our speakers, and the partners that made our participation and our programme at COP25 possible:

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