

## Taking stock after the Warsaw COP

Andrei Marcu

4 December 2013

**B**ack from Warsaw to the immediate realities of Brussels, it is startling to see how participants struggle to find a name, a sound bite, a catchy phrase, to describe COP 19. In the end we need to accept that it was a negotiating session for governments to make progress towards reaching a long-term and effective climate change agreement to replace the very logical, but no-longer politically palatable Kyoto Protocol.

UNFCCC negotiations, and the COPs, are in fact negotiations of an economic agreement to address an environmental problem. We are reminded of this through the main preoccupation in Brussels these days, namely competitiveness. Narrowed to the context of climate change, this could be translated into: "What is the impact of activities to address climate change on the competitive and economic welfare of the EU?"

While many issues are being negotiated – too many, both political and technical – in a heretically simplistic way a number of questions stand out:

- i) Are the targets adequate and how do we reach environmentally adequate targets?
- ii) Can one understand and compare what other Parties are promising to do to ensure that the level of effort is comparable and equitable, and that companies are not asked to do more than their competitors in other jurisdictions? Is there comparability and equity in the eyes of the beholder?
- iii) Do we understand what tools each country uses (what is available, what one gets as support) to ensure that no one country (and its companies) gets an easier ride or competitive advantage in meeting the commitment/promises that countries make.

If an agreement is to be reached in 2015, these questions need to be answered. If they are not, there will be mistrust, fear of carbon leakage and the temptation to resort to protectionist measures to compensate for competitive disadvantage.

This Commentary looks at the results of the Warsaw COP through the lens of these three questions, with a view to understanding how much the Warsaw COP contributed and where we stand two years ahead of Paris.

But first, a bit of background. From a somewhat privileged perspective as a member of the Polish Presidency team, we can say that the Polish COP Presidency did not do so badly, especially considering the environment it was operating in. It addressed well the danger of

Andrei Marcu is a Senior Advisor and Head of the CEPS Carbon Market Forum.

CEPS Commentaries offer concise, policy-oriented insights into topical issues in European affairs. The views expressed are attributable only to the author in a personal capacity and not to any institution with which he is associated.

Available for free downloading from the CEPS website ([www.ceps.eu](http://www.ceps.eu)) • © CEPS 2013

the fall-out from the overly enthusiastic gavelling in Doha, which blocked the SBI (Subsidiary Body for Implementation, one of two permanent subsidiary bodies to the Convention) in June in Bonn. Under less able management, this issue could have derailed the whole COP.

In addition, while the Contribution of Working Group I to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (Climate Change 2013: The Physical Science Basis, Summary for Policymakers) increased the urgency for action, UNEP told us that the actions to close the gap (both in terms of the level of effort and enthusiasm) remain inadequate.<sup>1</sup> Nevertheless, the new direction in which Australia is moving, the new Japanese target and the removal of the COP President from his domestic duties in the middle of the High Level Segment certainly did not make things easier. One can argue that all this did not create a “can do” atmosphere.

Echoes of Doha could be heard in the form of the negotiations under Articles 5, 7 and 8 of the KP – covering modalities for accounting under the Second Commitment Period (SCP) of the Kyoto Protocol (KP) – and which could not be concluded in Warsaw. After the Doha Amendment, completing this technical part is necessary for the operationalisation of the SCP. This left KP business unfinished and will continue as an issue that has its origin in the decisions and process in Doha.

This has now become an issue for Ukraine, which seems to want to be part of the SCP and is affected by how the amount of AAUs, it receives is calculated. This can be resolved by Ukraine accepting a significant loss of AAUs, which will have implications for its post-2015 starting position, or its departure from the SCP. The later scenario would also translate into a disappearance of JI supply from the carbon market, not a negative prospect for some. Finally, if the Ukrainians dig their heels in (an unlikely scenario), it could lead to gridlock in operationalising the KP.

Hopefully, this issue, and the sensitivities around Doha, will be resolved in the coming months, but it will require attention and management. It will not happen on its own, and it may re-emerge as part of a further push to come up with rules of procedures to make decisions in the UNFCCC. In Warsaw, there was an initial exchange of views (led jointly by Poland and Peru) that will continue in June.

We did observe a notably more positive stance from the US, which is certainly heartening, and gives all great hope. But we also heard language reminiscent of the divide a few years back between developed and developing countries, historical responsibility and unfulfilled commitments from the so-called ‘Like-Minded Group’, which one can only hope is a simple negotiating tactic.

To provide transparency in commitments, one of the three issues mentioned above, this COP moved forward the process for arriving at a set of results that would ensure:

- A clear timetable (by Q1 2015, if possible) and
- Consistent ways (to be defined by the next COP) for different countries to present what they propose to deliver in terms of GHG mitigation efforts post-2020.

In this respect, the Warsaw COP can claim success. The timetable will also provide the opportunity to assess these promises, although there is no clear process in place to do that yet.

---

<sup>1</sup> See the UN Environment Programme’s *Emissions Gap* report ([www.unep.org/publications/ebooks/emissionsgapreport2013/](http://www.unep.org/publications/ebooks/emissionsgapreport2013/)).

The last-minute compromise introduced in the Ad hoc Working Group on the Durban Platform for Enhanced Action (ADP) text by the use of the word “contributions” instead of “commitments” to describe what countries will have to put forward, does not detract from the most significant change, namely the fact that it only refers to all Parties, with no differentiation. This moves the discussion away from distinguishing developed from developing countries (which characterised the Kyoto Protocol) in the type of contribution that they need to make (and in UNFCCC text, in separate paragraphs). The language in the ADP is still soft, and constructively ambiguous, but it provides a way forward.

Some see in the ADP a move away from the so-called ‘top-down’ approach (KP approach), to a more ‘hybrid approach’ where countries define what they do in accordance with some common and understandable rule and there is some solution (not at all clear yet) on what to do with the gap between the 20C and the aggregate of pledges.

While there is some truth in that, in reality the KP was never a top-down model that divided a global emissions pie according to a formula. It always had a bottom up approach, in that countries put forward negotiating positions. In the end, the 2015 pledges will also be the result of negotiations.

Besides the fact that the idea of budgets and AAUs disappears, the change is in the reality that everyone must do its part (developed and developing).

In this respect, the Warsaw COP managed to finalise the rules for Measurement Reporting and Verification (MRV) and to agree on the specifications of how to analyse the biennial reports from developing countries through international consultation and analysis (ICA).

There were other difficult issues that were addressed, such as the so-called “Loss and Damage” that would allow vulnerable countries to address the impacts of climate change. While a “Warsaw international mechanism for loss and damage” was established, it did not have the economic element that some, especially the Alliance of Small Island States (AOSIS), wanted. It was, in the end, subsumed under the Cancun Adaptation Framework, giving it a different orientation, but with a review at COP 22 in 2016.

Finance, always an important issue at COPs, saw the first guidance to the Green Climate Fund (GCF) and saw developed countries agreeing to submit new biennial reports on how they will ramp up climate finance. However, no concrete progress was made on the mobilisation of the \$100 billion promised in 2009.

While at least some progress was made on issues that would provide clarity and transparency as to what countries will promise to do, what was noticeable was the lack of progress on issues that will allow countries to understand what tools are at their disposal to meet these commitments – and provide transparency on that.

There was one big success with the results on REDD+ (Reducing Emissions from Deforestation and Forest Degradation). No less than seven decisions (five on methodological aspects, one on REDD finance and one on coordination of finance) were taken. This included a methodological framework for results-based payments and coordination and tracking of REDD+ finance, which makes moving to the third phase possible. We also saw a number of countries pledge \$280 million towards REDD+ activities.

However, progress in REDD+, among other items, continues to be held back by the inability to make progress on the role of markets, and its cousin, accounting issues. How these two issues relate to each other, where they should be discussed and the proper timing between them hamper progress.

There can be little doubt about the significant efforts that the Polish Presidency has made in ensuring progress on markets, focusing on the so-called Framework for Various Approaches (FVA). The FVA is part of the trio of initiatives that have been lumped together and that also include New Market Mechanisms (NMM) and Non-Market Approaches (NMA).

It must be understood that the FVA is seen as one of the central elements of the 2015 agreement, and in general as a move in the direction of decentralisation, with countries using a diversity of approaches. The FVA could be seen, in this scenario, as serving a number of functions, such as:

- Quality control, by ensuring that domestically created reduction units, used internationally for UNFCCC compliance, meet minimum agreed standards, and
- Coordination, by tracking units and avoiding double counting in issuance and use for compliance.

On the other hand, New Market Mechanisms, which, after recent discussions in Bonn, may now seem to cover a great variety of approaches, have no clear definition or common elements, other than the fact that:

- They cover broad sectors of the economy (as opposed to CDM, which is project oriented) and
- They are created and run by the COP, just like a broader and more flexible CDM, in essence a more centralised approach than the FVA.

There was a strong interest in achieving progress on markets, and FVA in particular, and it found strong and vocal support from significant groups, ranging from:

- AILAC (Peru, Colombia, Chile et al.),
- Umbrella Group (Japan, US, New Zealand, et al.),
- EIG (Switzerland, Mexico, RoK, et al.),
- Coalition for Rainforest Nations (41 countries interested in a REDD+ mechanism, and led by PNG), and
- complemented, to a limited degree, by support from Ecuador and
- Brazil, which could support a “transparency platform” in Warsaw in order to understand what initiatives were being undertaken, but not go further.

At the same time there was an array of Parties that did not want to make progress, for a variety of reasons – politics make for strange bedfellows. In no particular order of importance, these reasons include:

- Some are ideologically opposed to markets in the UNFCCC. The UNFCCC is seen as a non-market approach. The FVA is lumped with markets, and seen as providing an avenue for markets to enter the UNFCCC.
- Some recognise the importance and centrality of the FVA in the 2015 agreement, and think that any outcome on the FVA will predetermine the outcome for the 2015 agreement.
- Progress in the FVA is tied to progress on finance and other issues to which they attach importance – this item is viewed as a “give to get”.
- Some remain unconvinced that a decentralised system can deliver quality, and therefore prefer a more centralised approach. Based on the experience with the CDM, some see quality control for compliance units as critical.
- The FVA is an accounting tool/accounting, and discussions under the FVA are a surrogate for accounting discussions. In short, no progress on accounting, no movement on FVA.

Early on in Warsaw it became clear that all that could be accomplished was a “Transparency Platform” that would collect information in a consistent and comparable way on the market and non-market mitigation approaches that are taking place around the world. The COP Presidency had put forward this idea earlier in the year, and Brazil had vigorously made it the main possible outcome in Warsaw.

This very modest outcome succumbed to the determination of those who did not want any progress to happen and who used, or threatened to use, procedural fights to prevent any decision. Those who wanted a decision in the end found that a bloody Pyrrhic victory was a poor return on political capital and recommended dropping the item when the COP President undertook further consultations in the second week.

There are, however, important conclusions to be drawn from the COP in Warsaw.

- First, while many feel that we can only make progress in addressing climate when we start pricing the GHG externality in the economy, no significant decisions were taken on markets in Warsaw. This needs to be addressed and resolved urgently.
- The way forward in integrating national approaches in the UNFCCC was blocked in Warsaw, and it is now seen as unlikely that any progress will be made towards producing anything operational until 2015-16.
- The exception was the modest result in the “Guidance to the CDM Executive Board” item, and a reference in the ADP text on the CDM (clean development mechanisms). Some feel that the ADP reference is potentially important, as it is the first reference to markets in the ADP and may contribute to a solution to ‘salvage’ the CDM. These are not untrue statements, but we should also consider that the CDM is seen as non-threatening, associated with the KP, and as such, politically acceptable. Also, while the importance of salvaging the CDM and preserving the KP markets infrastructure cannot, and should not in any way be minimised, it cannot overshadow the importance of moving forward with Markets 2.0 – the integration of national approaches under the UNFCCC.

It is also worth mentioning that the CMP (Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol) Contact Group on “CMP Guidance to the CDM EB”, the scene of passionate debates in the past, was largely devoid of energy, with the notable exception of the proposal from Ecuador to remove any trade barriers on CERs (certified emissions reductions). Was this aimed at the EU ETS, or was it a more general trade matter?

So, against this background, how can we move forward? Further efforts at the next SBs (Subsidiary Bodies of the UNFCCC) in June 2014, and then in Lima, to move through the same triangle of FVA, NMM and NMA may produce some advances, but they are unlikely to lead to anything operational before 2015-16, at the earliest.

The Platform that was discussed in Warsaw should be created, and used to provide transparency on domestic initiatives. However, it should be much more than that. It should serve as a place where we take a step back, discuss the role of carbon pricing in the 2015 agreement, and how to integrate domestic initiatives and existing (CDM & JI) and future (NMM, NMA) COP-led mechanisms under the UNFCCC. The future of CDM and JI cannot be discussed in isolation, separately from the relationship with NMM and NMA.

This does not imply a new body or negotiating track, but should simply bring together items that are now being discussed separately, under different bodies in the UNFCCC.

We should lay to rest the discussion on the difference between FVA and NMM, things have become sufficiently clear. But this cannot happen until there is an acceptance that the world

will be decentralised, with space for domestically run, as well as COP-run mitigation approaches, all integrated.

At the same time we should also recognise that the FVA negotiations are not about markets only, and would greatly benefit from not being seen as a 'market' issue. They are a much broader exercise, and imply a reflection on how to unify, keep track of and coordinate national actions that result in international transfers. But not everything belongs in there. Such a discussion can only take place once we stop 'dumping' other issues in the FVA.

Every time a little progress seems possible, Parties start to include items that are important and related to the FVA, such as accounting, level of ambition, etc. - but that do not really belong in this discussion. The FVA discussion then becomes a microcosm of the UNFCCC, and, like the whole process, it becomes so broad that it gets bogged down. In my view, this is an effective way to slow things down, for some.

It is imperative that we use the same language. Accounting is important, but what exactly do we mean by 'accounting'? Is the FVA the legitimate place to discuss what gets counted, what is the desirable level of ambition, etc.? Or does this discussion more correctly belong in the place that makes decisions on commitments and ways to meet those commitments?

Put simply, should the FVA discussion be about how to do the accounting, or "just" how to provide the information for the accounting system, by keeping track of units, avoiding double counting, etc.?

Unless we start moving forward under the UNFCCC, solutions will be developed elsewhere, with the UNFCCC process being a "taker". This is starting to happen with other initiatives, private and public, now seen as a better avenue to make progress.