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Still on Hold

No progress on market mechanisms at Warsaw Climate Conference

COP/MOP Special
Analysing the Warsaw Outcome

Content

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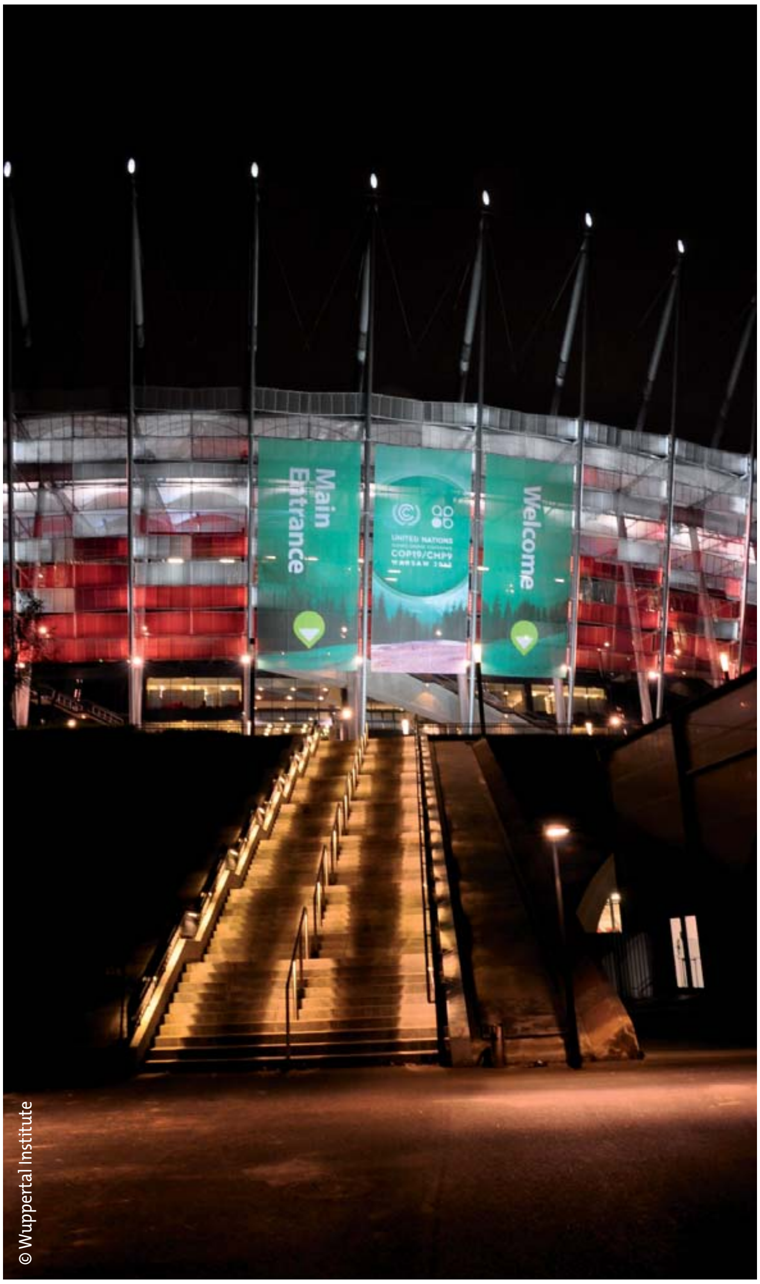

editorial

Dear reader!

welcome to this special issue on the Warsaw Climate Summit. Just like last year's meeting in Doha, this conference did not yield groundbreaking results. This holds especially true for the area of market mechanisms, as our authors report. This is complemented by decisions at the national level. Admittedly, some countries like Sweden and Norway announced purchase programmes for CERs during or after the COP. On the other hand, the German coalition agreement sends discouraging signals: it indicates that Germany will not support any further repair of the EU Emissions Trading System (ETS) and advocates a weak EU reduction target for 2030. This fuels fears that the ETS will not recover mid-term, which in turn will keep demand for CERs and ERUs at low levels for years to come.

Where do we go from here? Carbon Markets will certainly play, as our authors argue, a role in the design of the new climate change agreement that is to be negotiated by 2015. Yet design questions will be solved at a very late stage only. What to do in between and how Carbon Markets could impact the outcome of international climate change talks is laid out in our opinion piece.

On behalf of the editorial team, I wish you an informative read!

Christof Arens

Wuppertal Institute
for Climate, Environment
and Energy

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Crisis Confirmed, Reform Postponed

Report on the flexible mechanisms talks at the Warsaw Conference

Christof Arens

The Warsaw Climate Change Conference was dubbed by many as the 'Finance COP'. While some steps were taken in both this respect and in other fields, the advancement of new carbon markets and reforming the existing flexible mechanisms proved difficult.

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Brazilian proposal

The conference started off with an unexpected proposal by Brazil, suggesting to enable countries to count pre-2020 mitigation actions as well as credits stemming from the Kyoto mechanisms towards the commitments of the post-2020 agreement. In terms of the Kyoto mechanisms, Brazil proposed promoting voluntary cancellation of CERs, among other things, by private sector entities, civil society, and even individuals. It also suggested that Parties to the UN Climate Convention could voluntarily cancel CERs and ERUs, which would then be recognized and "added to [the Party's] contribution under the new instrument". This caused raised eyebrows, with many observers pointing to the vast amounts of surplus AAUs that exist in Eastern Europe, which have already caused problems in relation to the transition from one Kyoto commitment period to the other. Others referred to the carbon market crisis and acknowledged the potential to stabilize CER prices. The proposal text failed, however, to attract adequate support among the Parties and was not pursued further. The final decision on further advancing the Durban Platform, however, contains a general call for Parties "to promote the voluntary cancellation of certified emission reductions, without double counting, as a means of closing the pre-2020 ambition gap".

The stony road towards new market mechanisms

Establishing new market-based mitigation instruments has been on the agenda of the climate talks for several years. Views on this matter differ greatly, with the EU promoting the top-down 'new market mechanism' (NMM) as defined by the Durban conference, while Japan, the US and other industrialised countries are in favour of a bottom-up 'framework for various approaches' (FVA) that should accommodate national offsetting schemes like the Japanese Crediting Mechanism (JCM), with nationally defined (and less stringent) accounting rules. Last not least, a number of Latin American countries which oppose market mechanisms in general have introduced the notion of non market-based approaches (NMA) into the negotiations.

As for the new market mechanism, COP 18 in Doha had decided that the Warsaw conference was to develop modalities and procedures for the NMM. The situation has changed somewhat since last year's conference – something that was mirrored in the slow pace of the negotiations at the intersessional meeting in Bonn last June (see CMR 02-2013). Developing countries are less and less willing to accept the necessity of new market-based instruments given the low level of ambition that developed countries show. A workshop in October that was to pave the way to decision-making in Warsaw was unable to foster any convergence of views.

Thus, the negotiations in Warsaw were characterised by the same dilemma concerning fulfilling the Doha mandate and completely rejecting market-based mitigation measures. As a result, the negotiation text debated shortly before consideration of this agenda item was closed contained two options: (1) putting a moratorium on the new market mechanism, and (2) a listing of elements that the NMM modalities and procedures should cover. This included clarifying the role of the COP, setting standards to achieve a net decrease of greenhouse gas emissions, developing safeguards for environmental integrity, and stipulating the use of conservative methods for the establishment and periodic adjustment of ambitious reference levels.

This gap proved too wide to bridge, and the negotiations broke down. Even the COP presidency, who was asked to take over after the talks led by the UNFCCC's Subsidiary Body for Scientific and Technological Advice (SBSTA) had failed could not resolve the impasse. The NMM negotiations will be taken up again by the next SBSTA meeting in June 2014.

Recognizing bottom-up initiatives

In the FVA negotiations, agreement on the basics of the FVA, such as common accounting rules and an adequate level of transparency, proved difficult. Therefore, the talks focussed on launching a platform for exchange on existing bottum-up initiatives as a first step. An early text proposal mentions aspects for inclusion in the platform, such as methodologies to determine baselines and targets, rules and procedures to ensure environmental integrity, arrangements to avoid double counting, and MRV issues. Non-market-based approaches were also to be included in the platform.

However, as in the NMM talks, neither the co-chairs of the spin off group nor the COP presidency were able to reach consensus. The talks will be continued in June next year. While the idea of the information sharing platform later appeared in a text suggested for decision by the Ad Hoc Working Group on the Durban Platform, the wording was not included in the final decision.

Reforming the existing flexible mechanisms

The discussions on reforming the modalities and procedures of the CDM were even more difficult, starting under difficult circumstances as the talks on this agenda item of the Subsidiary Body for Implementation (SBI) should have started at this summer's negotiations in Bonn. However, contentious issues concerning procedural matters prevented adoption of the SBI agenda and, as a result, only an informal workshop outside the SBI agenda took place.

In Warsaw, the Parties discussed a list of possible changes that partly drew on the above discussions. This list included changing the terms of reference for CDM Executive Board (EB) members, adding further provisions for voluntary net emission reductions, strengthening the role of the host country DNA, excluding certain project types such as industrial gas projects, improving stakeholder consultations, clarifying the requirements for demonstrating additionality, and shortening the length of crediting periods.

The Parties, however, got bogged down once more on the matter of lack of demand. No agreement was reached, and the review of the modalities and procedures was postponed to next year's climate conference. The final decision sets out a narrowed-down list of possible elements of a reform, including EB membership issues, DOE liability, the PoA framework, length of crediting periods, provisions for demonstrating additionality, the role of DNAs, and streamlining the project cycle for certain project categories. The UNFCCC Secretariat has been asked to

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prepare a technical paper by March 2014 on the implications of possible changes in the aforementioned areas. The Parties are invited to provide their views on the paper by April 2014, so that these can feed into the discussions at the intersessional meeting in June 2014 and ultimately assist decision-making at CMP10 in December 2014.

Minor technical steps for CDM reform

Apart from the overall reform discussions, the CMP also discussed its annual guidance documents for the two existing mechanisms. On CDM, the debate revolved, among other things, around further streamlining the project cycle. The use of standardised baselines (SBs) is of particular interest for African countries, which have been neglected by the CDM so far. They hope that further standardisation will bring lowered transaction costs, facilitating projects in their region. This was supported by the EU, which sees standardised baselines as a tool for upscaling and broadening the mechanism. These attempts were, however, met with opposition by Brazil, which insisted that SBs must be used voluntarily and upon host country request.

Negotiators also debated ways to stabilize the CER market. While a proposal to introduce a floor price for Certified Emission Reductions (CERs) failed at an early juncture, the delegates held intense discussions about broadening and refining the options for voluntarily cancelling of CERs. While Brazil and a number of developed countries were in favour of these options, many Least Developed Country negotiators reiterated their concern that this would shift the focus away from the lacking demand from Annex I countries.

In the light of the failed new market mechanisms negotiations, the EU suggested letting the EB analyse how net mitigation of greenhouse gas emissions might be achieved via the CDM. Other proposals included inviting the Green Climate Fund to use the CDM methodologies, and broadening the scope of afforestation/reforestation project activities. The latter was popular with largely with African countries who believe their potential in this sector remains unexploited.

The debate on the technical details of voluntary compensation in particular was extremely long and drawn-out, so that in the end, there was no agreement on several topics under consideration. Hence, most controversial issues were left out of the final compromise text: there is neither a reference to voluntary cancellation, nor to standardised baselines or net mitigation options. On the market situation, the Parties merely note "concern". This is despite the fact that the decision on future climate action under the Durban Platform invites the Parties to "promote the voluntary cancellation of certified emission reductions, without double counting, as a means of closing the pre-2020 ambition gap".

Instead, the CDM guidance focuses on technical improvements, such as rules for projects that are conducted in the same physical location as a completed project. Also, the EB is to evaluate the sustainable development tool and to develop 'guiding tools' that can help DNAs monitor the sustainable development benefits.

On PoAs, the EB has been asked to analyse the thresholds for component project activities and to further improve the regulations for programmes taking place in more than one host country. The annual debate on additionality has led to the repetition of the request to "examine alternative approaches to the demonstration and assessment of additionality".

The CMP also welcomed progress made in establishing the regional collaboration centres set up by the EB to foster CDM project activities in under-represented regions. Last not least, the EB is to collect information on practices for local stakeholder consultations in order to assist DNAs in developing guidelines for the consultation process.

JI Reform in limbo

The level of ambition in reforming JI seems to reflect the dwindling significance of the mechanism itself. The review of the Joint Implemenation guidelines suffered the same fate as the review of the CDM modalities and procedures – it was postponed until the June intersessional meeting. The annual guidance text on JI underlines the need to improve the mechanism. The Joint Implementation Supervisory Committee is to further define its proposals to align the JI accreditation system with that of the CDM.

Conclusion

The crisis concerning the existing mechanisms, meaning the CDM and to a minor extent JI, mainly involves the lack of demand from industrialised developed countries and makes the necessity for new market-based schemes difficult to explain: one of the ideas behind developing an NMM covering "broad segments "broad segments of the economy" was to trigger higher mitigation engagement among developing countries. Nontheless, these activities do actually take place, be it in the form of NAMAs or, as emissions trading schemes in China, Mexico, South Korea and elsewhere.

Thus, a major argument in favour of the NMM has lost its meaning. Given the Warsaw outcome, there are growing signs that there will be neither a top-down NMM nor a framework for bottom-up approaches in the future, and that the only market-based instrument in the 2015 framework could well be the CDM. Whether or not this is scenario will evolve depends to a large extent on the upcoming negotiations on the 2015 agreement and on the definition of "ambition" and how to achieve it (see opinion article 'Future carbon market opportunities not yet ruled out' elsewhere in this issue).

What counts in all of this is that the CDM reform must continue and be taken much further. The long overdue revision of the additionality requirement, along with top-down development of standardised baselines and refinement of their guidelines, are just two of many outstanding issues. Also, if voluntary cancellations of CERs are to be promoted, then the non-mitigation-related benefits of projects must be highlighted, as buyers of these credits will rightly want to showcase their engagement. The chances of a complete overhaul of the CDM mechanism should not be dismissed: in the countdown to the new climate agreement, the window of opportunity will only be open for a limited period.

CDM Decision:
http://unfccc.int/files/meetings/warsaw_nov_2013/decisions/application/pdf/cmp9_cdm_guidance.pdf

JI Decision:
http://unfccc.int/files/meetings/warsaw_nov_2013/decisions/application/pdf/cmp9_ji.pdf

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Analysis: The carbon market following the Warsaw Climate Talks

Future Carbon Market Opportunities not yet Ruled out

Thomas Forth and Dr. Silke Karcher, BMU

The UN Climate Change Conference held in Warsaw, Poland from November 11 to 22 set out a timeline for negotiations on an overarching climate change agreement. In contrast to the Kyoto Protocol, all states are now to commit to carbon reduction targets. The new agreement is planned to be agreed in Paris in 2015 and then enter into force in 2020.

Of course, a timeline is not enough given the uncertainties that abound regarding the emissions quantities individual states are willing and able to commit to. The international community thus faces a difficult situation, because with current national emission levels, the Kyoto Protocol, which distinguishes between industrialised states and developing countries, cannot be simply extended. The EU is now only responsible for around 10 percent of global emissions. And looking at the emissions forecast for the emerging economies over the next twenty years, it is clear that these countries must make a significant contribution to the global climate change effort.

This glance at the near future clearly highlights the window of time in which the new climate change agreement must effect emission reductions of dramatic scope.

The debate regarding the 2020 emission gap of, at minimum, between eight to twelve gigatonnes of CO2e, which is far in excess of any two-degree-compatible path (The Emission Gap Report, UNEP 2013), can only be assigned in part to the industrialised states. It goes without saying that these countries must accept the responsibility that is linked to their history. But looking at historical responsibility is not enough. The distribution of global emissions today and as forecasted for the coming decades indicates a dramatic change compared with the situation back in the days when the Kyoto Protocol was agreed, providing a clear picture of where the responsibility lies regarding the 2020 emissions gap.

To ensure that the climate change negotiations up to 2015 are both fair and attract the participation of all states, the most carbon-heavy states must lead by example by announcing their reduction targets at the earliest possible juncture. The climate change conference in Warsaw underlined once more that these reduction targets must be set to be consistent with restricting global warming to 2 °C. In this regard, Australia's and Japan's revised emission reduction targets – and the lack of acceptable targets in the U.S. and other states – will provoke volatile debate in the next two years. China raised this issue again on the final day of the Warsaw talks. But both the U.S. and China are required to achieve emission reductions, as is the EU, which played a pioneering role right up to the end of the first commitment period and now faces the decision of whether it can accept and is willing to play that role again.

The role of the carbon market

The EU has also contributed significantly to the creation of the global carbon market by providing an emissions trading scheme (ETS) model, and then allowing the use of both CDM and JI certificates within that scheme. Without these Kyoto Protocol mechanisms, particularly the CDM, many regions of the world would have no impetus to use market-based mechanisms to achieve climate change and energy policy goals. The various regional emissions trading systems and the possibility of 'domestic offsetting', in which emissions certificates are made available to businesses covered by the ETS in other sectors (one example is the Chinese CDM), would not have been thinkable without the CDM. And they show that the states involved are all in a position to develop their own market-based instruments.

Given the drop in prices for CDM certificates down to a few cents due to over-supply and lack of demand, the carbon market has fragmented. This fragmentation, which also affects certificate trading as a source of North-South financing, may perhaps only be remedied in 2020 when the new climate change agreement enters into force. Thus, with the current trend, the global carbon market is feeling the squeeze. Unfortunately, this situation cannot be eased by the recently established and fragmented regional carbon markets still in their infancy. Given the CDM's economic performance this is a huge loss to the international climate change regime – according to the CDM Policy Dialogue Report certificate trading effected savings in industrialised countries of USD 3.6 billion by mid-2013 and mobilised some USD 215 billion in climate change investment in CDM countries.

Against this backdrop, the climate change negotiations will have to deal with a negative feedback effect arising from the market-based mechanisms. It is patently clear that unless the states agree to further emission reductions, there will be no demand for emissions certificates. The ensuing drop in carbon market activity will in turn have a negative effect on states' standpoints regarding the onward development of market-based mechanisms. By this logic, notable success in negotiating the future of the market-based mechanisms is dependent on the success achieved in agreeing targets for the post-2020 climate change agreement. Increased ambition on the part of the states beyond 2020, as governed by the second Kyoto commitment period, also plays a role.

What this means is that the market-based mechanisms will be an integral component of the final negotiation phase in Paris. The key factor is then how they can contribute to negotiation success. Under the Kyoto Protocol, they were designed not only to support the developing countries, but to provide the respective industrialised states with flexibility and cost-saving opportunities in meeting their reduction targets. Emissions trading between the industrialised states and emission reduction projects implemented jointly by the industrialised states (JI) themselves or between industrialised states and developing countries (CDM) allowed for cost savings due to varying emission reduction costs, which were instrumental in agreeing the Kyoto Protocol reduction targets. Thus, use of market-based mechanisms can serve to ensure buy-in to ambitious climate change measures.

The market-based mechanisms, reformed and new

If, however, all states are to contribute to mitigating climate change this will have a knock-on effect on the market-based mechanisms. In the climate change negotiations, the EU calls for both the Kyoto Protocol's market-based mechanisms, meaning CDM and JI, and the new market mechanisms (NMMs) to provide for host countries to contribute to net reduction effects in addition to industrialised states' own obligations. This would not only do away with the offsetting nature of the old Kyoto mechanisms, but would enable develop-

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ing countries to increase their ambition. It is evident that, given the lack of mitigation ambition in the industrialised states and with it the lack of demand for certificates, the developing countries view with some scepticism the EU proposals to up-scale mitigation by means of net reductions, developing countries' own reduction activities and sectoral emission reduction measures. This situation could, however, change if the industrialised states' targets in the 2015 agreement are sufficiently ambitious.

Apart from allowing more cost-effective means of meeting reduction targets, NMMs offer huge opportunities for advanced developing countries, while the reformed CDM allows the remaining developing countries to raise ambition by means of cooperative measures. What is more, developing countries that opt for an NMM activity have the chance of linking its implementation to the reduction efforts of the industrialised states.

This gives developing countries an opportunity to pledge increased ambition for the new climate change agreement with enhanced ambition in the industrialised states as a direct precondition. This aspect, which is part of the underlying concept behind the new market-based mechanisms and which can eventually be transferred to other mechanisms, can help developing countries define sectoral targets as part of their overall reduction targets. They can do this in conjunction with their national policies, thereby broadening their options.

This is not, however, a unilateral approach in which just one side can determine acceptance both of the measures and of the targets. What is needed is for emission certificates to be made comparable. Also, there is a need for international supervision as seen with the JI First Track process, where emission reduction projects implemented between industrialised states are not subject to international monitoring, and in the trading of Assigned Amount Units (AAUs), where industrialised states trade their national emissions allowances with no international rules governing that trade. The level of international regulation and governance should thus play a greater role in international climate change talks.

International framework for market-based mechanisms

These still somewhat vague options give rise to another climate change negotiation issue. The Framework for Various Approaches (FVA) is designed to allow cross-border trading of emissions certificates to help the Parties meet their emission reduction targets. The great difficulty here is that trading of certificates at international level is to be allowed with non-UNFCCC mechanisms as well. Although this was on the agenda in Bali back in 2007, its political importance has only recently increased.

Nonetheless, the Warsaw conference brought no real progress in terms of FVA. This was largely due to the debate having moved away from the core issues surrounding FVA and instead focusing more on the idea of a web-based Information Sharing Platform (ISP). The idea of this platform and of achieving progress on FVA eventually failed because, apart from creating transparency on potential activities and mechanisms, the platform was to be used neither to evaluate these activities and mechanisms nor to provide clarification by allowing for discussion and evalution of conformity checks in terms of their eligibility.

In addition, the EU believes the accounting rules for achieved emission reductions are essential. While no real consensus was reached in Warsaw on this point, either, what must be remembered is that an FVA with no accounting rules, evaluation or eligibility rules for non-UNFCCC mechanisms is unacceptable within the climate change regime as it would severely undermine the emission reduction targets laid down in the new post-2020 climate change agreement.

Also, another function of the FVA could not be fulfilled without acceptable accounting rules: only when it can be guaranteed that a tonne of CO_2 reductions achieved with one mechanism is equal to a tonne of CO_2 reductions achieved with another can the FVA serve as an interface between the newly emerging regional emissions trading schemes.

The FVA thus plays a dual role: it serves in meeting companies' obligations under the various emissions trading schemes, and in meeting national emission reduction targets as governed by the UNFCCC. Only when the two functions work together can the FVA play a purposeful role in any new climate change agreement.

Looking at the mechanism negotiations in Warsaw, it would appear that the time has come for more intensive talks on the design and structure of the FVA and of the new market-based mechanisms themselves. Due to its entrenched routines, the immediate negotiation process is not the forum for exchange on design-related and technical issues, on how the various activities and mechanisms can be made comparable, or on institutional and procedural governance issues regarding their eligibility. There is much scope and need for research and for further workshops hosted by the UNFCCC.

Outlook

The need for clarification concerning the FVA, and similarly regarding NMM and cooperative ambition-raising measures, invites the question as to the benefit of outreach activities at bilateral and multilateral level outside the UNFCCC. Both the FVA and NMM have been on the agenda since Bali. However, looking at how little people understand these new mechanisms and at how the various standpoints vastly differ, the mechanism negotiations held at junctures throughout 2013 (SB 38 in June, the UNFCCC workshops in October in Bonn and in November in Warsaw) can only be seen as progress in intensifying dialogue between the Parties. As a result, further intensification of this dialogue, with outreach activities conducted by the Parties themselves, could foster consensus and help to identify possible trade-offs between the underlying interests of individual states.

Then again, if the slow negotiation process is responsible for levelling out states' reduction targets, and acknowledging the fact that once the Kyoto Protocol was in place it took several years before its market-related rules were finalised with the Marrakesh Accords, it becomes clear that the current negotiation process will no doubt follow similar lines. Given the fact that the new climate change agreement is only expected to enter into force in 2020, the negotiation approach seen with the Kyoto Protocol is not an unlikely scenario. Thus, rather than seeing the link between progress on the mechanisms and level of ambition as the unfortunate fate of the new climate change agreement, it should instead be viewed as a necessary part of the approach to put the agreement in place.

This later timeline nonetheless raises questions as to current opportunities for the carbon market, something of great relevance given the limited activity to date. The issues of ambition-raising and the emissions gap could also create opportunities for the use of existing mechanisms, whose current reform agenda makes well-justified climate policy sense. Use of these mechanisms to increase the level of ambition prior to 2020 could build on the reformed CDM and not least on CDM Programmes of Activity (PoA).

It would also be desirable if the COP could decide on a voluntary option to include use of the CDM to achieve net emission reductions. If that were the case, this measure could be used to clarify whether and how such a fundamentally enhanced CDM could serve as the lever for the transformation to a new market-based mechanism. To ensure the success of this early transformation process, an international NMM pilot phase could be called into being and be helped on its way with a 'prompt start' that would enable use of emission certificates later down the line. Years ago, the CDM actually had its own prompt start, allowing developing countries to enter the arena at an early stage.

Given the projected emission gap of between eight and twelve gigatonnes of CO_2e for 2020, the question arises as to whether the market-based mechanisms can help to close that gap and, having done so, whether they can raise ambition levels as well. If they can, they could impact the outcome of international climate change talks.

Warsaw Climate Conference Takes Baby Steps Towards New Climate Agreement

General climate change policy decisions taken at COP 19

Wolfgang Sterk and Lukas Hermwille

The Warsaw climate conference concluded more than one day behind schedule, in the evening of Saturday 23 November. Carbon Mechanisms Review analyses the outcomes regarding the negotiation of a new comprehensive climate agreement and increasing short-term ambition.

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A Roadmap Towards the 2015 Agreement

The Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP) established at the Durban conference in 2011 aims to develop a new agreement "applicable to all", which is to be adopted in 2015 and to be implemented from 2020. However, a clear roadmap for the process had so far been lacking, in particular with respect to how exactly countries are going to participate in the new agreement. Questions here are whether countries will adopt legally binding commitments or not, differentiation among countries, and whether countries may determine the form and ambition of their participation purely nationally or whether participation is to be negotiated internationally.

Industrialised countries have been keen to break down the so-called "firewall", the clear distinction between Annex I and non-Annex I countries (the traditional "developing countries") laid down in the Framework Convention. However, in particular the "group of like-minded developing countries (LMDCs)", which includes China and India, some other Asian countries such as Pakistan and the Philippines, OPEC countries as well as the left-leaning Latin American countries such as Bolivia and Venezuela, have so far strongly resisted any explicit or implicit dissolution of the traditional distinction between the Annexes.

In Warsaw, the LMDCs therefore strongly defended the view that only Annex I countries should adopt legally binding commitments, while only "enhanced actions" should be demanded from non-Annex I countries. They also strongly objected to any notion that the actions of non-Annex I countries should be in any way assessed internationally. Annex I countries as well as many non-Annex I countries were in favour of setting an early deadline in 2014 for submitting initial offers on the intended mitigation efforts in order to provide sufficient time to countries to assess and negotiate each other's offers. Many Annex I and non-Annex I countries were also in favour of first defining requirements for which supplementary information countries would have to submit. Many countries also supported the establishment of an international process to assess whether countries' propositions actually represented their fair shares and would add to the globally required level of ambition. However, the LMDCs maintained that any such process of assessing offers should only apply to Annex I countries but not to non-Annex I countries.

In the end, the conference resolved to invite countries "to initiate or intensify domestic preparations for their intended nationally determined contributions, without prejudice to the legal nature of the contributions". These "intended contributions" are supposed to be communicated "well in advance" of the 2015 conference, "by the first quarter of 2015 by those Parties ready to do so", and "in a manner that facilitates the clarity, transparency and understanding of the intended contributions". The ADP is to identify the information that countries will provide accompanying their intended contributions, but only by the 2014 conference in Lima. There is no indication on what is going to be the process for the international consideration of the intended contributions once they have been submitted.

Enhancing Short-Term Ambition

Alongside the negotiations on the new climate agreement, the ADP's Workstream 2 discusses measures to increase the short-term ambition of mitigation measures. This workstream was established in Durban as the level of ambition of the mitigation pledges countries have made for the time until 2020 is far below what would be necessary to achieve the agreed goal of keeping global warming below 2°C. The United Nations Environment Programme's annual "Emissions Gap Report" estimates the gap between the current level of ambition and what is necessary at 8-12 gigatonnes of CO_2eq.

However, the Warsaw discussions under Workstream 2 suffered from a poor dynamic and were dominated by repetitions of well-known and extensively spelled-out positions of the respective countries. Developing countries insisted on industrialized countries increasing their emission reduction commitments as well as the level of financial, technological and capacity building support provided by industrialised to developing countries.

Countries ultimately agreed to further discuss how to increase the level of ambition for pre-2020 mitigation at a ministerial meeting in June 2014. Furthermore, countries agreed to facilitate the exchange of experiences and best practices of mitigation measures undertaken by cities and other subnational actors. Last but not least countries are invited to voluntarily cancel certified emission reductions generated under the Clean Development Mechanism as a means to close the mitigation gap.

Low-Ambition Agreement Ahead?

In summary, the Warsaw conference gave little hope for an increase of short-term mitigation ambition and also little hope that 2015 will see the adoption of an ambitious agreement. Countries only agreed on the bare minimum that was needed to move the process forward. The 2015 agreement thus currently seems to be on course to continue the current structure: non-binding pledges that are determined purely bottom-up instead of being negotiated internationally. As consequence, there is little prospect that demand on the carbon market will pick up soon. And while the Warsaw decision invites countries to voluntarily cancel CERs, there is little indication of there being a strong appetite to do so.

A fundamental question is which countries are supposed to be the drivers of ambition in the 2015 agreement. Among the "big three", the USA, China and the EU, China continues to maintain a very defensive position and while many lauded the US stance in Warsaw as constructive, it continues to be tied down by its domestic situation, where large parts of the Republican Party deny that climate change even exists.

The EU has traditionally been the motor of the climate negotiations. All major advances came about when the EU was able to form a "green coalition" with other progressive countries. However, leadership requires matching rhetoric with substance, and the EU has only committed to keeping its emissions stable for the rest of the decade and only some of its member states have been willing to put meaningful amounts of finance on the table.

As a result, the EU's Durban alliance fractured one year later already since the EU was not able to meet its partner's expectations on mitigation and finance. For the post-2020 period, the UK Committee on Climate Change, an independent supervisory authority established by the UK Climate Change Act, has recommended that the EU should aim for a reduction of 55% below 1990 levels by 2030. However, political discussions are gravitating around a mere 40%. PointCarbon has projected that a 40% target would mean that the EU ETS would be oversupplied until about 2027. Prospects for the carbon market thus remain bleak.

REDD+ in Warsaw

Sending Mixed Signals to the Markets

Nicolas Kreibich

After several years of negotiations, Parties at the climate negotiations in Warsaw adopted a package of decisions on forest protection, resulting in the so-called "Warsaw Framework for REDD+ Action" (Reducing Emissions from Deforestation and Forest Degradation). Apart from several methodological provisions, Parties in Warsaw established conditions under which developing countries can receive support for preparation activities ("readiness") as well as for the results achieved in terms of tons of CO2e ("results-based payments").

Negotiations on reducing emissions from deforestation have been ongoing since 2005, when Papua New Guinea and Costa Rica first introduced the issue at the Montreal Climate Summit. In this proposal carbon markets play a pivotal role for providing incentives to developing countries. Since then, REDD+ finance has been a controversial issue for many years, with Parties having diverging views on whether forest protection activities should be financed through a market-based approach or via a public fund and the role carbon markets could play.

On the one hand, many developed countries such as Norway, the EU, the US, Australia and Japan, but also several developing countries (The Coalition for Rainforest Nations (CfRN), Guyana and the Philippines) support an approach where REDD+ is financed through a large variety of sources, including offsetting schemes. On the other hand, many developing countries, among them the BASIC group (Brazil, South Africa, India and China), made clear that results-based payments shall not be used for offsetting developed country mitigation commitments. In the view of Brazil, the most resolute opponent of an offsetting approach among the BASIC countries, REDD+ results may not be used as a basis to concede emission allowances to Annex I countries if REDD+ is to be an effective instrument in meeting the 2 degrees target. More fundamentally, Bolivia strongly opposes market-based mechanisms in general and the "conversion of forests into a commodity" in particular.

Given this fundamental disagreement, the establishment of a REDD+ market mechanism in Warsaw was clearly out of reach. Accordingly, the final decision on REDD+ finance does not make a clear statement on what role market-based approaches may play for financing REDD+ activities. Instead, Parties reaffirmed former decisions which state that finance for REDD+ may come from "a variety of sources" and that "appropriate market-based approaches" and "non-market based approaches" could be developed.


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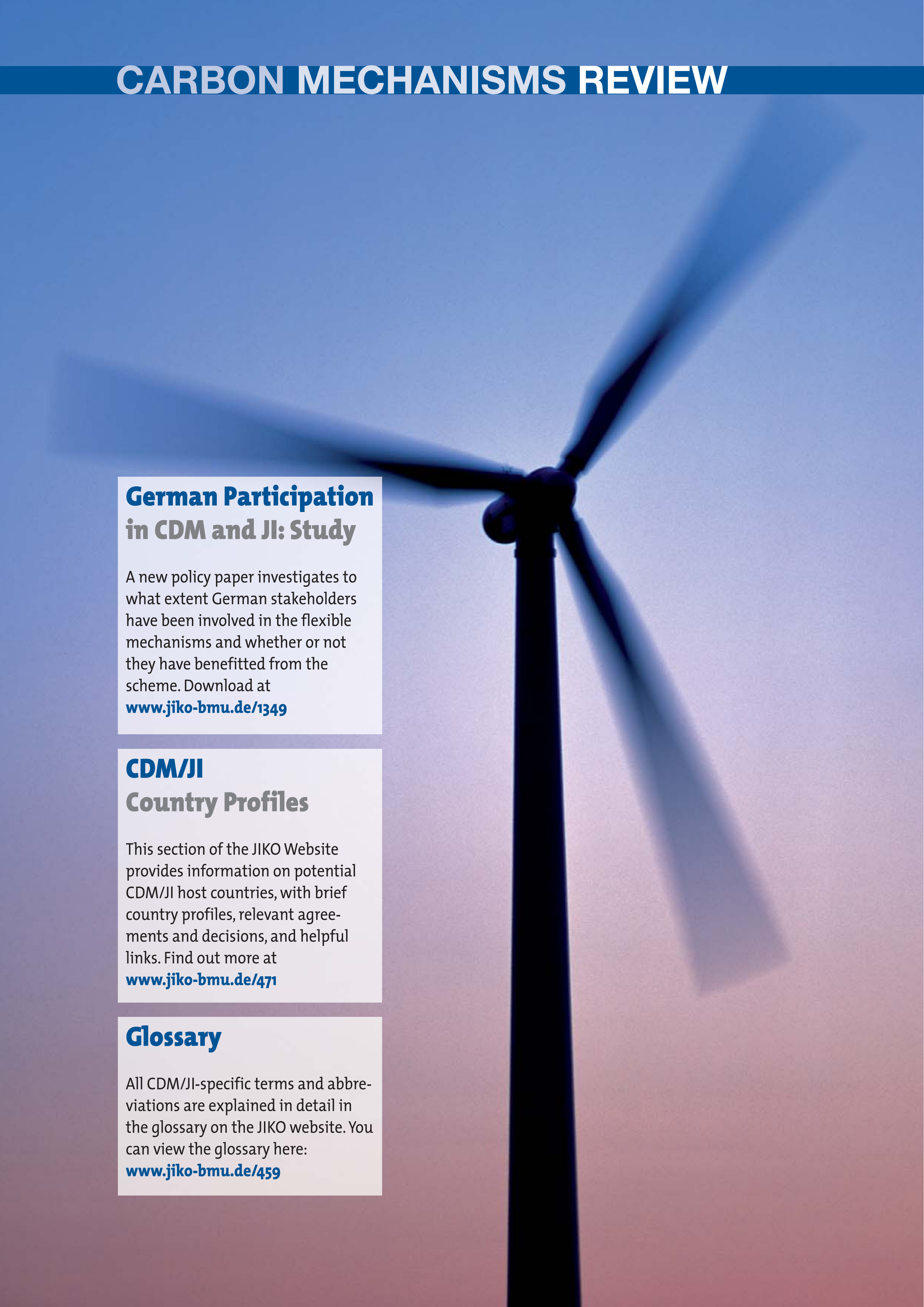
Similarly, no decision has been taken on whether REDD+ activities should be integrated into the market-based instruments currently being discussed under the COP. Instead, a paragraph suggested by Brazil states that "nothing under this decision and its implementation prejudges any future decision with regard to the eligibility or non-eligibility of [REDD+] activities" to a New Market Mechanism (NMM) or the Framework for Various Approaches (FVA) , ensuring that this issue will be discussed separately.

Hence, while the question on how REDD+ activities will be financed remains unanswered, the decision contains several provisions on the administration and disbursement of funds and summarizes the requirements REDD+ countries need to meet in order to be eligible for accessing results-based finance.

In order for countries to access funding, the REDD+ activities of these countries need to be fully measured, reported and verified (MRV) in accordance with the guidance on methodological issues agreed in Warsaw. The MRV decision requires REDD+ countries willing to access results-based payments to provide a technical annex with their biennial update reports (BURs), which is subject to a analysis by a technical team of experts. With regard to a market-based approach, however, the MRV decision states that REDD+ actions for results-based payments that may be eligible to appropriate market-based approaches developed by the COP may be subject to further specific modalities for verification. Therefore, this decision keeps the door open for a future integration of REDD+ activities into the NMM and FVA.

Parties also agreed to establish an information hub on the UNFCCC website, where information on results-based actions and corresponding payments will be published. This matchmaking tool will contain activities-related information such as the tonnes of CO2e reduced or sequestered as well as information on safeguards and on the national forest monitoring system. The information hub will further specify the amount of results-based payments received by the REDD+ country and the entity paying for the results. Furthermore, Parties, agreed to assign a key role to the Green Climate Fund for financing REDD+ activities and channelling financial resources to developing countries. With regard to the coordination of REDD+ support Parties agreed that developing countries can designate national entities, who are encouraged to meet on an annual basis with Parties and relevant entities financing REDD+ activities.

In sum, the agreement reached in Warsaw sends mixed signals with regard to the role of carbon markets for the financing of REDD+ activities. Whether or not Parties can agree on a market-based approach for REDD+ in the future has to be seen in the context of the development of individual Party positions as well as in the context of the ongoing negotiations outside the REDD+ arena. Hence, it remains to be seen whether Brazil will be able to maintain the BASIC countries' opposition to forestry offsets alive, given the fact that China, India and South Africa are less resolute in their opposition towards REDD+ offsets.



German Participation in CDM and JI: Study

A new policy paper investigates to what extent German stakeholders have been involved in the flexible mechanisms and whether or not they have benefitted from the scheme. Download at **www.jiko-bmu.de/1349**

CDM/JI Country Profiles

This section of the JIKO Website provides information on potential CDM/JI host countries, with brief country profiles, relevant agreements and decisions, and helpful links. Find out more at **www.jiko-bmu.de/471**

Glossary

All CDM/JI-specific terms and abbreviations are explained in detail in the glossary on the JIKO website. You can view the glossary here: **www.jiko-bmu.de/459**