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At Bonn Talks, World Comes Around to Doing More to Combat Climate Change; Debates Carbon Market Links and Use of Trade Tools

The twenty-third Conference of the Parties (COP23) to the UN Framework Convention on Climate Change (UNFCCC) has now drawn to a close, with the adoption of a gender action plan, a deal on addressing agriculture in the UNFCCC context, advances across various negotiating areas, discussions on carbon market links and use of trade tools, and political calls for even greater climate ambition heading into the pivotal 2018 negotiating process.

This year's COP involved two weeks of negotiations in Bonn to fine-tune implementation details of the Paris Agreement on climate change. The talks, under the presidency of the Pacific island nation of Fiji, followed the "Talanoa" indigenous process of inclusive, participatory, and transparent dialogue, a traditional approach that fosters cooperation by placing emphasis on non-confrontational dialogue built on empathy and trust-building.

At the outset of talks on Bonn, accession of Syria to the Paris Agreement was announced, on the heels of Nicaragua's a few weeks earlier, bringing the tally of ratifications now to 170 out of the UNFCCC's 197 parties.

Leaders revamp calls for action

After one week of technical work, heads of state and government were on hand in Bonn to give a political impetus to the discussions. Along with highlighting the urgency of addressing climate change and the need for further climate action, some also made high-level calls for advancing the use of market-based tools and trade policy in this effort.

German Chancellor Angela Merkel [told](#) delegates that "climate change is the central challenge of mankind" and said that while the Paris Agreement is a useful starting point, the real work lies ahead. "With current national commitments we will not be able to reach the goal of limiting the temperature increase to two or 1.5 degrees," she said. Recent [estimates](#) indicate that if the current nationally determined contributions (NDCs) were to be implemented from 2020, as agreed, global average temperature would rise by three to 3.2 degrees Celsius by 2100 relative to pre-industrial levels, with devastating results.

These NDCs are parties' individual climate action plans under the Paris Agreement. Parties are due to have an initial review of these next year, and revise them in 2020. In 2023, a full "global stocktake" of NDCs is scheduled, with a view to increasing their ambition and effectiveness.

Nearly half of these NDCs have a trade component, according to research [published](#) by the International Centre for Trade and Sustainable Development (ICTSD), the publisher of Bridges,

prompting growing interest and analysis of how trade tools can support climate action, including in NDCs where it does not yet play an overt role.

French President Emmanuel Macron, who will host a summit on climate finance in Paris on 12 December to mark the accord's two-year anniversary, highlighted his country's priorities for addressing climate change, and made a clear link between climate and trade policy in his remarks on the COP's final day.

Macron also [stressed](#) the need for effective carbon pricing, a faster scale-up of renewable energy, and the integration of environmental goals in trade policies. Regarding trade's role in accelerating climate action, he proposed that "we should not negotiate free trade with countries that are less ambitious than us, because that will reduce our collective ambitions."

He moreover announced that France would make up for an expected shortfall in funding to the Intergovernmental Panel on Climate Change (IPCC) caused by the United States' intention to stop funding the UN body. The IPCC "is threatened today by the decision of the US not to guarantee funding for it. Therefore, I propose that the EU replaces the USA, and France will meet that challenge," Macron told delegates and heads of state in Bonn. This comes against the backdrop of the announcement by US President Donald Trump earlier this year that his country will leave the Paris Agreement and cease to provide funding to the UNFCCC and IPCC.

The Bonn conference took place amid a shift in climate leadership. Following Trump's June announcement of his intent to withdraw, the United States, which under the Obama administration was a driving force in climate talks, took part in COP23 via a delegation headed by its Undersecretary of State, and reportedly participated in a more constructive mode than many had expected.

Still, the Administration staged a side event to promote the use of fossil fuels and nuclear energy. "Promoting coal at a climate summit is like promoting tobacco at a cancer summit," was the widely-publicised response from former New York City Mayor turned climate activist Michael Bloomberg.

Bloomberg, California Governor Jerry Brown, and various sub-national officials from the US were present in Bonn, as well as business leaders who pledged to level up climate action at the local and regional levels.

Under the [Bonn-Fiji Commitment](#), hundreds of leaders representing states, cities, and regions, signalled their commitments, ambitions, and actions towards climate protection. In addition, various countries, Canadian provinces, and the US state of Washington

formed the [Powering Past Coal Alliance](#), committed to accelerate clean growth and climate protection through the rapid phase-out of traditional coal power. Overall, subnational actors organised various side events at COP23 on how to drive climate action locally and regionally. Overall, subnational actors organised various side events at COP23 on how to drive climate action locally and regionally.

Developing the Paris "rulebook"

The first week of the conference saw mostly technical discussions on carving out the "rulebook" of the Paris Agreement, given that the 2018 COP is the agreed deadline for concluding that process. Negotiators also worked on making progress in implementing the Kyoto Protocol, the existing climate deal in place through 2020, and the overall Framework Convention on Climate Change guiding the work of the COP.

Under the Ad Hoc Working Group on the Paris Agreement (APA), the primary body tasked with preparing the "rulebook" for the deal's implementation, and its governing body, the Conference of the Parties serving as the meeting of the parties to the Agreement (CMA), parties made progress on all substantive agenda items.

At COP23, the decision-making body of the Climate Change Convention, parties discussed various issues in the APA, including matters pertaining to further guidance on countries' climate contributions; adaptation communication; the transparency framework; the global stocktake on collective progress; and the committee to facilitate implementation and promote compliance. The APA is expected to finish its work by December 2018.

Discussions revolved mainly around the modalities of the five-yearly "global stocktake," or assessment, of NDCs, including on questions regarding how to operationalise "equity" of NDCs; how to design the guidance needed for adaptation communication; the modalities, procedures, and guidelines for the [transparency framework](#) on support provided from developed to developing country parties; and on how to enhance the clarity, transparency, and understanding of countries' national climate contributions.

In addition, negotiators discussed whether the Adaptation Fund, which provides finance for adaptation projects in developing countries under the current Kyoto Protocol, would serve the Paris Agreement. The fund exceeded its financial target for this year, after Germany and Italy announced during COP23 their plans to contribute €50 million and €7 million, respectively. The Fund has now surpassed its 2017 target by over US\$13 million and stands at a total equivalent of US\$93.3 million.

Differences between developing and developed countries on matters relating to Article 9.5 of the Paris Agreement caused the climate negotiators to work through Friday night, with the conference closing only on Saturday morning. Article 9.5 refers to developed countries' communication of financial resources to assist developing countries in their mitigation and adaptation efforts.

The African group of countries stressed that clarity had to be provided on the modalities of this article before the work of the APA could be concluded and negotiators set up last-minute discussions to reach an agreement. On Friday night, parties agreed that they would decide next year on the design of these financial reports and the details of how to hold developed countries accountable.

Talanoa Dialogue

At COP21 in Paris two years ago, parties decided to convene a "facilitative dialogue" in 2018 that would serve as the above-mentioned initial review of countries' collective efforts towards the long-term goal of limiting the temperature increase to two degrees Celsius from pre-industrial levels and inform the preparation of updated nationally determined contributions.

This dialogue was renamed as the "Talanoa Dialogue" in Bonn where the Fijian presidency announced the [approach](#) that will be taken to facilitate the preliminary stocktake. The dialogue will be split into two parts, a preparatory and a political phase, and be structured around three general topics: Where are we? Where do we want to go? How do we get there? During the initial preparatory phase, parties will gather evidence on their climate efforts in relation to the temperature targets set out in the Paris Agreement. This stocktake will be supported by the Special Report by the IPCC, in addition to analytical and policy relevant inputs by stakeholders and expert institutions. The preparatory phase is anticipated to start in January and end at COP24 in December 2018.

At COP24, high-level representatives of parties will then take stock of the collective climate contributions during the political phase.

Carbon markets in focus

The past fortnight has also seen action on the carbon market front, both within and outside the UN process. While climate negotiators met in Bonn, EU legislators [agreed in Brussels](#) on reforming and strengthening the EU's emissions trading system for the post-2020 period. An oversupply of permits and the after-effects of the economic crisis have driven down the price of carbon in the EU over the past several years, prompting concerns that current levels are insufficient to motivate companies to reduce their emissions, along with spurring the necessary low-carbon investments.

"The certificates are going to be taken out of this scheme in order to be able to develop it into a meaningful instrument," German Chancellor Merkel [told](#) delegates in Bonn, in an apparent reference to the Market Stability Reserve (MSR). Likewise, French President Macron [said](#) that he is "in favour of getting a real price at €30 per tonne, which will help to change behaviour."

United Nations Secretary-General Antonio Guterres [stressed](#) that "growing carbon markets in Europe and North America, and China's expected announcement of one of the world's largest emissions trading systems, are a good sign. But to meet the Paris goals we need at least 50 percent global coverage and a higher price on carbon to drive large-scale climate action." He added that more needs to be done, particularly in five ambition action areas: "emissions, adaptation, finance, partnerships, and leadership."

Many commentators expected that China would launch its emissions trading system during COP23. The roll-out was postponed, but once the national carbon market does kick off, it will be the largest in the world, surpassing the European Union's scheme.

Officials from the EU and the US state of California have [publicly expressed interest](#) in cooperating with China and other carbon markets, aiming to build a better technical and political

understanding that could someday facilitate linking their respective schemes.

Chinese officials and experts [told](#) the Financial Times that while Beijing may miss its original target of launching the scheme this year, it may be ready for the inauguration early next year. China already [set up](#) various sub-national pilot schemes some years ago, which would serve as building blocks for a country-wide [market](#).

Article 6 negotiations

As these efforts at developing carbon markets continue at national and regional levels, an important factor in future linkages will be how UN negotiations proceed on how to implement the Paris Agreement's provisions on "cooperative approaches."

One of the Paris Agreement's innovations when it was developed was the inclusion of a provision which would allow parties to cooperate with each other, if they chose, when meeting their individual climate action plans. This was captured in Article 6, which sets out different forms of voluntary cooperation, including market and non-market based tools.

The inclusion of market-based tools as an option has fuelled greater interest in how countries and regions could link carbon pricing schemes for trading carbon permits, thus making it cheaper to meet their national climate action plans. Article 6.2 refers to "internationally transferred mitigation outcomes," or ITMOs, which could be used for meeting NDCs, subject to accounting requirements and other conditions.

At the time the Paris Agreement was adopted, however, many of the practical details on how to implement these terms were left pending for future negotiations, which have continued in the years since. Heading into this year's COP, parties had made a series of submissions on the different aspects of Article 6, aiming to pave the way for continued discussions.

After days of meetings, these talks concluded as expected with a so-called "Informal Note of the co-facilitators," as well as a mandate for the Chair of the Subsidiary Body for Scientific and Technological Advice (SBSTA) to prepare what can be a starting point for negotiations when parties meet for their mid-year negotiations in Bonn next May. The SBSTA is one of two permanent UNFCCC bodies.

These developments were captured in the SBSTA conclusions document, which includes the decisions approved by the SBSTA plenary, and were submitted also to the Subsidiary Body on Implementation (SBI), on all three elements of Article 6. These involved Article 6.2 on international cooperative approaches; Article 6.4 on a mechanism that will "contribute to the mitigation of greenhouse gas emissions and support sustainable development;" Article 6.8 on non-market approaches; and another SBSTA/SBI item, response measures, which was important to some parties. Advances in Article 6 and response measures were, for the first time, directly linked by negotiators in this COP.

The Informal Notes were the core of the Article 6 negotiations, and centred around which headings, elements, and options should be in the text to be negotiated during 2018 and finished by COP24, along with the process behind the notes themselves.

Some felt that ownership of the notes should lie more with the parties. The process, which included many iterations and detailed input by parties, was therefore designed to reflect that view, in order to have a strong moral connection to the parties.

Finalising all aspects of the mechanism under Article 6.4, with its centralised UN governance, is seen as something that will take serious work and negotiations to conclude, but now underpinned by a relatively common vision on how to proceed.

Things are different with respect to Article 6.2, where two visions could be seen to emerge. On one hand there is a minimalist vision, which entails limiting the rulebook to an accounting framework for transferring mitigation outcomes. It would then mean addressing many of the other issues, such as NDC accounting and mitigation outcome quality, among others, under other Paris Agreement items such as Article 4 on mitigation, and Article 13 on transparency.

The second vision aims at enshrining a more comprehensive framework in the Paris Agreement rulebook, with clear definitions and rules regarding the limitations of parties towards creating, trading, and using ITMOs and the Article 6.4 mechanism. Some experienced observers suggest that it seems very likely that negotiations on Article 6.4 will come to fruition at next year's COP, allowing the mechanism to be operationalised. However, they suggest that work on Article 6.2 will be even more challenging, given the different visions among parties. These talks may lead to agreement on broader topics at COP24, but with unresolved issues still remaining on the table for future discussions.

Response measures

The talks on response measures in Bonn addressed possible adverse economic, social, or environmental cross-border impacts or co-benefits of the implementation of measures to combat climate change.

The response measure negotiations focused on two issues: the work programme of the "Improved Forum," and on developing a decision regarding how this forum should "serve" the Paris Agreement.

The "Improved Forum" is a continuation of an earlier forum [set up in 2011](#) to implement a work programme involving the exchange of experiences and information on response measures' impact, which had then expired in 2013. It was revived two years later when the Paris Agreement was adopted, with the goal of both continuing and improving this framework.

At this year's COP, discussions on the work programme of the Improved Forum centred on the need for capacity-building and regional workshops related to modelling tools, data availability, and related topics in order to help developing countries assess the potential impacts and co-benefits of climate mitigation measures.

During the 2018 mid-year talks, a two-day training workshop will be organised on the use of economic modelling tools related to economic diversification, just transition of the workforce, and the creation of decent work and quality jobs. Another item on the agenda for that meeting is the review of the work done by the Improved Forum, meant to be completed by COP24. Parties and observers have been asked to send in submissions on the scope of this review by 30 March 2018.

Observers noted, however, that progress remained slow, as developed countries continue to be concerned that this item could lead to possible liability for potential trade or employment impacts of their domestic measures in other countries, while developing countries seek to understand the severity of impacts and how they can be minimised.

An attempt by developing countries to establish a permanent technical expert group (TEG) during this year's COP failed, resulting in a call for the review of the TEG design as part of the general review of the response measures forum in 2018. Finally, the UNFCCC Secretariat was given a mandate to collaborate with "relevant intergovernmental and international organisations to raise awareness with a view to enhancing capacity building programmes," though how this will be operationalised remains to be seen.

With respect to how the forum will serve the Paris Agreement, talks addressed its modalities, work programme, and functions. The discussions proceeded along similar lines as those under Article 6, and co-facilitators provided an informal note to help parties discuss headings and elements of the modalities, functions, and work programme. This note and the previous submissions will form the basis of an informal document prepared by the SBI and SBSTA chairs.

For both Article 6 and the forum serving the Paris Agreement, the operationalised paragraphs of the draft conclusions are nearly identical, asking the relevant chair(s) to prepare an informal document leading up to the 2018 mid-year talks. This outcome is due to the similarities between both negotiation groups and the processes centred on informal notes followed during both negotiations.

Fossil fuel subsidy reform

Fossil fuel subsidy reform was another key issue during this year's COP, both in terms of understanding the level of existing subsidies and discussing policy tools for curbing them. Various [side events](#) were devoted to the topic, and observers also commented on growing high-level engagement from governments.

A May 2017 [report](#) by the International Institute for Sustainable Development (IISD) places the global level of fossil fuel subsidies at US\$425 billion annually. A flurry of initiatives have emerged in various forums over recent years to phase out this type of government aid, both in order to curb emissions and also to free up public funds for supporting renewable energy and other climate action objectives.

At COP23, Germany and Mexico published their G20-agreed peer reviews of each other's fossil fuel subsidy programmes. The G20 coordination forum of major advanced and emerging economies has regularly pledged to phase-out inefficient fossil fuel subsidies and agreed to review each other's subsidy programmes. Similar peer reviews are also conducted under the Asia-Pacific Economic Cooperation (APEC) forum.

Mexico's peer review [report](#) identifies ten subsidies worth US\$2.6 billion in 2016, while Germany's [peer review](#) identifies 22 measures that favour fossil fuels totalling US\$17.6 billion. Two of Germany's subsidies amounting to US\$1.6 billion are expected to be phased out in 2018 as part of the EU-wide commitment to end subsidies to hard coal. Germany's review has drawn [scrutiny](#) by some civil society

organisations for ignoring certain existing schemes and thereby understating the scale of Germany's subsidies.

Overall, several governments were very outspoken about fossil fuel subsidy reform in Bonn, with numerous side events discussing the issue at ministerial level, including how trade governance tools could be used to support this effort. New Zealand's Minister for Pacific Peoples William Sio, for instance, [supported](#) the idea of discussing fossil fuel subsidy reform in the WTO and France's push for placing fossil fuel subsidies on the agenda of the WTO's Committee on Trade and Environment. New Zealand announced that the informal coalition of eight non-G20 developing and developed countries, the Friends of Fossil Fuels Subsidies Reform, would be co-hosting [a side event](#) at the WTO's Eleventh Ministerial Conference in Buenos Aires in December.

Agriculture deal confirmed

After years of negotiation, parties reached an agreement in Bonn on matters pertaining to agriculture. The decision provides that agriculture is to be jointly addressed by the UNFCCC's subsidiary bodies, the SBSTA and SBI, through workshops and expert meetings. These discussions are meant to consider the vulnerabilities of agriculture to climate change and approaches to addressing food security.

Agriculture has so far been largely absent in COP negotiations and the placing of the issue on the Subsidiary Bodies' agendas has been greeted as a significant breakthrough.

The agricultural sector is a major contributor to greenhouse gas emissions, but is at the same time also highly vulnerable to climate change, an imminent threat to food security in many regions.

Boosting participation from women, indigenous peoples

Supporting greater participation from women, indigenous peoples, and local communities was another high-profile topic in Bonn over these past two weeks. Parties have now signed off on a [Gender Action Plan](#) (GAP) that seeks to promote gender-responsive climate policy, advance women's participation, and mainstream a gender perspective in both implementing climate action commitments and within the negotiating process itself.

The GAP sets out specific priority areas for implementing these objectives, such as capacity building, gender balance, and gender-responsive implementation and means of implementation. It also asks the UNFCCC secretariat to prepare a "synthesis" report in two years on the plan's results for parties to consider as they develop future versions. It also notes some potential challenges going forward, including how to measure the GAP's progress in certain areas. The plan was widely applauded by parties and observers alike, with Mary Robinson, the politician who served in the 1990s as Ireland's first female president and then as UN High Commissioner for Human Rights, [calling](#) it "a big step forward."

Parties also made progress in relation to guiding the Local Communities and Indigenous People's Platform, which was established in Paris at COP21 two years ago. The platform was launched earlier this year with the goal of giving indigenous peoples and local communities an active role in shaping climate action.

At COP23, parties decided on the modalities of engagement, stating that the overall purpose of the platform will be to strengthen the knowledge, technologies, practices, and efforts of local communities and indigenous peoples in both addressing and responding to climate change. The platform would also aim to facilitate the exchange of experiences and the sharing of best practices and lessons learned on mitigation and adaptation, as well as to improve the engagement of local communities and indigenous peoples in the UNFCCC process.

Technology framework talks advance

Parties also made progress in regard to the [technology framework](#) agreed in [2015](#) to provide overarching guidance to an existing [Technology Mechanism](#). The latter was set up by the UNFCCC in 2010 to support developing countries in addressing the policy and implementation aspects of climate-related technology development and transfer, which could in turn facilitate the greater deployment of renewable energy.

In Bonn, parties held discussions in five key themes on how to strengthen the Technology Mechanism: innovation, implementation, enabling environment and capacity building, collaboration and stakeholder engagement, and support. Negotiations on this issue will continue at the next meeting of the Subsidiary Body for Scientific and Technological Advice in May 2018.

Next meetings

The mid-year UNFCCC climate talks are set for 30 April-10 May 2018. The next climate COP will then take place from 3-14 December 2018 in Katowice, Poland.

ICTSD reporting; "Trump budget: US to stop funding UN climate process," CLIMATE HOME NEWS, 16 March 2017; "China's emissions trading scheme awaits green light," FINANCIAL TIMES, 14 November 2017.