

Bonn Seminar 2019



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ecbi

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Written and edited by Anju Sharma. Cover picture courtesy Simon Cardy.

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WELCOME ADDRESS

By Stefan Wagner, Head, Department of International Affairs and Global Sustainability, City of Bonn



**FREUDE.
JOY.
JOIE.
BONN.**

Dear Professor Müller,

Ladies and Gentlemen,

Dear Guests,

A warm welcome to Bonn, Germany's United Nations City, and welcome to this year's Bonn Seminar of the European Capacity Building Initiative, which again runs parallel to the meeting of the Subsidiary Bodies to the United Nations Framework Convention on Climate Change.

ecbi has long been committed to opening doors for trust and understanding in the global climate debate by advancing an exchange between climate negotiators and scientists North and South.

It is with pleasure that the City of Bonn has been hosting the ecbi Bonn Seminars in our Old Town Hall, and I would like to express my support and appreciation to Benito Müller and the European Capacity Building Initiative for the valuable work and the fruitful exchange you are offering!

We are half way between Katowice and Santiago de Chile. Months away from 2020 – the year that should see the Paris Agreement unfold its full potential. And as always at this time of the year, the Subsidiary Bodies of UN Climate Change are paving the way for further progress during their meetings here in Bonn! But it has long become clear that our climate requires action at all levels of government. New networks have been created and new alliances have been forged.

The nations cannot and will not walk alone on the climate path. Bonn's Mayor Ashok Sridharan, in his capacity of President of ICLEI Local Governments for Sustainability, is particularly looking forward to the first Multilevel Dialogue on Collaborative Climate Action coming up on June 26. Our thanks go to Executive Secretary Patricia Espinosa for accommodating this new format in the programme and inside the premises.

However, while climate action needs a great number of stakeholders, sound financing and networks for consolidated action at international level, it also calls for a systematic approach at the local level.

As for Bonn, our first Sustainability Strategy has just been adopted, guiding our work in the fields of Mobility, Climate and Energy, Natural Resources and Environment, Labor and Economy, Social Participation and Gender Equality as well as Global Responsibility and One World. In a consolidated approach, it covers nearly all areas of life here in Bonn.

In fact, as Germany's United Nations City and hub for sustainable development, Bonn has a special responsibility for the implementation of the Paris Agreement and the 17 Sustainable Development Goals – both here at home and abroad.

Our Bonn SDG Days 2019 are still on, offering “17 Events for the 17 Goals”, providing lots of exchange and fresh impetus, and inviting everyone to contribute to the implementation of the SDGs.

A special highlight during this year's campaign period has been our One World Construction Site in Bonn: Two international artists have designed a house wall to present the 17 Goals here in Bonn. The artistic statement, along with informative and cultural events, will help to further anchor the SDGs in the cityscape and – most importantly – in the minds and actions of Bonn's citizens.

Connecting sustainability and art has been a success in our city! Next year, we will build an international bridge between sustainability and nature: We will celebrate the 250th anniversary of Ludwig van Beethoven, our city's the greatest son, with an entire anniversary festival year. In this context, the so-called Pastoral Project will invite musicians and artists all over the world to highlight the links between climate, nature and land.

On 5 June - World Environment Day – 2020, an Open Air Event will take place on the island of Grafenwerth. So, during your next seminar here in Bonn, I am hoping for all of you to take the 66 tram and join us there to celebrate Beethoven and a better climate future!

For now I would like to wish you a fruitful exchange during the ecbi Bonn Seminar 2019. And enjoy your stay in Bonn!

Thank you.

2019 BONN SEMINAR

The 2019 Bonn Seminar took place on 23 June 2019, at the Altes Rathaus, Bonn. It was attended by 40 climate negotiators, from 30 developing and European countries.

The Seminar opened with a welcome address by Stefan Wagner, Head of the Department of International Affairs and Global Sustainability, City of Bonn. “ecbi has long been committed to opening doors for trust and understanding in the global climate debate by advancing an exchange between climate negotiators and scientists North and South,” said Wagner. “It is with pleasure that the City of Bonn has been hosting the ecbi Bonn Seminars in our Old Town Hall, and I would like to express my support and appreciation to Benito Müller and the European Capacity Building Initiative for the valuable work and the fruitful exchange you are offering.”

COMMON TIME FRAMES

The first session on common time frames was facilitated by Benito Müller, ecbi Director, and initiated with a presentation by Anju Sharma, ecbi. Sharma noted that national action plans have been submitted by countries under other international conventions such as those on biodiversity and desertification, and the lessons learned from those experiences should be brought to bear on the Nationally Determined Contributions (NDCs). In particular, she highlighted the following lessons from other national plans:

- The time available for the preparation of national plans should be adequate to ensure stakeholder and sectoral consultation, ownership, and buy-in at the national level.
- Uncertainties regarding the funds available for implementation can make realistic planning challenging. As and when funds do become available, the circumstances could have changed on the ground, rendering the planned activities either insufficient, or no longer the biggest priority.
- It takes time to translate national plans back to the sub-national levels for implementation, and to plan national policies and actions for their implementation.

She said the common time frames can help address some of these issues in the context of the NDCs, if they are designed to allow adequate time for consultation, preparation, and internalisation.

Sharma then presented a brief summary of the discussions on common time frames in the negotiation. She noted that the Paris Agreement’s Article 4.9 says that “[e]ach Party shall communicate a nationally determined contribution every five years in accordance with decision 1/CP.21 and any relevant decisions of the [CMA] and be informed by the outcomes of the global stocktake...” Article 4.10, meanwhile, states that the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) shall consider common time frames for NDCs at its first session.

Because the first intended NDCs were submitted before the Paris Conference, with little guidance, she said, they contain different timeframes (mainly 5 and 10). To accommodate this difference, decision 1/CP.21 includes the following two paragraphs (§) related to time frames:

- § 23. Requests those Parties whose INDC ... contains a time frame up to 2025 to communicate by 2020 a new nationally determined contribution and to do so every five years thereafter ...;
- § 24. Requests those Parties whose INDC ... contains a time frame up to 2030 to communicate or update by 2020 these contributions and to do so every five years thereafter ...;

§24 implies that the countries that have a 10-year time frame will communicate a 2030 NDC in 2020, Sharma said. But in 2025, they will have a choice: either update their existing NDC unto 2030; or communicate a new one for 2040. If they choose the former, and update their NDC in 2025, they will submit the next one in 2030 in what can be termed “cliff edge” conditions: they will be submitted 9-12 months before the 2030 CMA, leaving very little time (nationally) to prepare for implementation, or (globally) to consider their ambition or fairness in comparison with other countries. On the other hand, if §24 Parties choose to communicate their next NDC (up to 2040) in 2035, they will do so 15 years in advance of the implementation date, resulting in a long lag period between submission and implementation.

The Paris Agreement allows countries to update their NDCs when they want, she noted, but common time frames can create a common moment every five years (which is a reasonable time frame to revisit NDCs), when all countries are asked to reconsider their levels of ambition. Revisiting them every ten years, however, runs the risk of the NDCs becoming outdated, and out of step with technological progress, guidance from science and the global stocktake on the level of ambition needed, and societal change.

In addition, if countries are expected to indicate their plans for the subsequent five-year period, this will provide space not only for national level consultation and preparation, but also an opportunity for peers to compare their levels of ambition and incentivise/inspire each other to increase it. Without this opportunity, competitive advantage could become an incentive for countries to choose less ambition, for fear of being more ambitious than their peers.

Therefore, synchronised “5+5 indicative” common timeframes, as described in the [Dynamic Contribution Cycle](#) proposed by some Parties, have the potential to:

- Increase the effectiveness of the global stocktake (and arguably, the enhanced transparency framework);
- Create more frequent, common global “checkpoints of progress” and “political moments” when all countries are expected to re/consider NDCs;
- Allow NDCs to keep up with scientific input, technological progress, societal change;
- Allow countries to gauge fairness of their ambition in relation to peers;
- Create in-country support for ambition, to ensure political willingness to act; and
- Address national concerns like creating public buy-in, long-term signalling, align/mainstream with national planning cycles, procure means of implementation etc.

However, Sharma noted that a decision on common time frames could not be taken in Katowice. It was only agreed that Parties shall apply common timeframes to their NDCs from 2031 onwards – not “a” common time frame, but “time frames”. She presented the pros and cons of some of the options that were submitted by various Parties at Katowice (see **Table 1**).

Describing the Dynamic Contribution Cycle in more detail, Sharma said under this approach countries would be expected, in 2025, to review and update the 2030 NDC, and at the same time communicate a 2035 NDC (where the years refer to the end point of the NDC). This initial communication of the 2035 NDC can then be considered by sectors and stakeholders at the national level. At the same time, at the global level, Parties can compare the level of ambition in the NDCs of their peers and consider enhancing ambition and fairness. They will also be informed by the 2028 global stocktake. Based on the national and global consultations, they can review, update and formalise their 2035 NDCs in 2030 – and at the same time initially communicate a 2040 NDC. Once again, the five years before the 2040 NDC is to be implemented will benefit from national and global consideration, and the 2033 global stocktake. It can then be formalised in 2035, when the cycle starts again with the submission of a 2045 initial NDC (see **Figure 1**).

Table 1: Pros and Cons related to some of the current options for common time frames		
YEARS	PROS	CONS
5	Aligned with GST (and ETF) More frequent “formal” opportunities to reconsider/ enhance ambition Accepted mid-term planning window in countries	No opportunities for countries to compare efforts before finalising NDC (blind turn or cliffhanger) Less time for organising and for implementation – planning, policies, finance etc.
10	Long term signal/predictability for business More time for organising, planning and implementation	Not aligned with GST Could result in a long lock-in period out of step with scientific input, technological progress, societal change Possible long lag times between NDC formulation and implementation No opportunities for countries to compare efforts before finalising NDC (cliffhanger)
5+5	All of the above	Less possibility for updating “+5” after it has been through due process, could result in tech lock in Long lag time between NDC formulation and implementation
5+5 indicative	All of the above Short term certainty and long-term vision/ roadmap with flexibility Space for more ambition and fairness More time for realistic planning (finance, policies, capacity, technology...)	None of the above

To operationalise the cycle, Sharma proposed the adoption of the following language:

- Requests those Parties whose nationally determined contribution contains a time frame up to 2025, and have not done so already, to communicate by 2020 a nationally determined contribution with a timeframe up to 2030.
- Requests all Parties in 2025 to communicate a 2035 nationally determined contribution, and to do so every five years thereafter.
- Invites all Parties in 2025 [2030] to consider updating their 2030 [2035] NDC, and to do so every five years thereafter.

Marianne Karlsen, former co-facilitator of the discussion on common time frames in the negotiations, said there are three key questions Parties need to clarify: by when a decision is needed; from when the decision will apply; and what the time period of the time frames will be.

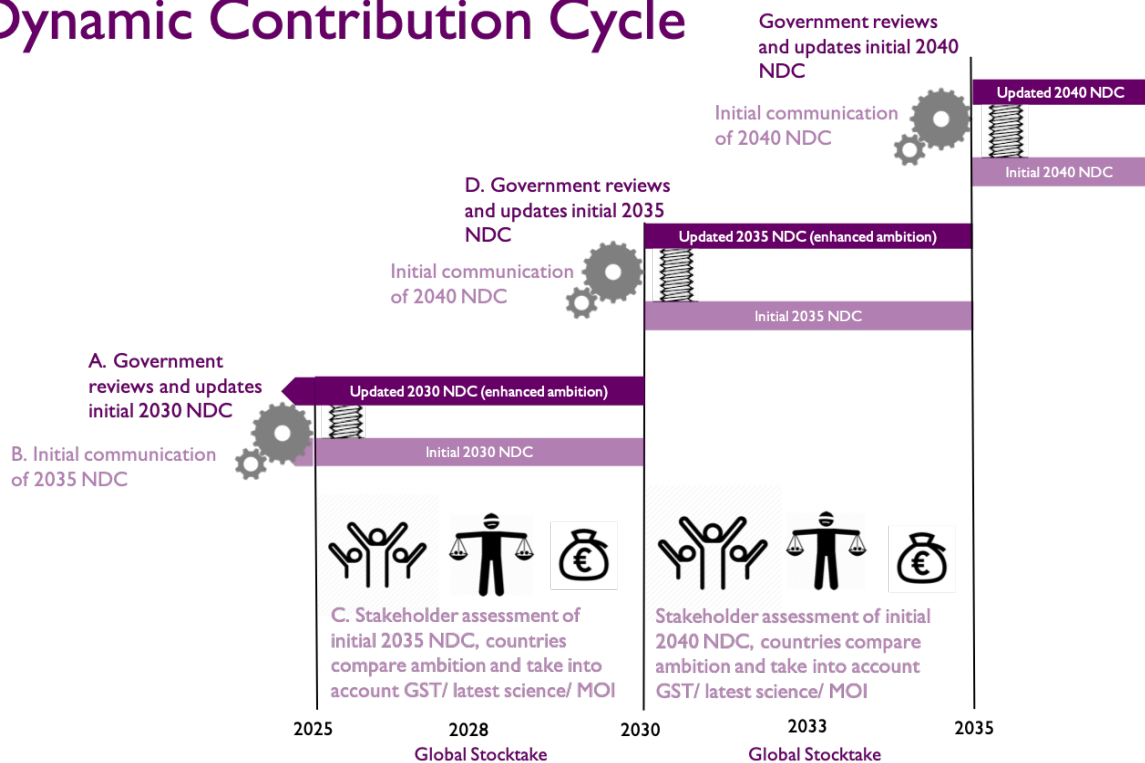
On the first question, she said that is Parties want the common time frames to have an effect on the NDCs to be communicated by 2025 for implementation from 2031 onwards, then the decision will have to be made at the latest by the CMA in 2023. Parties can then prepare their NDCs over 2024, and submit them within the first three months of 2025.

On the second question, Karlsen said Parties have different interpretations of time frames in their submissions – some refer to the point of communicating an NDC, while others refer to when implementation begins. This results in some confusion in the negotiations, and Parties will not be able to understand when they are expected to deliver what.

On the third question, Karlsen said the current options are many: 5, 10, 5+5, 5+5 indicative, 5 or 10 years, or even “any” number of years. She warned of the risks associated with the uncertainties, saying 2020 is approaching fast, and Parties will be uncertain of what is expected of them. Clearly those with five years will have to submit a new NDC, but it is not clear whether those with ten years will have to communicate a new one or update what they have. If the ten-year Parties do not communicate in 2025, then this will result in the

Figure I

Dynamic Contribution Cycle



cliff-hanger situation, where they submit in 2030 just before implementation. The consequences for the global stocktake will be quite dramatic, because we will not have information from those countries.

Karlsen said §23 and §24 do contain a notion of a five-year period between communication and implementation. However, Parties are not politically mature enough, or have the political mandate, to take a decision yet on common time frames. It is extremely important, she felt, that a decision is taken to clarify what is expected of all Parties in 2025 – that they are expected to communicate a new NDC that starts from 2030 onwards. That is a decision that can already be made, she said, simply clarifying that Parties are not expected to update the 2030 target in 2025, but deliver a new NDC starting from 2031 onwards, to avoid a cliff-hanger. This will result in a five-year communication and implementation period for all Parties.

Müller said that while they are different interpretations of time frames (targets periods, implementation periods etc), it is clear that in this context the reference is to the end point of the NDC. The Dynamic Contribution Cycle has a ten-year horizon, but it is not rigid, and includes the expectation of change. It includes a date for Parties to consider whether they would be willing to update what they have communicated five years ago. This space is space for ambition and fairness – for Parties among themselves and stakeholders at home. A lot can change in five years, and it is a reasonable time frame to consider new information and progress, Müller said. The similarity between targets of different countries under Kyoto clearly indicate that countries do not want to stick their necks out and do more than others.

On the “+5” NDC, he said many are opposed to calling it an “indicative” NDC, which may imply a new category. However, a new category could be a good idea, allowing countries to submit not fully fledged NDCs, but just an indication of what they are considering.

In the discussion that followed, a participant asked why a 10-year time frame would not be aligned with the global stocktake. Sharma said that §24 Parties who do not submit a new NDC in 2025 will not have to react to the 2023 global stocktake, while §23 Parties will. This will create unfair pressure on some countries, and become an incentive for all of them to opt for the 10-year cycle, so they are not expected to come under pressure more regularly than other Parties. If the purpose of the global stocktake is to influence the NDCs of countries and get them to respond to this stocktaking exercise, then all countries should feel the same pressure and at least have to consider improving their ambition.

Another participant asked how the timeframes will affect the enhanced transparency framework. Sharma said the timeframes are likely to affect final accounting, and more frequent updating of baselines could make the transparency process more accurate and up to date. It will also affect the corresponding adjustments under Article 6. Moreover, she said, since the transparency framework now includes transparency of support, it could provide a more realistic analysis of how much funding was made available, and (along with the biennial assessments of finance to be provided) of how much will be forthcoming over the next cycle. This could help to make the condition elements of the NDCs more realistic (and also settle disagreements of how much finance was provided for the conditional elements).

Müller said a decision indicating that §24 Parties should communicate a 2035 NDC in 2025 automatically enters the 5+5 world. It will also have to be agreed that some Parties will not be able to enhance their ambition – it would, for instance, be unfair to say Parties shall update their NDCs every five years. But those Parties who are willing and able should not be impeded by the process.

Karlsen said the Paris Agreement does ask for Parties to submit an NDC any time; and warned against diluting the language of the Agreement, where Parties are requested to submit NDCs. “Urge” is weaker than “request”, she noted.

A participant said there should be consistency in the process, with the planning cycle matching the stocktake cycle. It will be easier for countries to submit a 5+5 NDC once they have long-term strategies in place, he said.

THE PAST, PRESENT AND FUTURE OF THE COLLECTIVE GOAL FOR CLIMATE FINANCE

This session was facilitated by Tosi Mpanu-Mpanu, Co-Chair of the ecbi Advisory Committee. It was kicked off with a presentation by Benito Müller.

Müller said when it was agreed in Paris that the long-term collective goal would be decided by the Conference of Parties (COP), he felt no one was taking it seriously. Just like the replenishment goals of climate funds are not decided by everybody, it is unlikely that a realistic finance goal will be decided by everybody. While it is good to have a long-term goal, he felt that mixing private and public sources which cannot be measured accurately are a “recipe for mutually assured unhappiness”, with disagreements on whether the sums were delivered or not. To understand how this mixing of sources came about, he said, he would narrate the history of the current US\$ 100 billion goal.

The goal was announced by Hillary Clinton on 17 December 2009, who said that the US is willing to work with other countries towards jointly “mobilising” US\$100 billion a year. This target included bilateral, multilateral, public, private, and alternative sources of finance. But it was earlier announced by Gordon Brown on 26 June 2009, at the London Zoo. He proposed it as a new international partnership on **public finance** for climate

change. The US\$ 100 billion was meant to be from **public sources**, governed by four principles:

- Equity of contribution and allocation
- Additionality
- Predictability (also from Norwegian proposal, aviation, and maritime sectors)
- Shared governance

Müller quoted Brown as saying:

“So today I propose we take a working figure for this purpose of around \$100 billion per annum by 2020. I believe the mechanisms I have set out are capable of raising at least this sum - and it is a credible number against which countries can develop their plans.”

“It would come, as I have set out, from a combination of the carbon market, new and additional sources of predictable finance and a limited amount of development aid.”

Even then, Brown recognised the importance of predictability of finance for planning, Müller said, and the development aid portion was limited to 10%.

Müller then presented an analysis of how this amount could have been raised:

- The Norwegian proposal to withhold and auction at the international level a (small) portion from national quota allocation (AAUs) could have generated US\$ 14 -23 billion (at 2008 carbon prices) if it was set to 2% of 1990 Annex I emissions.
- The proposal for an International Air Passenger Adaptation Levy (IAPAL), submitted by LDCs, could have generated between US\$ 10 billion (with an average levy of US\$ 5 per ticket) to US\$ 7.6/19 billion (with an average ticket price of US\$ 200/500) annually.
- The International Maritime Emission Reduction Scheme (IMERS) could have generated US\$ 4 billion annually.
- The “limited amount of development aid”, at 10%, could have generated US\$ 11 billion.
- 18% of 2013-2014 average ODA, estimated by OECD-DAC as contributions to climate finance, equalled US\$ 25 billion.
- Other public sector type of sources raised US\$ 16 billion.

Together these sources could have generated about US\$ 77 billion, Müller said, indicating that Brown’s figure was achievable by 2020.

Müller urged participants to consider innovative sources of finance for the future, given that budgetary contributions are unlikely to increase in step with need. The **IAPAL proposal** tabled by LDCs at Poznan, for example, didn’t fly because developed country treasuries felt this would be an international levy. But US\$ 8-10 billion for adaptation would have made the present discussion on replenishments much easier.

Müller said ecbi is currently considering bottom-up options, given that everything in the regime is now bottom-up. In Paris, ecbi worked to convince **Quebec to contribute CAD\$ 6 million to the LDC Fund** from their auctioning revenue from a carbon trading scheme. This was important because it was the first time a sub-national entity was contributing. It was not a big amount, but if it can become more regular and predictable, and be scaled-up internationally as a share of proceeds of trading schemes, it can generate more funds.

For example, he said, just 2% of the share of proceeds from Quebec would generate US\$ 10 million annually; and 2% from California would generate US\$ 125 million per annum. The EU Emissions Trading Scheme

(ETS) could generate €270-376 per annum (at 2% of the expected revenues for Phase III and Phase IV). Some countries like Germany, France, and Portugal already use a portion of their revenues for international climate change, Müller said.

Finally, he described the **Corporate Air Passenger Solidarity (CAPS) Programme**, another “bottom-up” proposal for raising funds that ecbi has initiated, proposing a socially responsible air travel initiative to attract private sector support for climate change adaptation in developing countries. Müller noted that the international community and the airline sector have created the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) as a tool to reduce the negative global social impacts of air travel in line with the Paris Agreement. The CAPS Programme offers a complementary tool for corporations to increase the global sustainability of their air travel activities also in line with the UN Sustainable Development Goals (SDGs).

The CAPS Programme calls on companies to donate a small share of the corporate air travel budget (in the region of 1%) to the UN Adaptation Fund, he said. The income is expected to be mainly derived from Corporate Social Responsibility (CSR) budgets. On average, if even 1% of corporate passengers donate on average 1% of their ticket price, this could yield US\$ 125 million annually. 10% of passenger donating 1% could yield US\$ 100 million each year.

Müller concluded by saying new ideas are needed to raise public-sector type funding, and old ideas that may work need to be revived. He cautioned against another long-term goal without a clear understanding of sources and rules for accounting, saying this will result only in further ill-will, as in the case of the “fast-start finance” promised earlier. Even a smaller target with clarity on these elements will be better, he said.

In the discussion that followed, a participant said developing countries are pushing for a share of proceeds in all market mechanisms. While the proposal for the EU ETS is good, it is external to the negotiations and voluntary. Further work is needed on how to operationalise it. On CORSIA, he said it is not clear how the offset mechanism under CORSIA can generate funding for the financial mechanism of the Paris Agreement. Müller said there is no estimate currently of how much the share of proceeds from Article 6 mechanisms will generate, though some studies have said it is likely to be a small amount. CORSIA will be main driver for generating demand for offsets, he said, and if every project generated by CORSIA has a share of proceeds taken away, then potentially they can be sold by the Adaptation Fund (for instance) to CORSIA participants.

A participant said the Paris decision calls for long-term collective goal should be set according to the needs and priorities of developing countries. He asked how those need can be matched with sources. Müller said there is no single figure for country needs – there will be different figures based on different assumptions. Instead, he proposed that the replenishment process for climate funds begin with a bottom-up needs assessment. This can help to reduce possible future conflicts on whether country needs are reasonable, and whether they have been met.

Another participant said the Katowice decision on the collective goal for long term finance does not refer to financial needs assessment, but only needs. The decision then goes on to highlight how the needs have to be assessed in a broader context. He said the work has started on developing methodologies and a report will be delivered at COP26. Submissions have been requested, and those that have already been provided underline the dynamic nature of the needs, and the huge complexity of the task. He agreed that innovative sources that go beyond the UN Framework Convention on Climate Change (UNFCCC) are important, but at the same time shifting financial flows towards low-carbon resilient development must be a priority, as agreed in Article 2.1c of the Paris Agreement, along with leveraging other sources. He noted that the recent assessment by the Standing Committee on Finance showed progress towards the goal, and a wider interpretation of climate

finance that includes investments in energy, transport etc. indicates that climate finance is approaching a trillion.

A participant asked who would carry the burden of the innovative sources of finance. Müller responded that there are ways to ensure that developing countries do not have to carry the burden. For instance, in the case of a levy on air travel, developing countries could keep the funds raised to spend on climate in their countries, while developed countries would contribute it. People who fly can probably afford to pay a small US\$ 5 contribution in solidarity for the poor, he said, and solutions can also be found on how freight from developing countries is not disadvantaged.

Another participant said the new long-term collective goal will send an important political signal. The more likely the goal is a “cliff hanger” announced at the last minute, the more likely it is going to be a fake number. He said an analysis was needed on how much public sector grant money is in the system, with what conditions and eligibility, and how much is spent on adaptation.

Müller agreed, saying it would be a healing process even if a small figure for a public sector collective goal could be agreed instead of fantasy one. The easiest way would be to count contributions to the UNFCCC financial mechanism, from public contributions or from innovative sources. He concluded that the focus should be on solutions rather than “snag hunting”.

FINANCING THE NET ZERO TRANSITION

This session was facilitated by Carlos Fuller, member of the ecbi Advisory Committee. It started with a presentation by Mattias Frumerie, Sweden.

Frumerie said his presentation is based on a [blog published](#) on the website of the Swedish Ministry for Foreign Affairs, on creating a more coherent basis for implementing the three 2015 agendas (the Paris Agreement, the SDGs, and Addis Ababa Action Agenda for finance for development, or AAAAA). It has been three years since they were adopted, Frumerie said, and Summits will be held for all three in September 2019 at the UN Headquarters in New York to keep their spirit alive. Moreover, the IPCC 1.5°C special report gives us ten years to bend the emissions curve, and the SDGs are also to be implemented in the next ten years, providing a sense of urgency for action for both. He said all three should be implemented with linkages in mind.

While acknowledging the different dynamics of the Paris Agreement and AAAAA, he said the principles of the AAAAA should also be applied when implementing the Paris Agreement. National ownership is key for implementation. He described arrangements in Sweden, where proposals for the budget are cross-checked against jobs for all, gender equality, and climate and environment. Parliament also cross-checks reports on the basis of these three elements. In addition to this mainstreaming, there are specific budget lines for climate change.

He then described initiatives to finance the transition to net zero, which he said are gaining ground, driven by clients, public opinion, and the need for businesses to ensure that investments are sustainable. These initiatives capture the spirit of Article 2.1c of the Paris Agreement, he said. The discussions under the UNFCCC focus on the financial mechanism, but the flows going through the climate funds are very small compared to the flows outside. Other actors, such as pension funds and insurers want to invest in these sorts of initiatives, but opportunities have to be created for them.

He listed a number of initiatives, such as the Task Force on Climate-Related Financial Disclosures (TCFD) established in 2015, to inform financial decisions in relation to the Paris Agreement. He also described the Stockholm Sustainable Financial Centre, launched to create a space for these kinds of discussions, bringing together academia and practitioners. Finally, he described the [NDC-SDG Connections](#) tool developed by the Stockholm Environment Institute and others, to illustrate how the 17 SDGs and NDC actions are related to each other.

In the discussion that followed, a participant said it is important to underline that the Article 2.1c work is not instead of what is being done under the UNFCCC, but in addition to that, and such initiatives are necessary for the broader work of linking the agendas. He underlined work by the European Union and Commission, on sustainable finance in the EU. On the broader UN agenda and AAAA, he said language and principles have been agreed under the UN Economic and Social Council, which could be useful also under the UNFCCC, and could be transposed.

Müller said there could be collateral benefits between the SDGs and adaptation action, which would not necessarily be the case for mitigation.

A participant described efforts in Bangladesh to integrate the SDGs, saying the government has mapped the SDGs and Paris Agreement across all sectors of the government, and are looking for synergies in terms of the national planning process. In the last budget, the finance minister allocated roughly 8.5% of the national budget towards implementing climate change activities, mostly adaptation.

Frumerie said other countries could learn from Bangladesh, both in terms of integration and assigning national resources, while ensuring budgetary spending does not go against mitigation or adaptation. He highlighted the importance on national ownership, with countries deciding their priorities, and donors responding to those priorities.

Fuller described the Climate Online Risk Assessment tool developed in the Caribbean to ensure budgets and projects are climate-proofed.

Frumerie said a [Coalition of Finance Ministers for Climate Action](#) was launched earlier this year, and have endorsed a set of six [Helsinki Principles](#) that focus on how to climate-proof national initiatives. More and more countries are joining the Coalition, he said, engaging finance ministries, which are key to achieving the transition to net zero.

NEGOTIATING COOPERATION UNDER ARTICLE 6

This session was chaired by Kishan Kumarsingh, Trinidad. It was kicked off with a presentation by Axel Michaelowa, Perspectives Climate Group and University of Zurich.

Introducing the topic, Kumarsingh said some of the issues under consideration include: the need to avoid double counting; whether there should be an overall governance mechanism to track the mechanisms; share of proceeds towards adaptation efforts; and the mitigation to be derived from the mechanisms, including the percentage of credits that should go towards overall mitigation.

The second issue on corresponding adjustments relates to **Article 6 activities outside of NDCs**. Under the Kyoto Protocol, Michaelowa said, the Clean Development Mechanism (CDM) was implemented in countries without a target or contribution, and it did not matter how many units would be transferred out. This is no longer the case under the Paris Agreement where all countries have NDCs, and the questions relating to this topic include: whether activities outside of NDCs should be prohibited, as including them could give countries incentives not to expand their NDC coverage; whether there should be a transition period during which they are allowed followed by a prohibition; and whether there should be flexibility given to some countries like Least Developed Countries and Small Island Developing States.

The third issue relates to the **utilisation of Internationally Transferred Mitigation Options (ITMOs) for other purposes**, like the CORSIA system and voluntary markets. Some Parties feel they should not be allowed; some feel that they should be allowed, but with a corresponding adjustment; and some others feel there should be no corresponding adjustment. So far, he said, there are no convincing proposals to resolve this issue, and further innovation is needed.

The fourth issue relates to the **nature of underlying NDC targets**, including how to ensure there are no loopholes that emerge relating to inconsistency in the timing of the NDCs, which include multi- and single-year targets. Discussion relate to whether you can, or need to, simulate emissions trajectories that reach to the single-year target of an NDC. Such simulations would have an impact on the number of ITMOs that will have to be brought into the system in that single year, he said, adding that he would elaborate on this later with an example.

Transition of Kyoto Mechanisms

Michaelowa listed three key crunch issues related to this topic, relating mainly to the CDM.

The first relates to the **transition of Certified Emissions Reductions (CERs)** to the Article 6 system – whether this should be prohibited entirely; allowed for the millions of credits that have been generated but not been used; or whether there should be certain criterion for some units to be eligible, and those that should not be eligible. There is a tendency among Parties towards a cut-off year, with 2020 as one of many suggestions.

The second relates to the **transition of activities**, including projects and activities that have been undertaken under the CDM. Some Parties don't want to transition any activities, he said, while others want to transfer everything. Compromise proposals relate to a process of re-registration, where there are question relating to whether there would have to be a full re-validation with a third party checking all documentation (a costly process), or whether this can be done in a different manner.

The third issue relates to the **transition of methodologies that exist under the CDM**, of which there are more than 200, and whether these should be transitioned. A lot of capital and effort has gone into the development of these methodologies over the past 15 years, but the question is whether they would be consistent with the principles of Article 6, or whether they have systemic issues that would prevent their use. Some Parties feel they would not be stringent enough.

The fourth issue relates to **governance**. In Katowice, Michaelowa said it became clear that Article 6.2 would not have direct international oversight, but there would be an expert technical review process. The question is whether this technical review process will scrutinise only the quantitative basis, or also the qualitative basis, of ITMOs.

Character of ITMOs

The first issue relates to **whether ITMOs are pure accounting units** that can only exist in national accounts and be transferred to one another; whether they can have an existence outside of these accounts; or whether they are trading units like the CERs of CDM that can sit anywhere and have secondary markets. Michaelowa said anyone who has worked with the CDM knows how important it was to have units that are fungible and can bring in the whole private sector ecosystem, but the issue is still fully open.

The second issue relates to metrics, and **whether non-CO2 metrics can be used**. Their use was generally accepted at Katowice, said Michaelowa, but the issue has arisen again in Bonn. Discussions relate to whether countries that use a certain metric can only trade with countries with the same metric; or can transactions take place between metrics. In the case of the latter, what conversion factors should be used; and should they be generic, or can everyone develop their own factors. Another question is how these other metrics would relate to the corresponding adjustments.

Share of proceeds

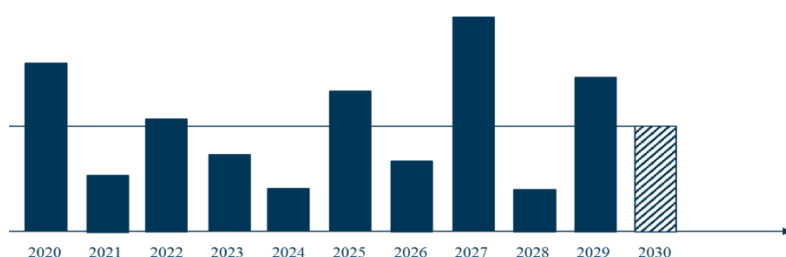
One set of questions relate to **whether Article 6.2 would provide share of proceeds** along the lines of the 2% from the CDM that goes to the Adaptation Fund, said Michaelowa. Some Parties say all the Kyoto mechanisms were covered under the Doha Amendment and it should be the same under the Paris Agreement. Others say only Article 6.4 under the Paris Agreement mentions share of proceeds, and Article 6.2 does not mention it. There is some movement among developed countries towards allowing share of proceeds under Article 6.2, he felt, but how far this movement will go remains to be seen. Some compromise proposals have been made, relating to paying the share of proceeds only on the annual balance, and not on each transaction.

A new question that was not discussed in Katowice relates to the **rights and responsibilities of host countries under Article 6.4**. Previously in Katowice, Michaelowa said the tendency was to mirror the arrangements for the CDM, with a support structure under the secretariat and approvals by the host country. At Bonn, the tendency has shifted towards a limited support structure, with more responsibilities for the host country. This raises questions of how host countries would finance this responsibility and ensure adequate human capacity. One suggestion is that a share of proceeds could also be used to support this administration.

Michaelowa then presented examples to demonstrate the issues that arise with single- and multi-year targets in the NDCs; and with the conversion of units.

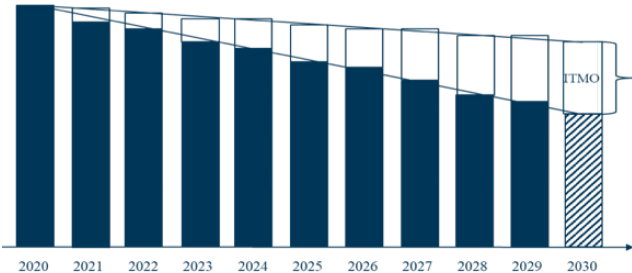
On the single- and multi-year targets, he presented the options of “averaging”; “declining paths”; and “convex paths” over a ten-year period, with 2020-2030 used for demonstration purposes. **Figure 2** shows a varying amount of ITMOs accruing each year. An averaging approach would use an average of the years to give the level of ITMOs that will be accounted for in the year 2030. This will result in 10 ITMOs in the entire period to give one ITMO in the target period.

Figure 2



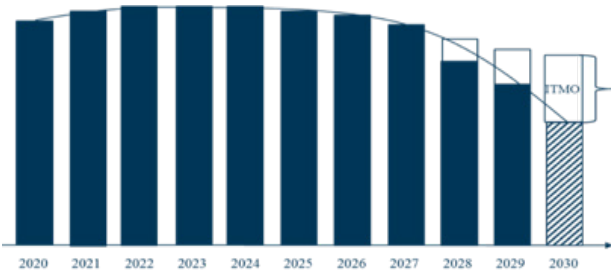
Some Parties could argue that the emissions decline every year the NDC is implemented. **Figure 3** shows declining emission over the ten-year period. Under such a declining path, you would need 5.5 ITMOs for one ITMO in the target year.

Figure 3



Theoretically, Parties could argue that it is difficult to reduce emissions in the early years of the NDC period, so the emissions path will decline only in the last few years of the NDC. This “convex path” will only need 2 ITMOs for one ITMO in the target year (**Figure 4**).

Figure 4



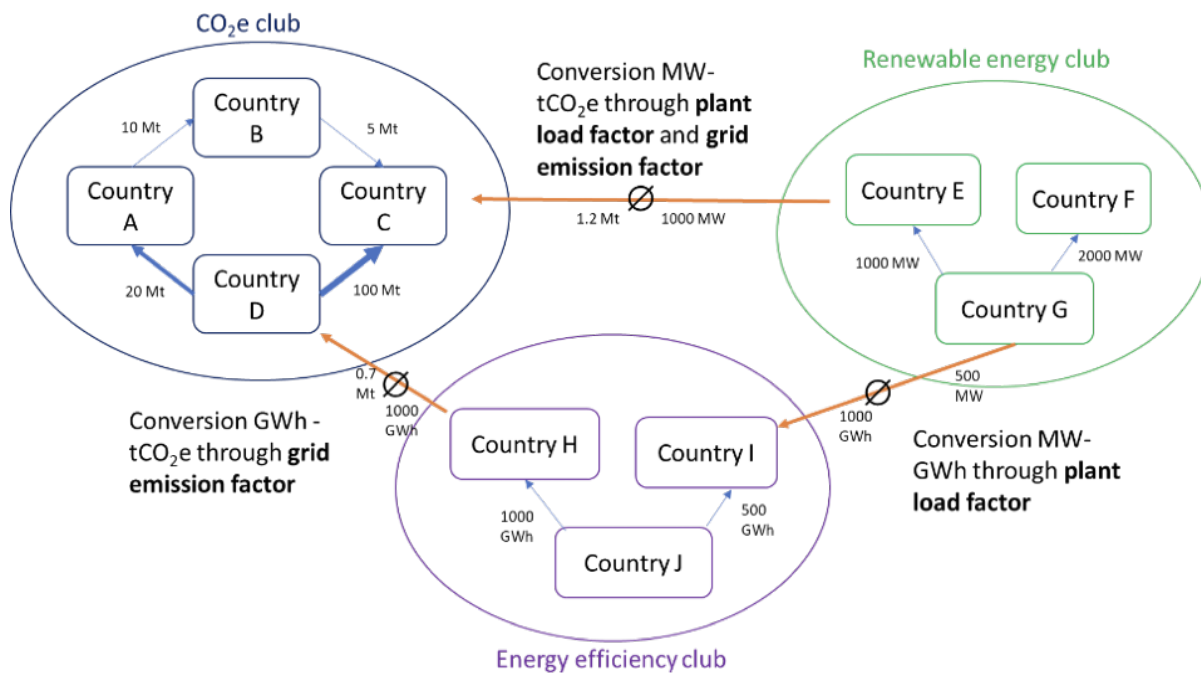
This example illustrates that there could be a difference of a factor of five in the different approaches, said Michaelowa.

Illustrating the issues that relate to the conversion of units, Michaelowa presented **Figure 5**, using three different “clubs” (relating to the NDCs): a CO₂e club; a renewable energy club; and an energy efficiency club. Trades between countries within each club will be straightforward, he said, but trades between clubs will need conversion factors. For instance, trades between the CO₂e club and the renewable energy club will need two parameters – the plant load factor and the grid emission factor. For trading with the energy efficiency club, the CO₂e club will need the grid emission factor. But it is not clear which grid emissions factor, or which plant load factor. A lot of technical detail will need to be addressed here, he said.

Finally, Michaelowa said there are issues that could become crunch issues in future, such as issues regarding the scope and coverage of REDD+; baselines and additionality; generic approaches; links to NDC ambition; and specific safeguards for additionality (for instance, if the NDC is not sufficiently ambitious).

During the discussion that followed, a participant from Europe said Article 6 is important because if it is not implemented properly it could undermine the Paris goals, including the 1.5°C goal and the goal of carbon neutrality, and the NDCs. Attaching the level of risk of doing so to each of the crunch issues will help to distil

Figure 5



the issues that are important, he said. Key questions relate to:

- Whether the transferring of emissions through the market mechanisms will deliver the goal of carbon neutrality;
- The NDCs and their diversity, and how we enable the markets to work with this diversity;
- The legacy of the Kyoto Protocol, with rules designed for another context, which are difficult to fit into the new context of the Paris Agreement; and
- How does Article 6 fit into other elements of the Paris Agreement (like the overall goal and transparency), given that it was written separately from other elements of the Agreement.

On the diversity of NDCs, he said it is clear that the Article relates to greenhouse gas emissions (GHGs) and the adjustments of those emissions. But this raises the question of what to do about non-GHG NDCs. This is an important question because the NDCs of some big countries fall in this category. There are solutions, relating to the adequacy of these NDCs, because perhaps they have not been as well thought through as others, and it is GHG emissions we are talking about in the context of the 1.5°C goal.

On comprehensive accounting, he said an approach to accounting is specified in Article 6.2 and there are arguments on where it applies, particularly on whether it should apply to Article 6.4. Some feel it is a loophole, while others feel that the mechanism is different. There are disagreements on whether the accounting should apply outside the scope of the NDC, and whether it applies to the International Civil Aviation Organization (ICAO). Some of those questions may or may not have been answered by §77(d) of the Katowice Decision 18/CMA.1, which in itself is a problem because it does not provide for exceptions, for those Parties who would like exceptions to the accounting rules. The risk related to this set of questions is probably substantial in terms of principle and size, he felt, because a Party cannot be sure that whatever it is buying is contributing to either the NDC or the 1.5°C goal.

On the transition of the Kyoto Protocol legacy into the Paris world, he said the Paris Agreement does not provide for any transition, and there are potentially large risks to current ambition if large surpluses from the pre-2020 period are used.

An issue for the future is the hot air that might be attached to single year targets and cumulative emissions, he continued. Another issue is the design of the Article 6.4 mechanism, with some Parties calling for incremental changes from the CDM, and others calling for radical changes. In the light of the 1.5°C goal and the NDCs, he said the mechanism needs to work differently and have much more host country involvement, because those countries are taking responsibility for those emissions and should have rights to determine how they are credited.

Another issue that has come up at this session is what we do with the CDM after 2020, he said. This has been raised under the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) giving rise to some controversy. Related to this are the issues of share of proceeds, funding the mechanism, and the issue that the CDM is quite cash rich in terms of budget, and the funds may be better dedicated to where we are going than where we have been.

On the ICAO issue, he said §77(d) was specifically designed for ICAO, and there is an ICAO conclusion in §77(d) saying there should be adjustments for other international uses. The difficulty is that §77(d) has controversy attached to it, but that message has not been clearly expressed, though we need to deal with it. All the other issues we are talking about here relate to ICAO as well, he said: how much are we carrying forward; how much is there going to be new demand; how to avoid double counting etc. These are decisions cannot be made under the UNFCCC, but need to be facilitated so ICAO, should it want to make the decisions, can do so.

Finally, on share of proceeds, he felt there has not been a lot of movement on Article 6.2, but a recognition that it needs to be designed better. One proposal is that if Parties implement a carbon market, particularly a capped market, they can generate their own revenues, and revenues they can use internationally like some countries are already doing. The challenge to that proposal, however, is that it is not reliable, or obligatory.

Another participant, representing the LDCs, said there are lessons from previous mechanisms. The issue is of transferring a mitigation outcome from one country to another, because some countries want to find cheap credits offshore to obviate the need to take action at the national level. In reality, he said, we are trading the same units from one country to another, and the question is: does the atmosphere see any change in that trade. The LDCs argue that if you transfer units, you have to discount a bit to give to the atmosphere and cancel those from your account. This is a critical change in thinking.

On international oversight of Article 6.2, he said there was no agreement that there should only be a technical expert review. There should be some centralised accountancy system to make sure that all transactions are observable, and go through an approval process with proper oversight. This is based on lessons from the previous mechanisms, where there were dodgy accounting systems even in the EU Emissions Trading Scheme. The expert review process is good, he said, but there is a time lag in viewing the transactions.

Another critical issue, he continued, is that of trading outside the scope of NDCs. If each country has set out what they are going to do under their NDCs, this will at least have constrained the number of units that can be generated. If we also include activities that are not covered in NDCs, it is an unconstrained system with an unlimited supply, which can kill the markets.

On share of proceeds relating to Article 6.2, he said a system to take some sort of levy on the trade can be found, even if it is a different system from Article 6.4.

Another participant from the LDC Group agreed with the previous speaker, saying the main reason for the market mechanisms is to facilitate some countries in meeting their commitments abroad, in the most cost-efficient manner. Even if these countries have to discount emissions for the atmosphere or provide a share of proceeds, the final costs will be less than those that will have to be borne in the country for the same emissions reduction. He also agreed that lessons have to be learned from the Kyoto Protocol experience to ensure the integrity of the system, and ensure the participation of the LDCs, SIDS, and small countries. The countries with greater needs did not benefit from the Kyoto mechanisms, he said, and the stakeholders from these countries, including the private sector, should benefit from the new mechanisms to support their low carbon development strategies. Further, he said countries with diverse NDCs should also be allowed to participate, and the diversity should not become an excuse to exclude them.

He asked Michaelowa whether it matters if activities are inside or outside NDC, and said the issue of safeguards was not “green” as indicated in the Figure Michaelowa presented, but still in the red. The issues related to additionality and baselines are also still very important issues to be resolved, he said, while agreeing that the share of proceeds issue is still under negotiation. He called for the progress made in Katowice to be taken into account in the current negotiations.

Müller referred to the genesis of the Kyoto Protocol, where Brazil proposed a “Clean Development Fund” replenished in terms of non-compliance and responsibility shares for temperature increase etc. Many saw the CDM as a “China” Development Mechanism, he said, but the proposal for the Fund also proposed that the funds be allocated on the basis of the shares of emissions, and would still have resulted in a China Development Fund. Instead, he proposed a Fund that buys up credits from the LDCs, SIDS, and smaller countries, and possibly cancels them. He said it is unlikely the markets will go to these countries if there is low potential for trade, but a proposal such as this could make sure that they benefit from the market. The Green Climate Fund, for instance, could have a window to buy up credits from these countries. On CORSIA, he observed that what offsets they take is their business, and not up the UNFCCC.

Another participant asked Michaelowa to elaborate on the issue of metrics, saying both renewable energy production and energy efficiency will reduce emissions somewhere, and metrics agreed already could be used to measure this reduction, such as Global Warming Potential (GWP).

Responding to the question, Michaelowa said a number of countries have presented renewable energy and energy efficiency targets in their NDCs, and clearly want to be involved in the market mechanisms. From a theoretical perspective it complicates matters, but if they want to be involved, loopholes have to be prevented.

On CORSIA, he said it is not a totally isolated mechanism, and it depends on what is generated under the Paris Agreement. Moreover, the people who sit on the technical advisory body of CORSIA and decide the rules on which offsets are eligible are from the UNFCCC negotiations with 20 years of CDM experience.

On the issue of LDCs and whether it will be better to bring them in through dedicated finance instead of markets, he said LDCs have low emissions now, but they will develop. Under the CDM, there was the principle of suppressed demand, which not yet been raised in Article 6 negotiations, but it will be an important issue when it comes to the technical issues of baseline methodologies.

On the question of activities outside the NDCs, he said these activities are very similar to those under the CDM, where the activities are outside of the scope of contributions. Those that want to protect the regime say this can't go on, while others say there should be a transition period. Allowing them forever would, however, have an impact on reaching the goals of the Paris Agreement. There is no systemic difference between Articles 6.2 and 6.4 on this, he said, though in Article 6.2 it is more important to have an approach that does not impede movement towards broader coverage of NDCs. One aspect that is crucial, regardless, is that if it is not covered by corresponding adjustments, it needs stringent additionality rules – otherwise it becomes a huge loophole.

On CORSIA, a participant added that while it is a different institutional system, the offsets that they buy to count under CORSIA could also be double-counted under UNFCCC, if the rules are not airtight. On the question of how to deal with LDCs, he said the World Bank is trying to find a subsidised approach to support countries in accessing the market through green bonds etc, but there has been a long history of the World Bank trying to pre-empt decisions on how to conduct the carbon market. A quick answer on how to help LDCs would be to find a way through Article 6.8, without having to go through the market, he said.

Michaelowa agreed that piloting schemes should be watched carefully for their attempts to influence the UNFCCC system.

Another participant said stopping the use of pre-2020 units and managing the supply side will slow down what CORSIA can use. She agreed that efforts to bring market benefits to the LDCs are unlikely to work, and they should just be given the money instead, as the GCF should be doing in the first place. She proposed two lenses through which the Article 6 issues can be viewed: the risks for environmental integrity, which could take us backwards; and as a means to generate finance, through share of proceeds. There is no reason to distinguish between Article 6.2 and 6.4 on share of proceeds, she said.

Referring to a comment by a previous participant on seeing Article 6 as different from the mechanisms under the Kyoto Protocol, she said negotiators should think big, and think differently on how Article 6 can deliver greater benefits. It should not just be about cost efficiency for the markets any more, she said – that had already been done, and saved the developed countries a lot of money, for which they should be grateful enough to turn Article 6 into something that generates benefits for everyone. This is a rare opportunity to re-design the regulatory system, and such opportunities do not come often. Rather than going backwards, she felt this opportunity should be used to have a “clean, unpolluted” discussion on how the mechanisms should look, without the vested interests from the past jumping into the fray. She said it is tragic where the discussion is at, and a clean best option for each mechanism is needed along with a disciplined approach, to do the right thing.

Another participant said the LDCs and SIDS did not benefit from CDM, and one problem related to the issue of unilateral projects. If that continues in the new mechanisms, he said, smaller countries will be left out again because they won't have the resources to play the game.

Michaelowa agreed, saying if Article 6.2 is devoid of international oversight, then the risk of unilateral activities becomes very possible. Moreover, he said, the discussion tends to consider the markets along North-South lines, but no one talks about transactions between large emerging countries. Consideration is needed of what that would mean, he said.

Müller closed the session, thanking the participants, and calling for insights and quotes for the ecbi policy brief on Article 6. He thanked the City of Bonn for hosting the event and the reception that followed.