



# Carbon Market Watch

## COP 19 Analysis

DECEMBER 2013

### EDITORIAL

In the early hours of Sunday, 24 November 2013, the 19<sup>th</sup> Conference of the Parties (COP19) to the United Nations Framework Convention on Climate Change (UNFCCC) concluded in Poland, Warsaw. After a 40 hour negotiating marathon, the conference concluded with a package of decisions and an even bigger bunch of undecided issues that will be discussed at the next session in June 2014.

The decision by the Polish COP Presidency to co-host the World Coal Association's International Coal & Climate Summit during COP19 was simply outrageous and placed the conference under a dark shadow of corporate and short-sighted government interests. It was not just the Poles who made this COP one of the most demoralizing. During the COP, Japan announced that it lowered its target – from fairly ambitious to meaningless and Australia's new government is trying hard to dismantle its climate policies. The [Climate Action Tracker](#) in the meantime let us know that with the current reduction commitments we are heading towards 4° Celsius of warming by the end of this century.

Against these prospects, the final outcome was not a disaster. Although the timeline was pushed back to the first quarter of 2015, it does give countries a deadline for when they have to present how they intend to contribute to the global goal to combat climate change. However, the negotiations for the new climate deal for after 2020 inched

forward by watering down requirements for the mitigation targets countries will have to take on. “Commitments” were changed to “contributions” (see here for a marvellous [spoof](#) on this) and any reference to equity was removed.

In addition, decisions were taken on a Framework for REDD+. A relatively positive outcome includes the decision to enforce REDD+'s mandatory environmental and human rights safeguards by both setting up a system to monitor, report and verify carbon emissions.

Some marginal progress was also made on finance. Countries pledged US\$ 280 million to finance the new REDD+ Framework and reached their goal to fill the Adaptation Fund with US\$100 million. However, no pledges were made on how to reach the goal of mobilising US\$ 100 billion annually from 2020. At the eve of Typhon Haiyan that hit the Philippines ahead of the conference and caused major disaster, the conference also finally agreed to establish a mechanism to address loss and damage as the result of climate change. However, much remains unclear, including how the mechanism will be financed.

While the COP was expected to be a “Finance COP” and ultimately rather turned into a “REDD COP”, it was definitely not a “Carbon Market COP”. Warsaw saw no decisions on establishing future carbon markets. All discussions on major decisions on the framework for various approaches (FVA) and the new market mechanism (NMM) were postponed to the next session in June 2014.

The reason for this was enormous disagreement and general distrust about the intention of countries that are aggressively advocating a trading platform for credits from various market mechanisms. For example Japan, which is developing a Joint Crediting Mechanism (JCM) which has raised doubts about its environmental integrity, has pointed out at various occasions the importance of such a framework while at the same time announcing to decrease its climate reduction target. A UNFCCC high-level round table on market approaches during the COP, which should have provided a platform for key players in the fight against climate change, instead included panellists from countries that have hampered the international climate process, such as New Zealand, and corporate lobbyists that are not known for supporting climate friendly policies, such as the Italian energy giant ENEL and the International Emissions Trading Association (IETA).

Also the reforms of the rules of the Clean Development Mechanism (CDM) and Joint Implementation (JI) were postponed. The only decisions that were taken relate to guidance on the CDM and JI for implementation in the course of 2014. It is noteworthy that in particular the CDM decision includes useful language to improve the local stakeholder consultation rules and a monitoring mechanism for the contribution of sustainable development of CDM projects. Host countries can now approach the CDM Executive Board for technical assistance and guidance on these issues.

Following the heated negotiations on hot air in Doha, several countries were hoping in vain to get a much needed decision on how to implement the Doha decision that limits carry-over of hot air and avoids the new build-up of surplus in the second commitment period. Negotiations were postponed to the next June session. The delay makes it difficult for Parties with commitments in the second commitment period, such as the EU, to move forward in ratifying the Kyoto Protocol.

## Contents

December 2013.....	1
Editorial.....	1
Our activities at a glance.....	3
Warsaw and the hot air legacy of Doha.....	4
Reforms on the Clean Development Mechanism postponed.....	5
Review of the CDM’s modalities and procedures.....	5
Further guidance on the CDM to the CDM Executive Board.....	5
Reforms on Joint Implementation postponed.....	6
Warsaw showed distrust on new carbon markets.....	6
Negotiation text on future agreement includes first reference on carbon markets.....	7
Warsaw Framework for REDD+ includes safeguards.....	8
End climate finance for coal power.....	8
Media action on human rights.....	9
Side event: Human rights and carbon markets.....	10
Carbon Market Watch contacts.....	11

## OUR ACTIVITIES AT A GLANCE

### Publications:

- [Herding the Global Carbon Market Cats: Recommendations for the Negotiations of the FVA](#)
- [End Climate Finance for Coal Power: Recommendations for the CDM Reform](#)
- [Local realities of CDM projects – A compilation of case studies](#)
- [WATCH THIS! NGO Newsletter #7: COP-19 around the corner: What’s at stake?](#)

### Policy recommendations:

- [Carbon Market Watch Recommendations for CDM Reforms @ COP19](#)
- [Carbon Market Watch Recommendations for JI Reforms @ COP19](#)
- [Intervention at NAMA workshop, COP19](#)
- [Intervention on CDM and JI in the COP19 SBI Closing Plenary](#)
- [Intervention in the COP19 CMP Plenary on CDM](#)
- [RTCC Interview: Adela Putinelu COP19 on the quality of offset credits](#)

### Open Letter:

- [Open letter to Ministers and delegates of UNFCCC Parties, November 2013 available in English, Chinese, Spanish, French, Hindi and German](#)

### Activities on human rights:

- [Press Release: CDM Executive Board rejects Bonyic Hydroelectric Project in light of alleged violations of CDM requirements and human rights standards](#)
- [COP-19 Side Event: How lessons from the CDM can inform the design of new market mechanisms](#)
- [Video: See No Evil – Media Action on Human Rights in Carbon Markets](#)

#### Carbon Market Watch COP-19 Blog:

- [Blog COP19 #1: Stop carbon markets from undermining mitigation commitments](#)
- [Blog COP19 #2: Shopping cart for anything goes \(SCAG\)](#)
- [Blog COP19: #3 Kick Coal out of the CDM!](#)

**COP 19 Web Resource:** All COP19 material can be found online [here](#)

#### Important dates in 2014:

**10-14 March: Session on ADP 2-4, Bonn, Germany**  
**19 March: Publication of technical paper on CDM reform**

**30 April: Deadline for submissions on CDM reform**  
**4-15 June: SBI 40, SBSTA 40, ADP 3, Bonn, Germany**

**23 September: Ban-Ki Moon climate summit, New York, US**

**1-12 December: COP20/CMP10, Lima, Peru**

## WARSAW AND THE HOT AIR LEGACY OF DOHA

The issue of how to cut hot air was back on the agenda in Warsaw. In Doha, countries decided to amend the Kyoto Protocol rules that allow carrying over of unused AAUs into the next commitment period and decided to restrict the amount of AAUs a country can use for compliance in the second commitment period. They also agreed on an amendment of the Kyoto Protocol (Paragraph 3.7ter) to avoid the build-up of new surplus. However, the details of how 3.7ter and the surplus decisions would be implemented remained undecided in Doha.

This issue is important because without clarification on the implementation rules for the second commitment period (discussed in SBSTA under Articles 5, 7 and 8) it is difficult for countries to move ahead with ratification.



In order to understand why the issues were so contentious in Warsaw, it is important to remember what happened at COP18 in Doha at the end of 2012: In Doha, the negotiations on the Kyoto Protocol were dominated by discussions around the surplus of Assigned Amount Units (AAUs) that had accumulated during the first commitment period of the Kyoto Protocol (CP1). AAUs are tradable emission permits under the Kyoto Protocol. One AAU allows a country to emit 1 metric tonne of CO<sub>2</sub>e. Kyoto Protocol rules allow countries to carry over all unused AAUs into the next commitment period.

In Doha, Ukraine, Kazakhstan and Belarus voiced clear opposition to cancellation or limitation of any surplus units. The countries stated that they would join the second commitment period but their reduction targets were well above their 2008-2010 average emissions. In other words, the application of 3.7ter would greatly reduce the number of AAUs available for them to use in the second commitment period of the Kyoto Protocol (CP2). After the Doha package was passed, all three countries indicated that they may not ratify CP2.

The EU on the other hand, where several countries hold large amounts of hot air, stated in Doha that 3.7ter would be applied to them as “a bubble”, meaning for the entire region and not for individual countries. This enables them to apply the Doha rules on 3.7ter and the AAU surplus from the first commitment period in a less stringent way because they are able to move around surplus within the EU.

These same issues that made decisions in Doha difficult surfaced again in Warsaw. In particular, Ukraine and Russia raised procedural issues and stalled the discussion. Ukraine introduced several texts that would in effect have revoked the 3.7ter decision. In the end countries did not reach a conclusion in Warsaw and decided to postpone

the discussions to SBSTA40 in June 2014. The draft text mentioned in the footnote of draft decision L.11 is available [here](#) and will be the basis for discussion at SBSTA40.

No decision on implementation procedures under para 5, 7 and 8 of the Kyoto Protocol will make it difficult for Parties, in particular the EU, to ratify the second commitment period. It remains to be seen how this issue will develop in June at SBSTA40 in Bonn and in December at COP20 in Lima.

For more information on the Doha decisions, see: [Carbon market Watch Policy Brief: Doha decisions on the Kyoto surplus explained](#)

## REFORMS ON THE CLEAN DEVELOPMENT MECHANISM POSTPONED



At COP-19 in Warsaw, Parties were expected to review the underlying modalities and procedures (M&P) of the Clean Development Mechanism (CDM) under the Subsidiary Body for Implementation (SBI 39) for the first time since the creation of the CDM. In addition, Parties also adopted the annual guidance on the CDM which provides the work plan for the CDM Executive Board for the subsequent year 2014 under the Conference of the Parties to the Kyoto Protocol (CMP).

### REVIEW OF THE CDM'S MODALITIES AND PROCEDURES

Despite a lot of preparatory work undertaken throughout 2012 and 2013 for the review, countries could not reach an agreement and decided to postpone the discussions to the next session of the Subsidiary Body for Implementation (SBI) in June 2014 with a decision to be adopted at the COP20 in December 2014. A **consolidated list of possible changes** to the M&Ps that will continue to be discussed at the next session can be downloaded [here](#).

Parties also decided to commission a **technical paper by 19 March 2014** on the following topics:

- 1) Membership and composition of the CDM Executive Board;
- 2) Liability of designated operational entities (CDM validators);
- 3) Provisions for programmes of activities (PoAs);
- 4) The length of the crediting period;
- 5) Requirements for the demonstration of additionality;
- 6) Role of designated national authorities (DNAs)
- 7) Simplification and streamlining of the project cycle for certain project categories;

Parties and admitted observer organizations are invited to make submissions on the review by **30 April 2014**. You can download the draft decision of the review [here](#).

### FURTHER GUIDANCE ON THE CDM TO THE CDM EXECUTIVE BOARD

In addition to the review discussions, countries adopted a decision on further guidance to the CDM Executive Board for the year 2014.

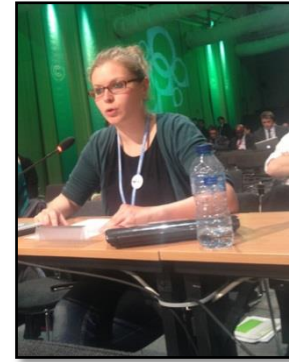
The first draft of this decision included several important recommendations that were put forward by the EU to address major additionality concerns, including the demand to assess the impact of all costs and revenues when assessing the additionality of a project. Notably, the EU threatened that if these additionality concerns are not being addressed at international level, buying countries will be forced to implement additional quality restrictions. Yet, several countries, including Japan and Brazil, refused to

accept any decisions that would have required stricter additionality assessment. What remained was a very generic request to the Board to examine alternative approaches to additionality, a decision that is repeated almost at every COP and which has so far not led to any improvements.

On a positive note, the final text includes language to work on improving sustainable development benefits and public participation notably by focusing on work at national levels. In particular, the Board has been asked to develop guiding tools upon request to assist host countries in monitoring the sustainable development benefits of CDM projects. The Board has also

been asked to collaborate with national governments in CDM host countries collect information on practices for local stakeholder consultations and to provide technical assistance upon request to develop guidelines for local stakeholder consultations.

Although there are no mandatory elements in these decisions, it is a good step in the right direction compared to the current situation. You can download the draft decision of the CDM review [here](#).



JULIANE VOIGT (CMW) CDM REFORM PLENARY

## REFORMS ON JOINT IMPLEMENTATION POSTPONED



Similar to the reform of the CDM, countries were also scheduled to reform the Joint Implementation (JI) guidelines but could not agree on the details. The discussion was postponed to SBI40 ([FCCC/SBI/2013/L.11](#)).

Countries also discussed separately whether it should be possible to issue ERUs before countries will get their respective AAUs for the second commitment period of the Kyoto Protocol (CP2). This discussion is significant because each ERU is shadowed by an AAU but AAUs for CP2 have not yet been issued. The discussion was postponed to SBI40 ([FCCC/SBI/2013/L.12](#)).

Similarly, parties did not agree if there should be a special rule for Belarus and Kazakhstan who were not in the first Kyoto commitment period but are planning to participate in CP2 so that they would be able to issue ERUs before they have their AAUs. This decision was also postponed to SBI40 ([FCCC/SBI/2013/L.14 & Add.1](#) and [Decision - /CMP.9](#)). The decision for now states that a country may buy but not issue ERUs until it has its CP2 AAUs.

Finally, countries did agree on a decision that provides further [guidance](#) to the Joint Implementation Steering Committee (JISC) for the year 2014. However, the final decision does not contain any substantive content that would improve the environmental integrity of JI.

## WARSAW SHOWED DISTRUST ON NEW CARBON MARKETS



FVA CAMPAIGN BADGE

One of the COP Presidency's declared priorities was a decision to advance the establishment of new carbon markets under the so called Framework for Various Approaches (FVA). However, given the diverging views of countries that want to see the discussions on new market mechanisms be part of the bigger "2015-package", no decisions were taken.

New national and regional carbon markets such as emissions trading schemes and offsetting programmes are being developed in many countries, including Japan, California, China and South Korea. A crucial question is to what extent such market

mechanisms should follow a common framework of rules under the UNFCCC and play a role in a post-2020 framework.

Discussions in Warsaw showed that many Parties, such as Australia, Japan, New Zealand and the US, would like to see the FVA be largely country-driven without much international oversight and rules. However, many other Parties, particularly Brazil and the Africa Group were careful not to agree on new markets while the form of the agreement under which an FVA could be included remains unclear. A High-level round table on market approaches confirmed the diverging views between Parties: The panel, organized by the COP Presidency only included strong proponents of the FVA, namely New Zealand, Poland, a representative from the Italian energy giant ENEL and the head of the International Emissions Trading Association (IETA). While the presentations focused on the “need” for the FVA, comments from the floor and representatives from the Maldives and the Africa Group were entirely critical.

This disagreement about the role and scope of such new markets made it impossible for discussions to move forward. Without moving the issue to a higher political level during the second week, countries decided after the first week to postpone discussions to June 2014.

Parties also decided to establish a New Market Mechanism (NMM) and decided that “all such approaches must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/or avoidance of greenhouse gas emissions” ([Decision 1/CP.18](#)). However, as with the FVA discussions on the NMM were seen as part of the wider 2015 agreement discussions. It remains unclear how the NMM would relate to other market mechanisms, such as the CDM and how inter-linkages to other mechanisms with possible crediting elements in the future, e.g. REDD+ and NAMAs, will play. Countries finally also agreed to postpone discussions to June 2014.

For more background information, read [Herding the Global Carbon Market Cats: Recommendations for the Negotiations of the FVA](#).

## NEGOTIATION TEXT ON FUTURE AGREEMENT INCLUDES FIRST REFERENCE ON CARBON MARKETS

Despite the disagreement on new carbon markets, countries agreed to include a first reference to carbon markets in the decision “Further advancing the Durban Platform”. The text includes a reference to the CDM in the context of the promotion to voluntarily cancel carbon offsets from the CDM pre-2020.

The original proposal on the voluntary cancellation of CDM credits was submitted by Brazil, who also wished for a reference to this in the CMP guidance to the CDM Executive Board. In the [Brazilian proposal on voluntary cancellation of CERs](#), Brazil proposed to establish a centralized cancellation account for both, CDM host and buyer countries, a proposal which was not accepted. In addition, the [Brazilian proposal on early action recognition](#) that proposed to recognize early action pre-2020 met a lot of opposition and distrust and did not get accepted. Indeed, the decision would have allowed countries to cancel Kyoto units, including CERs, AAUs and ERUs and then have them potentially count towards their post 2020 pledges.



ADELA PUTINELU (CMW) INTERVIEW WITH RTCC

The current reference in the ADP text is considerably less specific than what was originally proposed. However, it should not set a precedent to allow countries without ambition to access carbon markets and to allow for carry-over of Kyoto units into the future climate regime.

You can download the draft ADP decision [here](#).

## **WARSAW FRAMEWORK FOR REDD+ INCLUDES SAFEGUARDS**

COP19 in Warsaw ended with important decisions on REDD resulting in the adoption of a package of decisions known as the “Warsaw Framework for REDD+”. This decision completed the mandate agreed in 2010 in Cancun to establish an UNFCCC mechanism for payments to reduce emissions from deforestation and forest degradation.

Parties agreed on seven key aspects of REDD+ focusing on the scientific and technical rules, financing and a national coordination system. A relatively positive outcome included the decision to enforce REDD+’s mandatory environmental and human rights safeguards by both setting forth a system to monitor, report and verify carbon emissions. Another important development relates to REDD+ finance, in which countries are required to prove that safeguards are addressed and respected before receiving funding. In addition to finalizing the modalities for measurement, reporting and the disputed verification issue, establishing national forest monitoring systems and instituting reference levels, parties also recognized in the decision that Non-Carbon Benefits are important for REDD+ to be sustainable and that the Green Climate Fund will play a key role in channeling finance for projects to host governments, who in turn must set up national agencies to oversee the money.

However, the agreed upon decisions are vague and do not provide clear guidance for countries trying to implement REDD+ nationally. For example, countries can interpret their reporting requirements as providing any information in its summary of how it implemented the safeguards. Moreover, the frequency with which they need to report is not robust enough to ensure meaningful compliance. Finally, with regards to drivers of deforestation, the decision is weak and ambiguous, which some could even interpret as suggesting that indigenous peoples and local communities are drivers.

## **END CLIMATE FINANCE FOR COAL POWER**

The decision by the Polish Presidency to co-host the World Coal Associations “coal and climate summit” in the beginning of political negotiations was simply outrageous. It resulted in the second week kicking off with a protest in front of the Polish Ministry of Economics, the venue of the International Coal Summit. Held only several kilometres away from the conference location, Carbon Market Watch as well as numerous people and organizations protested against the inappropriate decision of the Polish government to co-host this coal summit during the COP19.



COAL CAMPAIGN STICKER

In stark contrast to the ambition needed to stay below a warming of 2 degrees and actions necessary to fight climate change, the organization of the coal summit underlined the special and controversial character of the COP19 held in Warsaw.

The protest was defined by role plays, showing investors and politicians advertising for coal power plants on the one hand and affected citizens on the other, which helped demonstrate the negative impacts of coal on the environment and local population. Special focus was given to health as a rising issue influenced by coal and symbolized in this protest by an over-dimensional lung.





Of special concern is the fact that coal power plants that have been built under the Clean Development Mechanism (CDM) can be awarded with certified emission reductions (CERs) which can be used to comply with Kyoto Protocol commitments. Designed to bring sustainable development to developing countries as well as enabling developed countries to achieve emission reductions in the most cost effective way, this use of the CDM is unacceptable. However, six coal power projects have been implemented under the CDM to date; one of them already earning over 600,000 tradable emission credits.

Carbon Market Watch raised the issue of climate finance for coal power and demonstrated in Warsaw to “kick coal out of the CDM”. Norway in particular raised the issue at various occasions and demanded to exclude coal power from the CDM. However, final decisions on the CDM reform have been postponed until the Bonn intersession in June.



HUMAN RIGHTS PIN

## MEDIA ACTION ON HUMAN RIGHTS

On the morning of Friday 15 November 2013, along with support from the YOUNGOs group at COP 19, Carbon Market Watch organised a public action to raise awareness on the rights of people and communities affected by CDM projects in host countries. The action was conceptualized to represent some of the harsher realities faced by many across the world that are actively campaigning against UNFCCC recognised offset projects. We attempted to demonstrate that while local stakeholder engagement and consent is an underlying commitment in all project planning, some projects fail to address concerns held by local communities. In the past several years, Carbon Market Watch has

learned of direct human rights violations in the form of intimidations, forced silencing, and in some tragic situations even death. A compilation of the some of these concerns were gathered together and published on the day of the action. (Please see [here](#))

While bringing the living conditions of many to the attention of passers-by in the negotiations, we also produced a short one and a half minute campaign [video](#) “see no evil” which briefly highlights the depiction we aimed to show. The media action improved the understanding of younger climate activists giving them the opportunity to learn about the current stakeholder guidelines while calling on decision makers and carbon credit buyers to demand how and by what means low-quality Certified Emission Reductions (CERs) have been achieved. We also used this action to help set the stage for our side event later in the morning where UNFCCC representatives and negotiators would directly hear from representatives of local communities in India and Latin America.



HUMAN RIGHTS ACTION



## SIDE EVENT: HUMAN RIGHTS AND CARBON MARKETS

On 15 November 2013, as part of the COP19 in Warsaw, Carbon Market Watch organised a side event jointly with Gujarat Forum on CDM, Centro de Incidencia Ambiental (CIAM), Centro Mexicano de Derecho Ambiental (CEMDA), the Center for International Environmental Law (CIEL), the Global Gender and Climate Alliance (GCCA), the Interamerican Association for Environmental Defense (AIDA) and the Women's Environment and Development Organization (WEDO).

The opening remarks for the side event were given by Carbon Market Watch Director Eva Filzmoser, who chaired the hour and half discussion.

The presentation by Falguni Joshi, a representative of local communities in India, which focused on the negative impacts of coal power projects under the CDM. Comparing the promises made in the project design documents (PDD) with the reality of their implementation; she pointed out the harmful effects on local communities and called for a ban of coal under the CDM. Joana Abrego, speaking on behalf of local communities in Panama, presented the Barro Blanco CDM project. She emphasised the



FALGUNI JOSHI (GFOCDM)

insufficiencies of stakeholder consultation requirements under the CDM and underlined, among others, the lack of enforcement and language barrier as its shortcomings.

Juan Carlos Carrillo from the Centro Mexicano de Derecho Ambiental (CEMDA) explained how the negotiations on REDD+ is already providing for human rights safeguards and raised the question of inconsistencies of governments' positions at the UNFCCC. Concluding the presentations and speaking of behalf of the Center for International Environmental Law (CIEL), Alyssa Johl underlined the importance of international safeguards. Pointing out current weaknesses of the CDM, she emphasised the importance of improving the stakeholder consultation process and the need to introduce international standards to ensure human rights protection.

The civil society panel was then joined by the current chair and two former chairs of the CDM Executive Board as well as a private sector representative:



EVA FILMOSER, CMW - JOHN KILANI, UNFCCC  
PEER STIANSEN, CDM EB

John Kilani, director of Sustainable Development Mechanisms and former Chair of the CDM Executive Board, pointed out that human rights abuses have a zero tolerance level in the UNFCCC. Peer Stiansen acknowledged that the CDM has weaknesses in the stakeholder consultation process as well as accountability, he welcomed the current possibility for changes of its modalities and procedures.

Focusing on the importance of stakeholder consultation and pointing out a lack of global standards in this regard, Clifford Mahlung, head of the Meteorological Forum in Jamaica recommended including a representative of civil society in the Executive Board to ensure better safeguard of local community interests. Finally, representing the Project Developers Forum, Gareth Philips highlighted the weak definitions under the Marrakesh Accords and expressed the need for capacity building.

For a more detailed summary report, see [here](#).

## CARBON MARKET WATCH CONTACTS:

Eva Filzmoser, Director

[Eva.Filzmoser@carbonmarketwatch.org](mailto:Eva.Filzmoser@carbonmarketwatch.org)

Anja Kollmuss, Senior Policy Researcher

[Anja.Kollmuss@carbonmarketwatch.org](mailto:Anja.Kollmuss@carbonmarketwatch.org)



[www.carbonmarketwatch.org](http://www.carbonmarketwatch.org)