

# Paris outcomes:

## Carbon Market Watch Analysis of COP 21

### Summary

From 30 November to 12 December 2015, Parties to the UNFCCC met in Paris to negotiate a new global climate treaty.

The Paris Agreement was a remarkable outcome, especially after the failures of Copenhagen. Almost all involved, including Carbon Market Watch, seemed surprised at how positive the outcome was. However, expectations had been carefully managed in the preceding years, so that aspirations of environmentalists to have a treaty that reflected the scientific reality by dividing up the remaining global carbon budget, had been downplayed into unreality.

The level of detail on each of the provisions was also a positive outcome, although there will inevitably be much to flesh out in the coming years, so that the Agreement can be operationalized. This is clearly true for the new mechanisms - both market and non-market - that have been established.

In Paris, Parties expressed high ambitions for climate action, action that is adequate to the threat we face from our own carbon pollution. The challenge going forward will be to implement what they have said they will do, and to enhance the Intended Nationally Determined Contributions (INDCs), as the current collective effort, in both mitigation and provision of climate finance, is far from adequate to achieve the new goal “to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels”.

#### **In a nutshell, key outcomes of the Paris agreement include:**

- Increased global ambition, to limit warming to 1.5°C and peaking global emissions as soon as possible
- Ratcheting provisions to allow Parties to increase ambition over time, on 5 year cycles
- Provisions for linking carbon markets, the establishment of a new net mitigation mechanism and a framework for non-market approaches to sustainable development
- An enhanced transparency framework, that will also need to be developed with the market mechanisms in mind
- Continued requirements for developed countries to take the lead on providing and mobilizing financial resources, with other Parties encouraged to contribute voluntarily
- Encouragement to conserve and sustainably manage forests
- Strengthened provisions for national low greenhouse gas development strategies with a horizon of 2050
- Inclusion of human rights for the first time in the preamble
- Implicit inclusion of international aviation and shipping in the global carbon budgets and long term goals

For more detailed information, see our detailed analysis below.

# COP21: Our activities at a glance

## Publications:

- [COP21: Open letter to the delegates of UNFCCC Parties](#)
- [Recommendations related to the role of carbon markets in the Paris Agreement](#)
- [Policy Brief: The EU's hot air – lifting the fog](#)
- [Policy Brief: Avoiding hot air in the 2015 Paris agreement](#)
- [CAPMAN Videogame flyer](#)
- [Policy Brief: Fossil and biological carbon: a tonne is not a tonne](#)
- [Using nature to pardon environmental pollution - Risks of agriculture sequestration carbon offsets](#)
- [Policy Brief: Integrating the Sustainable Development Agenda into the 2015 Climate Agreement](#)
- [Report: The missing ingredients for successful NAMAs](#)
- [Policy Brief: Human rights accountability of climate action](#)
- [Report: Human Rights implications of climate change mitigation actions](#)
- [Paris outcomes: Carbon Market Watch Analysis of COP 21](#)
- [The impact of the Paris agreement on the EU's climate policies](#)

## Media Statements:

- [Media Statement: Paris forges momentum towards enduring climate action](#)
- [Media Statement: Report highlights need for human rights in the Paris agreement](#)
- [Media Statement: Rich countries set to benefit from proposed carbon offsetting mechanism in Paris](#)
- [Media Statement: Five EU countries cancel surplus Kyoto Protocol units](#)
- [Media Statement: COP21 video game launch CAPMAN – Taking carbon out of the game](#)
- [COP21 media briefing: what role for carbon markets?](#)

## Side Events:

- [2 December: The role of ambition under the Paris climate treaty and the impact of hot air on the EU's climate policies](#)
- [4 December: Accountability of results based finance- build on the best and learn when things go wrong](#)
- [6 December: A reality check: climate change and impacts on the ground](#)
- [9 December: What are NAMAs and how is civil society engagement important for their success](#)

## Blog:

- [Carbon market provisions in Paris climate treaty: all cards on the table](#)
- [What future for offset credits and carbon markets?](#)
- [State of play of the negotiations](#)
- [SOS: Save Our 2050 Strategies](#)
- [Game Over For Hot Air?](#)
- [Elephants in the room – time to trumpet the need for emissions cuts from aviation and shipping](#)
- [Beware hot air in the Paris climate talks](#)
- [Leave poor land-use alone, he has his own problems](#)

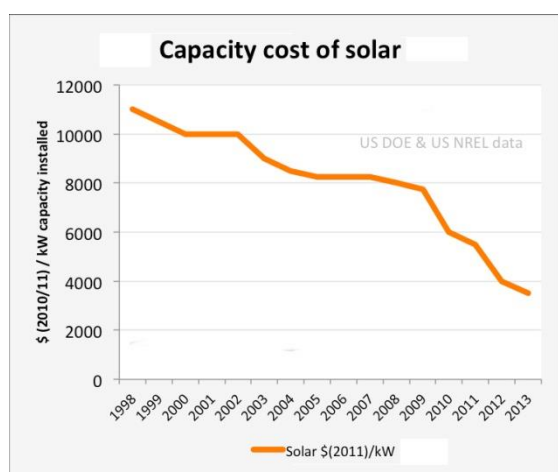
## Alternative Media:

- [Storify: Our two weeks in Paris](#)
- [CAPMAN: Taking carbon out of the game](#)

## 1. Ratcheting ambition towards the <1.5°C objective

In a major step forward for highly vulnerable countries, the Paris Agreement “aims to strengthen the global response to the threat of climate change....and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels...” (Article 2.1 and 1a). As there has not been much modeling of carbon budgets and scenarios for 1.5°C, the Intergovernmental Panel on Climate Change has been invited to produce a special report in 2018 to provide more information (Decision para 21).

What is clear though, is that much greater action is needed by Parties, and the international transport sectors, which are not specifically referenced in the Agreement. The current INDCs add up to around 3°C of warming, so in the Paris Agreement, Parties have explicitly challenged themselves to increase their own ambition. There will be a Facilitative Dialog (COP decision, para 20) in 2018 to take stock of the collective efforts of Parties towards 1.5°C and peaking of global emissions.



The year 2018 - with the new information from the IPCC report – would also be an ideal opportunity for a high level event. This could take place at the UN General Assembly, for world leaders to state what additional policies and measures they plan to implement by 2025, so that their national ambition is increased in the timeframe most relevant for the climate.

This may seem soon, as the NDCs have only just been put on the table. However, in Paris, a number of countries noted that they had felt rushed producing their current NDCs and felt that having more time to model and prepare policy options could allow them to increase their ambition.

In addition, the cost curves for certain clean renewable technologies, like solar PV, have been declining precipitously, and continuing cost reductions completely change the economics of action. Progress on other game changing technologies, like battery storage, will also make significant changes to Parties’ calculations of what is possible for them to do.

The EU has set itself the target of reducing its emissions by “at least 40% by 2030”. Since this target was set with the aim of achieving no more than 2°C of warming, but with only a 50% probability of doing so, this target is clearly inadequate. To increase ambition while agreeing the legislation for the Effort Sharing Decision and EU ETS, the EU should include targets for 2025, in line with the 5 year mitigation cycles which were its “top priority” in Paris. There should be an explicit review clause in both pieces of legislation to allow reexamination of the 2030 target. The EU has considerable untapped mitigation potential and can certainly do more than what it has put on the table. It should cancel its pre-2020 hot air ETS credits and use existing legislation more dynamically and ambitiously to enhance the successes of the Effort Sharing Decision.

Read more in our analysis [“The impact of the Paris agreement on the EU’s climate policies”](#).

## 2. Operationalizing the 5-year review cycles

The Paris Agreement requires each Party to “communicate a nationally determined contribution every five years” (Article 4.9), but the language in the COP decisions addressing the INDCs for 2025 and 2030 could be clearer. In any case, the timing of “the first global stocktake in 2023 and every five years thereafter” provides an obvious moment to reexamine the ambition of the 2030 targets.

However, an important element of being able to ratchet ambition through time is to set common moments, where countries come together to pledge what they will do in the next iteration of the climate efforts. The only four times in the UNFCCC where new targets have been forthcoming were from unequivocal mandates enshrined in the treaties (UNFCCC and KP), or in anticipation of a new treaty (Copenhagen and Paris). A common moment creates a political expectation and a chance to compare efforts, which helps to discourage shirking.

The time between these common moments is also important, which is why Carbon Market Watch and other NGOs pushed hard for the cycles to be on 5 year timeframes. Five years cycles help to avoid lock in to low levels of ambition, are responsive to the cycles of new scientific evidence from the IPCC and maintain political accountability in countries.

To operationalize the 5 years cycles expeditiously, Parties should respond to the proposal that 2018 should create a political moment where Heads of Government could announce updated or new (for countries that have not declared one in their existing INDC) targets for 2025. In early 2023 pledges could then be made or updated for 2030, and be examined in the global stocktake at the COP at the end of that year. These cycles could then roll out every five years.

## 3. The role of markets and other flexibility mechanisms

Despite seemingly genuine fears among some of the carbon markets negotiators that the issue would fall out of the text completely, the Paris Agreement actually resulted in more detailed text than had realistically been expected. The fear that the text would be lost completely was because of the seemingly irreconcilable differences between Parties that supported the use of markets and Parties that opposed them.

In the end all views were accommodated in Article 6, which creates three different frameworks: one for cooperative approaches to allow the linking of emissions trading systems, one for a new “mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development” likely to replace the Kyoto’s flexible mechanisms CDM and JI, and one framework for non-market approaches to sustainable development.

### **Accounting rules**

The provisions in Article 6.1-3 allow countries to use and transfer “mitigation outcomes” to other countries, which opens the door to the linking of Emissions Trading Systems. The accounting rules for such transfers will be developed in the coming years and will include guidance on how to avoid the hot air trading of bogus pollution permits, including the avoidance of doubled-counted emission reductions.

In paragraphs 35 and 37 of the accompanying COP Decision it was decided that double counting is avoided “on the basis of a corresponding adjustment by both Parties for anthropogenic emissions by sources and/or removals by sinks”. This provision does not allow countries that have set their climate targets above their actual levels of greenhouse gas emissions to transfer hot air credits (e.g. the additional carbon

units above actual emissions) to other Parties. Avoiding double counting by the corresponding adjustments - ensuring that a credit is counted only once in the inventories - is hence one way to help the avoidance of hot air trading.

### **Environmental integrity & complementarity**

The Agreement also obliges countries to promote environmental integrity, which means that the markets will have to consider wider social and environmental factors other than just the amount of carbon being traded. The Agreement further requires that Parties pursue domestic climate measures to achieve their targets, thereby limiting the amount of international carbon credits that can be used.

### **A new net mitigation mechanism**

Similar to the establishment of the UN's carbon offsetting mechanism Clean Development Mechanism (CDM) in Kyoto, the Paris climate deal establishes a new mechanism (art 6.4-7), entitled 'mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development'. The new mechanism considerably widens the scope, compared to the CDM, with a number of additional key elements that are yet to be defined in subsequent modalities and procedures. These include what defines sustainable development, how to deliver net mitigation, moving beyond projects to broader policies and measures, and how double counting is to be avoided structurally. All countries will be able to generate and/ or use these offset credits, meaning that developed countries have given themselves carte blanche to compete with developing countries for the investment in mitigation activities. Rules will also need to be established for transparent governance, and to ensure robust and verifiable accounting. Since so much remains to be agreed on this mechanism, its value in limiting warming to 1.5°C can only be understood once more detail has been negotiated. Parties are mandated to "adopt rules, modalities and procedures" for this mechanism at the first meeting of Parties to the Paris Agreement.

### **A framework for non-market approaches to sustainable development**

The third framework, "integrated, holistic and balanced non-market approaches...in the context of sustainable development and poverty eradication", (Art 6.8-9) has great promise as a means to channel climate finance in a manner that is measurable, reportable and verifiable. It also creates a potential framework for technology transfer, both for solutions related to mitigation and adaptation. This is perhaps the least detail of the three provisions in Article 6, and so will also require significant future negotiation to define its scope and role in the wider climate action effort.

For each initiative, much future negotiation is needed to define accounting procedures and the modalities that will enable them to be effective tools.

## **4. Ensuring adequate provision of climate finance**

Policy makers have agreed that climate finance is the key to unlock the ability for developing countries to build resilience against the effects of climate change and reduce greenhouse gas emissions. However, the financial provisions set in the Paris Agreement do not reflect the needs of developing countries and do not provide a clear pathway to make 1.5 C achievable. Developed countries are still required to provide financial resources, while other countries can contribute voluntarily.

Many final decisions relied on the issue of differentiation of efforts between countries at different levels of development. Developing countries were concerned with developed countries' wish to 'expand the pool of donors' to other countries. For a while developed countries were pushing to share this burden by

playing with the language of ‘in a position to do so’ (POTODOSO). The final Agreement determines no further obligations for developed countries than establishing that they will continue to take the lead in mobilizing climate finance from a wide variety of sources (Art 9.3). Also, other countries are now ‘encouraged’ to provide such support voluntarily (Art 9.2). This is a contentious issue when countries like Singapore and the Gulf States are among the richest countries in the world per capita but still count as ‘developing’ in the UNFCCC. In a final move, the US ensured that the financial commitments in the Agreement are not legally binding to avoid having to have the deal ratified by the Senate.

On the provision of scaled-up financial resources, Parties once again affirmed the commitment from the Copenhagen Accord to mobilize USD100 billion annually by 2020 for mitigation and adaptation. However, instead of setting a clear roadmap of how finance is to be leveraged, the language (Decision, para 115) only ‘strongly urges’ developed country Parties to scale up their level of financial support. Moreover, there are no short-term collective quantified targets set for the scaling up of finance after 2020. The COP decision (para 54) provides no further clarity than concluding that new collective quantified goal from a floor of USD 100 billion annually will be agreed before 2025.

Recognizing that that the greater part of current finance goes to mitigation, the Agreement encourages a balance between adaptation and mitigation finance. However the Agreement would have benefitted from separate targets for finance for adaptation. Previous text on using a ‘share of proceeds’ from internationally transferred mitigation outcomes, e.g. by earmarking revenues from emissions trading systems, for adaptation support was also removed from the final Agreement, although a share of proceeds from the new offsetting mechanism will be used for this purpose.

The Agreement however mandates developed countries to communicate their public financial contributions to developing country every two years, in order to ensure transparency and consistency of information. With regards to this, Subsidiary Body for Scientific and Technological Advice (SBSTA) is requested to develop modalities for the accounting of public financial resources, with the process to be initiated at COP22 in 2016.

The final Agreement left out an important reference to Parties phasing out or reducing support for fossil fuels, which was contained in the previous draft. The financial provisions also left behind reference to a gender-sensitive approach.

## 5. Land use emissions under the Paris treaty

While there are no explicit mentions of using land use credits in the Paris Agreement, phrases like “internationally transferred mitigation outcomes”, which could essentially be any type of activity to reduce or remove greenhouse gases, are sprinkled throughout the text with no specific definition. Coupled with the goal of achieving “a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases” there remains a potential risk that carbon sequestration activities are utilized to pardon continued fossil pollution.

Initially, draft versions of the Paris agreement included the use of land removals in market approaches. In the end, language on the lands’ role in fighting against climate change remained similar to wording used in the Kyoto Protocol, with the exact rules and modalities of the “sustainable development” mechanism to be developed in the coming year. These rules need to clarify that non-permanent land use activities will be excluded from generating offsets.

According to the Decision text, mitigation activities under this policy tool should have “long term benefits”. This term cannot apply to carbon sequestration activities as trees and land store carbon on relatively very short timescales (years to decades) before releasing the CO<sub>2</sub> back into the atmosphere. Hence, using a temporary carbon stock to justify depleting fossil carbon stocks that can take millions of years to replenish is faulty logic, as Carbon Market Watch has [argued](#). It is for this reason that “long term benefits” should be understood to mean thousands of years at the minimum.

Though there must be vigilance to ensure that the porous wording used in the text is not manipulated to mean something it was never meant for, it is equally important to acknowledge that many countries see the danger in using forests and land to offset or compensate for pollution elsewhere. The vast majority of African countries who support continued finance for REDD+ do not want to generate land use credits to be sold to other countries, while Brazil, home of the world’s largest tropical forest, has recently prohibited the sale of REDD+ credits.

There is growing consensus that land use activities are unfit for offsetting. Carbon Market Watch will continue, in the aftermath of Paris, to monitor the development of modalities and procedures around the new offsetting mechanism to ensure that actions to reduce emissions from biological and fossil sources do not replace each other, but are done in parallel.

## 6. Low carbon development strategies

In 2010, in Cancun, Parties agreed that developed countries “should” and developing countries “should be encouraged” to create national low carbon development strategies. The Agreement earlier in 2015 of the Sustainable Development Goals helped to create a new logic to this idea. It is impossible to achieve sustainable development without developing in a climate-resilient and low carbon manner. Similarly, climate change cannot be tackled unless humankind chooses to develop sustainably.

Although NGOs had been promoting these plans, which they called ‘zero carbon action plans’ (ZCAPs), as a means to link the 5 year emissions reduction targets via clear national emissions reduction trajectories to achieve decarbonization by 2050, these explicit linkages were not made in the Paris Agreement. Instead, Parties strengthened the mandate so that “All Parties should strive to formulate and communicate long term low-greenhouse gas emission development strategies...” (Art 4.19) and that these should be “communicate[d], by 2020, to the secretariat” (Decision para 36), which further defines that the plans should be formulated on a “mid-century” time horizon.

The shift of needed focus on carbon, which remains in the atmosphere for decades or more, to all greenhouse gases, can be seen as an unfortunate victory for the fossil fuel producers. However, the 1.5°C mandate will require rapid decarbonization in any case. The logic of having to implement the Sustainable Development Goals and Paris Agreement at the same time creates its own impetus for these plans to be developed, especially since the paradigm has shifted to a bottom up world of Parties undertaking to implement ‘nationally appropriate’ measures to achieve their INDCs.

## 7. Ensuring human rights are mainstreamed into climate action

Governments in Paris recognized, in a historic step, that climate change is a human rights issue. Following calls from numerous countries that highlighted the need to have an explicit reference to human rights reference in the operative part of the agreement, compromise was found with detailed preambular language that specifies that parties, when taking action to address climate change, have to respect,



promote and consider respective human rights obligations. This also includes the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity.

The preambular language thereby sets the foundation to make the newly established sustainable development mechanism accountable to human rights obligations.

## 8. Addressing international aviation and shipping

In the end, international aviation and shipping did not get an explicit mention in the Paris Agreement. This was despite spirited support by the EU and Environmental Integrity Group, the efforts of NGOs and the support of industry.

The absence of an explicit reference to international aviation and shipping should in no way be read that these sectors have been given a green light to pollute. In fact quite the reverse is true. The UNFCCC continues to request action: the framework Convention itself requires all Parties to:

“Promote and cooperate in the development, application and diffusion, including transfer, of technologies, practices and processes that control, reduce or prevent anthropogenic emissions of greenhouse gases...all relevant sectors, including the ... transport...sectors”

This mandate stands.

What Paris gave us in addition was to assert the need “to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels”. This will require radical emissions reductions globally: current projections find we’re on target for 55GtCO<sub>2e</sub>, but to reach 2°C, the Paris Agreement notes that we need to be emitting no more than 40GtCO<sub>2e</sub> in 2030. The 1.5°C limit will require even tighter global carbon budgets, and all sectors will need to be reducing their emissions.

ICAO is currently developing a market to offset future emissions that are above the levels seen in 2020 (the ‘carbon neutral growth’ target), but this target is in no way compatible with limiting temperature increases to 2°C. Even the industry’s aspirational goal of halving emissions by 50% by 2050 simply does not get us there. Earlier in 2015, IMO refused to even start to think about a target for the sector.

With the new mandate to try to limit temperature increases to 1.5°C, ICAO needs to incorporate a ratcheting mechanism in its global market based measure, to ensure that the carbon neutral growth target is but a first step, and one that is rapidly built upon through increasingly stringent targets. IMO needs to set a sectoral goal in line with a fair share of the 1.5°C goal, and to implement policies and measures in order to achieve it.

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