

# COP24: Moving forward

## The rulebook of the Paris Agreement

## CLIMATE CHANGE GLOBAL

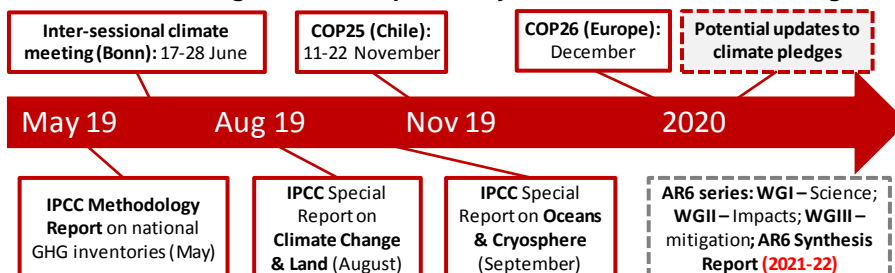
- ▶ Annual climate negotiations succeed in adopting a set of operational guidelines – keeping the Paris Agreement alive
- ▶ The rules apply to ‘All Parties’ but with flexibility unlocking transparency as some decisions are pushed to next year
- ▶ We think the rules give clarity to investors and businesses on the direction of travel – even if the speed is worryingly slow

**The Paris Agreement lives:** The operational guidelines (rulebook) for the Paris Agreement have largely been agreed at the 24<sup>th</sup> Conference of the Parties (COP24). Over 22,000 delegates met in Katowice, Poland (2-15 Dec) to whittle down options and agree wording as the talks went beyond the official deadline, indicating how difficult yet important the negotiations were. The new rulebook covers most of the crucial elements including guidance on climate pledges, adaptation, support and transparency although some issues were pushed out to subsequent meetings. Overall, we think COP24 achieved a balanced outcome given the political distractions, however the rules do not match the urgency to address climate change.

**A new flexibility:** In our view, one big success of COP24 was the emergence of “flexibility” as prior bifurcation and “two sets of rules” were inconsistent with how economies have developed since 1990. Whilst the rulebook applies to **All Parties**, it provides sufficient flexibility to Developing Parties that require it, and especially the most vulnerable such as Least Developing Countries and Small Island Developing States. In addition, where developed Parties were *urged* to do something, other Parties were included by being *invited* or *encouraged* to do the same voluntarily.

**Always work to be done:** The rulebook does not however spell out how ambitious subsequent climate pledges need to be – especially in light of the Special Report on Warming of 1.5°C and extreme events of recent years. Also, there are only two years remaining for pre-2020 ambition to be addressed. In our view, investors and businesses will be relieved that the Paris Agreement remains in place – with somewhat more clarity on how countries might follow through with policy. Chile will host COP25 at the end of 2019, when the remaining rulebook issues will be decided.

**Chart 1: The Paris Agreement – kept alive by science and climate meetings**



Source: HSBC (based on UNFCCC and IPCC inputs)

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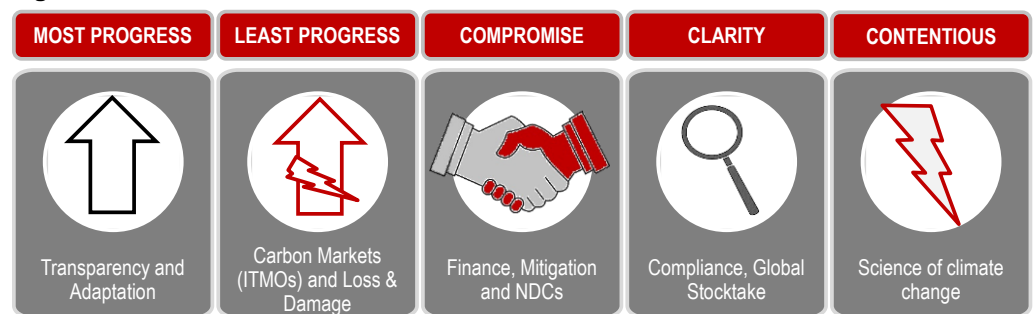
## The rulebook

Operational guidelines agreed after tense negotiations

The rulebook – albeit with a few issues outstanding – is the culmination of three years of negotiations since the Paris Agreement was adopted in 2015. The months leading up to COP24 gave rise to more uncertainty given a ballooning set of options from prior sessions as well as political developments.

**Progress and compromise:** In our view, progress and ambition were still uneven but more balanced than previous negotiations. Inevitably, compromises had to be reached in order to garner consensus on key issues.

Figure 1: HSBC view on how climate issues fared at COP24



Source: HSBC. (ITMOs refer to 'internationally transferred mitigation outcomes')

### In summary

Ambition was not adequately addressed, in our view....

Overall, we consider the **mitigation outcomes** as fair because they apply to all Parties but allow for different starting points and enhancements over time. **Adaptation** featured heavily throughout the text and, although still optional, came with a constant reminder of the need for support. **Financial matters** saw compromise in *indicative* predictability alongside more information provision. We think the replacement of bifurcated differentiation with **flexibility** is a key reason COP24 has been viewed as successful. The modalities for the **compliance mechanism** and also the **global stocktake** were agreed with reasonable clarity in our view. However, we believe **ambition** was largely left out of the rulebook as the rush to agree on the operational issues prevailed. Decisions on **common timeframes** and **cooperative approaches** were left until 2019.

**Note on timing:** Some decisions on updates and further guidance refer to future sessions of the CMA (Parties to the Paris Agreement, i.e. those that have formally ratified). The associated years are: CMA1 (2018 – just ended), CMA2 (2019), CMA3 (2020).....CMA7 (2024), etc.

### The contention of the Special Report on Global Warming of 1.5°C

...despite the urgency highlighted by SR1.5

It was hoped that the IPCC (Intergovernmental Panel on Climate Change, the UN's climate science body) 'Special Report on Global Warming of 1.5°C' (SR1.5), would add a sense of urgency at COP24. It did – however, the urgency was felt more in the "delivery of a rulebook" as opposed to the urgency "to limit warming by half a degree less" and the mere decades left to achieve this.

Despite the Conference of Parties itself inviting the IPCC to provide the report at COP21 (2015), a compromise on the wording could not be reached at COP24. Four countries – US, Russia, Saudi Arabia and Kuwait – refused to "welcome" the findings of the SR1.5 but merely "note" them. The overall COP merely *expressed gratitude* to the IPCC, *welcomed the timely completion* of the report but did not comment on its findings. This could be further discussed at the next inter-sessional meeting (SB50, June 2019).

## Nationally Determined Contributions (NDCs)

Climate pledges remain highly flexible in their features

**Features and information:** Guidance on the features of NDC climate pledges was scant – they remain a list of many “may include” options. Further consideration on providing comprehensive guidance is pushed out to 2024 (after most subsequent NDCs have already been submitted). However, the ‘**information necessary for clarity, transparency and understanding**’ (ICTU) of NDCs was much more comprehensive. There was no *differentiation* in the ICTU guidelines although there was *flexibility*. All Parties will need to provide the relevant ICTU information with their second NDCs and were encouraged to provide it when updating first NDCs.

Adaptation received due prominence but is optional

**Description:** NDCs remain flexible in what they set out to achieve. For example, the mitigation aspect may still be in the form of absolute emissions reduction, emissions intensity declines, or relative to a specified baseline. **Adaptation was mentioned throughout the NDC guidelines but remains optional.** The guidance did not explicitly require Parties to provide information on the level of support they intend to give.

The full decision on timeframes was delayed

**Common timeframes:** Although NDCs implemented from 2031 onwards should apply “common timeframes” – referring to the period NDCs should cover – the actual period of duration was not agreed at COP24, with the issue pushed out to the inter-sessional meeting in June 2019. Prior drafts of the text still referred to the options of 5 years, 10 years or 5+5 years.

## Mitigation and Adaptation

*Note: In the rulebook, the mitigation section and the NDC section are covered by the same text.*

### Mitigation (emissions reduction)

We think flexibility over mitigation was balanced with national circumstances. For example, it was recognised that developing Parties could aim higher provided they received more support. Developed Parties are still to take the lead on emissions reductions (over an economy-wide basis) although developing Parties were encouraged to enhance mitigation efforts and “move over time towards economy-wide emission reduction”.

The avoidance of bifurcation was a key success

**Information guidance:** The accompanying ICTU was comprehensive – and importantly applied to *All Parties* from a range of flexible options – there were *not* two sets of rules for different Parties. Accounting methodologies will be largely synchronised – subject to CMA (Parties to the Paris Agreement) adopting new guidelines – and these shall apply for a Party’s second NDC but there is still flexibility for the most vulnerable. The information guidelines are to be reviewed at CMA10 (2027) with a view to have new guidelines decided at CMA11 (2028).

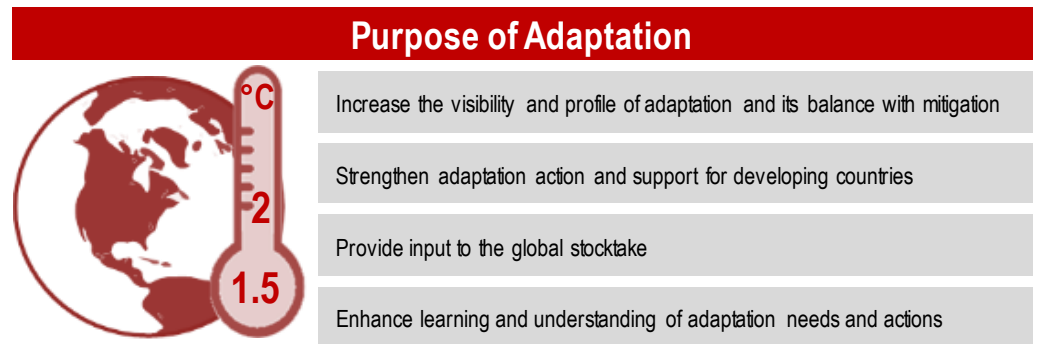
### Adaptation (resilience and ‘mitigation co-benefits’)

We think that adaptation took even more prominence at COP24 than it has done at previous meetings. The text reflects this given the significant mentions of “balance” (with mitigation) alongside a newer term – “mitigation co-benefits resulting from adaptation”. This newer term featured across many issue texts including the guidelines for NDCs and the Transparency Framework.

Adaptation was balanced with mitigation (but not equal)

**Purpose if not parity:** Although adaptation did not quite reach ‘parity’ with mitigation, we believe most Parties were satisfied with the outcome. The purpose of the adaptation communication was *noted* (Figure 2) with an emphasis on adaptation being “country-driven” and “flexible”. Adaptation will feature prominently during the Global Stocktake (GST) with a series of high-level events and a synthesis report which recognises the efforts of developing countries (to be prepared specifically for the GST).

Figure 2: Adaptation and its Features at UNFCCC



Source: HSBC (based on outputs from COP24, UNFCCC)

Adaptation may still be communicated in any UN climate report

**Where to communicate?** The so-called vehicle of adaptation is still flexible – this was a key decision taken at COP24. The “choice of communication or document” is given to the Party such that adaptation may be communicated through a ‘National Adaptation Plan’ or as part of NDCs or any other official national reports as part of the UN climate process.

**Elements and methodologies:** The key elements of an adaptation communication were given as a list of ‘may include’ options. For example:

- ▶ Impacts, risk, vulnerabilities
- ▶ Priorities, strategies, policies
- ▶ Support – the needs of and provision of

Adaptation was a key area where developed Parties were *urged* to mobilise support to developing Parties – with other Parties *invited* on a voluntary basis. “A technical paper on methodologies for assessing adaptation needs” is to be prepared for 2022 – drawing on work from Working Group II of the IPCC.

### Means of Implementation (MOI)

MOI covers both provision as well as receiving

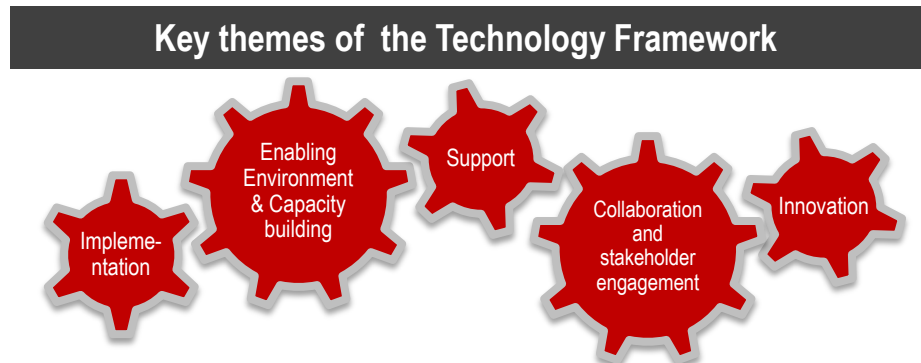
#### Capacity building

No major decisions on capacity building as a standalone issue were taken at COP24 except for a (scheduled) progress report from the ‘Paris Committee on Capacity Building’. The issue was mentioned throughout the text in the context of support for developing Parties in implementing their climate action. More decisions on this issue are expected at CMA2 (2019).

#### Technology

As expected, the Technology Framework, whose main purpose is to facilitate technology development and transfer in support of the Paris Agreement, was adopted at COP24. The framework is to be implemented by the ‘Technology Executive Committee’ and the ‘Climate Technology Centre and Network’. It will be organised around key themes (Figure 3).

Figure 3: Focus areas of action under the technology framework



Source: HSBC (based on outputs from COP24, UNFCCC)

Technology provision will be 'needs-based'

The framework does not specifically mention which Parties should provide – however the main idea is that it “facilitates the active participation of all relevant stakeholders”. The principles do highlight the special circumstances of the vulnerable. The framework is very much “needs-based” taking into account development and climate strategies via a “technology needs assessment” etc.

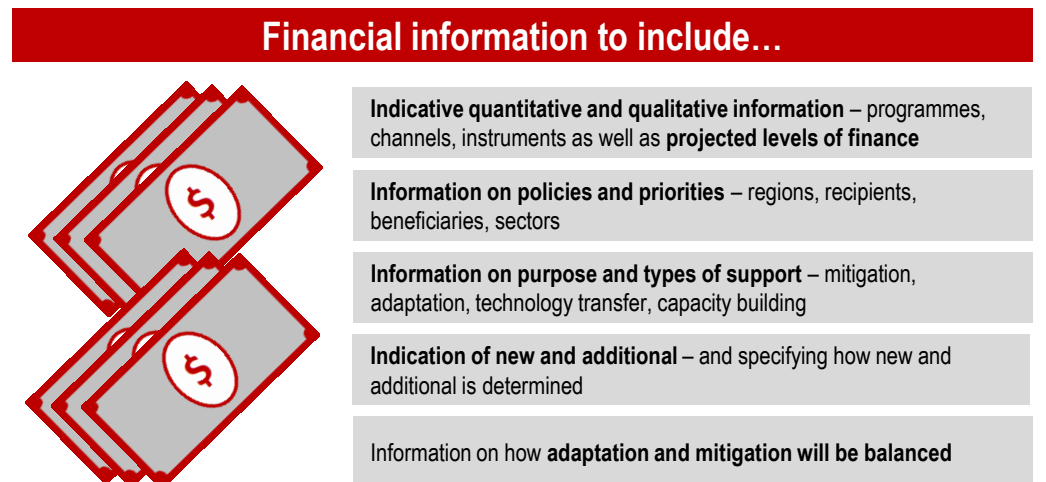
**Finance**

Developing countries were looking for much more clarity and predictability on finance – a consistent sticking point at climate negotiations. Whilst not as comprehensive as some were looking for, we think it represents a reasonable compromise because developed countries were unlikely to agree to quantified and potentially burdensome financial obligations.

A compromise – indicative predictability

**Predictable reporting:** The importance of predictability and clarity of financial support was recognised but not made mandatory in a burdensome way. Developed Parties are subject to biennial communications on climate finance from 2020 – which provide “indicative quantitative and qualitative information”. Other Parties (which also provide financial support) are also encouraged to report biennially although “on a voluntarily basis”.

Figure 4: Types of Financial information to be provided by Parties



Source: HSBC (based on outputs from COP24, UNFCCC)

There were 15 categories of information – we highlight some examples in Figure 4. We think the notion of compromise comes out in the information types. For example, “indicative quantitative” information includes projected levels i.e. actual numbers but not obligation; “purpose”

More balance between adaptation and mitigation – from finance

information means that developed Parties may not combine *climate* with general *development assistance*; and “new and additional” address a complaint of receiving Parties that finance was going to be given anyway (for other purposes). A key win, in our view, was the “balance between adaptation and mitigation”.

This information on climate finance is to be reconsidered at CMA6 (2023) based on “lessons learned” from biennial reports i.e. to further close out any loopholes and to enhance transparency.

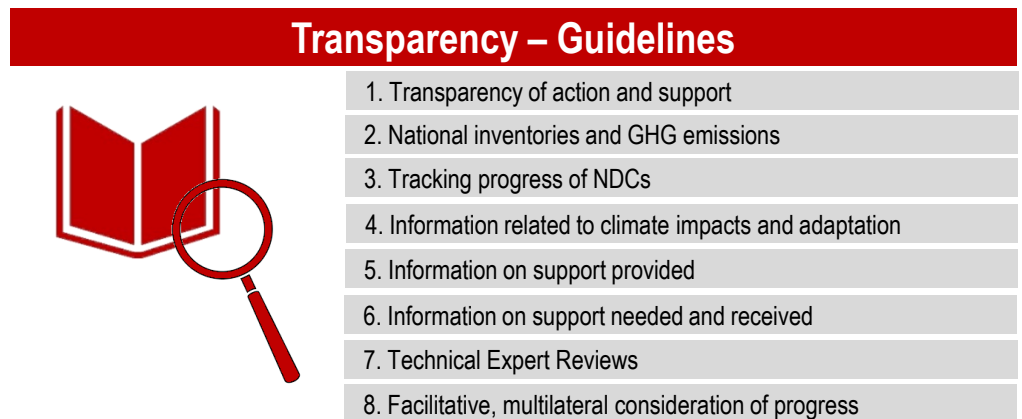
**New collective quantified goal for finance:** Although it was previously agreed that this new goal would be finalised “prior to 2025” – mention of this date was dropped from the final COP24 decision (despite being in draft texts). The amount “from a floor of USD100bn per year” remains but the process to consider setting this goal will not take place until CMA3 (2020).

## Transparency

One set of (flexible) rules for All Parties

We consider this to be another of the major successes of COP24. Transparency affects every single issue and helps to build trust – that Parties are doing and are going to do what they promise in terms of climate actions (mitigation, adaptation) as well as support (capacity building, technology and finance). Transparency is threaded throughout the whole rulebook and is also the largest individual section. The overall transparency guidelines cover eight main topics (Figure 5) and will be reviewed and possibly updated no later than 2028.

Figure 5: Key topics covered by the Transparency Framework



Source: HSBC (based on outputs from COP24, UNFCCC)

Each topic has further guidance on purpose, principles, definitions, methodologies and national circumstances. For example, the purpose of transparency of action and support is:

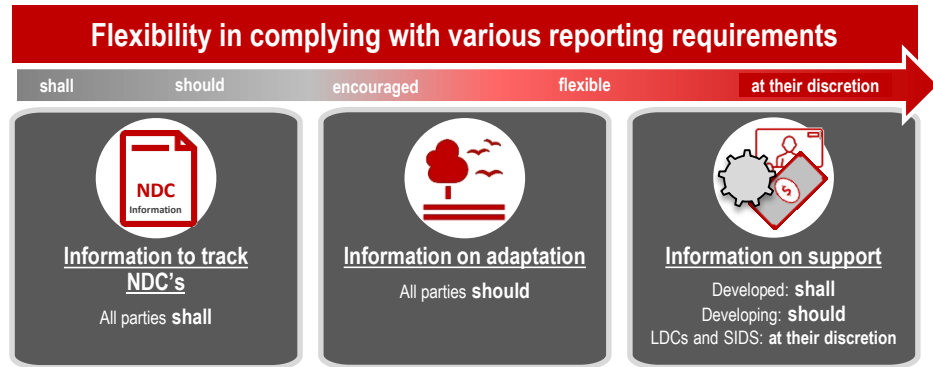
- ▶ **Action** – to provide clear understanding of climate change action, including NDCs and adaptation actions.
- ▶ **Support** – to provide clarity on support *provided* and *received* in the context of climate change actions.

Flexibility replaced differentiation only in the last draft of the transparency text

**Flexibility is key:** There was a lot of flexibility given to Parties in the manner they comply with the various reporting requirements. Earlier drafts of the text split along the usual lines of developed vs developing Parties – but moving away from this bifurcated approach was one of the keys to bringing COP24 to a reasonably successful conclusion. Now, one set of rules applies to *All Parties* but allowing for **further flexibility for developing country Parties that need it in light of their capacities** as well as (in some cases) the **special circumstances**

given to Least Developing Countries (LDCs) and Small Island Developing States (SIDS) “at their discretion”. We demonstrate how this fits together under the Transparency Framework in Figure 6.

Figure 6: Flexibility across different issues using different operative words



Source: HSBC (based on outputs from COP24, UNFCCC)

Consistency will make aggregation easier

**More consistency:** The Transparency Framework aims to have more consistency – and hence more comparability – across a whole host of climate issues. For example under ‘National inventories and GHG emissions’, for greenhouse gases (GHGs) – requiring *All Parties* to disclose information on all 7 GHGs gases (but with flexibility); or for sectors – reporting on energy, industrial processes, agriculture, LULUCF (land use, land-use change and forestry), and waste.

Reporting is still subject to a technical review

**More reporting:** *All Parties* are required to submit a biennial transparency report by the end of 2024 – although there is flexibility in light of national capacity as well as further discretion given to LDCs and SIDS. The reports are subject to a Technical Expert Review to facilitate transparency and ensure consistency of information however these reviews are *not designed* to review the adequacy of a Party’s domestic actions or the support a Party provides or the choice to apply flexibility (as long as it is allowed). This fits in with the non-adversarial nature of transparency.

## Implementation and Compliance

The details of the compliance committee are now clear...

There is now much more clarity on how the various reporting requirements will be monitored – in the process known as **facilitating implementation and promoting compliance**. The guidelines and make-up of this compliance committee has been decided (Figure 7).

...although voting for members might still cause tensions

**Compliance procedures:** The committee will develop its own rules of procedure – although these will still be subject to the discussion and debate of the CMA (Parties to the Agreement). The proposed adoption date of these rules of procedure is at CMA3 (2020).

Figure 7: Details of the compliance / monitoring committee

Committee to facilitate implementation and promote compliance	
Members	12 member committee with relevant scientific, technical, socioeconomic or legal backgrounds
Representation	2 from each of the five UN regional groups and 1 each from SIDS and LDCs (with gender balance)
Duration	Members serve for a period of 3 years for a maximum of two consecutive terms
Appointment	The committee will be appointed at CMA2 (2019)
Frequency	Meeting at least twice a year from 2020
Quorum and consensus	10 members. For decisions without consensus, decisions may be adopted by at least three-quarters of members present and voting
Transparency	Meetings will be held in private and not be open to the public

Source: HSBC (based on outputs from COP24, UNFCCC)

No Party will be singled out, but instead given assistance

**Trigger mechanism:** The committee will initiate consideration based on a failure of a Party to communicate or maintain a mandatory report or communication – such as an NDC, an inventory report or a finance report – or where these reports have significant inconsistencies.

The committee will be able to take measures including:

- ▶ Engage in dialogue with the Party
- ▶ Assist the Party
- ▶ Make recommendations

Hence there are no sanctions or punishments as such except for the public stigma of being subject to a review by the committee. Flexibility is provided for as the committee is directed to pay “particular attention to the respective national capabilities and circumstances of Parties”.

### Global Stocktake (GST)

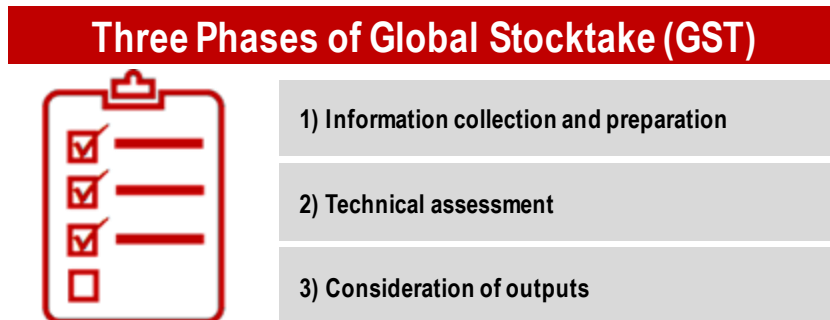
The GST will include adaptation

There is also much more clarity on the nature of the global stocktake (GST). The focus is to assess the progress towards the Paris Agreement’s purposes and goals – specifically in mitigation, adaptation and means of implementation (MOI). However (as a last-minute addition), the GST should also address the social and economic impacts as well as consider ‘loss and damage’. We think the inclusion of social impacts again reflects the prominence of adaptation and the consequences climate impacts can have on livelihoods and communities.

Similar to the Talanoa Dialogue (see below), the GST will consist of three phases (Figure 8).



Figure 8: Global Stocktake and its phases



Source: HSBC (based on outputs from COP24, UNFCCC)

There were no surprises in the inputs to the GST

- ▶ **Information collection** will start a year before the consideration of outputs i.e. in 2022 in time for the actual GST at CMA6 in 2023 (and then every five years thereafter).
  - ▶ **Sources of inputs:** mainly syntheses reports on GHG emissions, NDCs, adaptation efforts and finance as well as various other reports (IPCC assessments etc.).
- ▶ **The Technical assessment** will be conducted through focused exchange of views, roundtables, workshops and other activities.
- ▶ **Consideration of outputs** will mainly be high-level events to discuss the findings and implications (e.g. opportunities for enhancing climate action; highlight good practice).
  - ▶ Parties are invited to submit NDCs, which are informed by the GST, at a special event hosted by the UN Secretary General.

**Talanoa Dialogue (TD)**

COP24 saw the conclusion of the Talanoa Dialogue

The Talanoa Dialogue – a year-long unofficial examination of progress – culminated with ministerial roundtables at COP24. Although the TD was a high-profile process, we think the final outputs were overshadowed by the focus on achieving the rulebook. In the end, there was no formal statement from the Conference of Parties except *expressions of appreciation* and *noting* the inputs and outcomes. Outcomes from the Talanoa Dialogue consisted of: a [synthesis report of the preparatory phase](#) – of inputs received by 29 October 2018; key messages (Figure 9); and the [Talanoa Call for Action](#).

Figure 9: Key messages from the unofficial examination of progress



Source: HSBC (based on outputs from COP24, UNFCCC)

**Box 1: Talanoa Call for Action**

The Fijian Government (which held the presidency of COP23 where the Talanoa Dialogue was launched), would like to keep the Talanoa (i.e. constructive stories and dialogue) going via the *Call for Action* (which can be found at [talanoadialogue.com](http://talanoadialogue.com)):

- ▶ We call upon Heads of State and Government to maintain climate action at the top of the political agenda.
- ▶ We call upon Parties to work closely with non-Party stakeholders to enhance global ambition by 2020 and to develop long-term, low-emission development strategies.
- ▶ We call upon government and international agencies to step up financial, technical and technological cooperation.
- ▶ We call upon private sector leaders to be drivers of change.
- ▶ We call upon civil society leaders to marshal the public and political will needed to drive action.
- ▶ We call on spiritual leaders to unlock spiritual pathways for addressing climate change.
- ▶ We call on the youth of the world to mobilize at a larger scale to ensure that their future is secure.
- ▶ We call upon everyone to take forward a clear signal from the Talanoa Dialogue.

**Other issues**


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**Ambition remains a big area still to be tackled (somehow)**

Many other issues were discussed, following the standard procedures of all the subsidiary bodies and negotiating tracks. However, not all issues received due prominence. For example, the **question of ambition** – in light of the urgency (SR1.5 etc.) – was discussed but not really provided for in the rulebook i.e. the rulebook does not require stricter targets or tighter timeframes.

**Ambition**

**Pre-2020:** There was a stocktake of pre-2020 ambition at COP24 but it was merely *welcomed*; there will be another stocktake at COP25 (2019). Developed Parties were *urged* to step up financial support.

**Post-2020:** Parties were invited to communicate their mid-century, long-term low GHG emission development strategies by 2020. We believe there is increasing pressure on Parties to align their long-term strategies to the urgency of action as per the Special Report on 1.5°C. Parties were invited/requested to submit or update NDCs by 2020 (as per previous timelines) but without mentioning levels of ambition.

**Loss and damage**


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**Focus on loss & damage gave way to other issues**

Although there was discussion on loss and damage, and the issue was dotted around a few places in the rulebook, there was not much development at COP24 save for recognising the ongoing process (The Warsaw International Mechanism for Loss and Damage). Whilst vulnerable countries were very keen to include the issue somewhere in the rulebook, discussions on the predictability of finance overwhelmed financial discussions, in our view – such that it was unlikely that progress would be made here.

**Cooperative approaches and Non-market approaches**


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**Global carbon markets held up the conclusion of the talks**

**Cooperation (markets):** This issue was widely reported as one of the last remaining issues to be agreed – and the main cause of the talks overrunning by a whole day. Parties are allowed to use the emissions saved/avoided in other countries (by other Parties) to count towards their own account. COP24 discussed the boundaries within which this is allowed as well as safeguards to ensure transparency and to avoid double counting.

**Non-markets:** This refers to mitigation outcomes that do not result directly in a carbon credit but are generally good for enhancing carbon/energy efficiency etc. (e.g. removal of fossil fuel subsidies).

However, ultimately “**Parties could not reach consensus thereon**” and decisions were pushed out to CMA2 (2019).

## Conclusion

Overall, we think the rulebook is a reasonable compromise between the varying interests and priorities of nearly 200 countries, coupled with the pressure from other organisations (NGOs, lobbyists, etc.). Although some issues were pushed to later meetings, we think the rulebook provides clarity to both investors and businesses.

**Clarity for investors and businesses:** Investors were calling for more action to meet the goals of the Paris Agreement. Whilst the rulebook does not directly address these targets or their associated ambition levels, we think it provides reassurance that the global climate process is ongoing and that countries will maintain national climate pledges which should provide a good indication of the direction of travel – towards a lower carbon future. The rising prominence given to adaptation also gives clarity to businesses on where other opportunities lie or the co-benefits from mitigation.

**More urgency required:** Although global political developments can sometimes be a drag on the speed with which we move towards a lower carbon world, we think the voice of non-state actors, coupled with technological development (and their falling costs), the ambition levels of individual businesses, as well as the growing awareness of the public (from extreme events) will keep the UN climate process alive. The Paris Agreement should continue to be a focal point for global climate policy – keeping countries moving along. The sense of urgency however, needs some boosting in our view.

### Where next?

After Brazil withdrew its bid to host COP25 in 2019, Chile has stepped in to host the 25<sup>th</sup> Conference of the Parties (COP25). The dates are currently in flux given the relatively short time which Chile has to begin its preparations. COP25 should take place in November 2019 but dates will be finalised at the inter-sessional meeting in Bonn (June 2019).

# Disclosure appendix

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