

COP 25: Intransigence

Renegotiating a 'pre-nup' after the wedding

- ◆ Two weeks of climate negotiations made sideways progress and ended without compromise over several key issues
- ◆ In our view, these delays distract from 2020 ambitions
- ◆ We think the destination is still clear but the travel time is not

The following is a redacted version of a report published on 16 December 2019. Please contact your HSBC representative or email Research.Direct@hsbc.com for more information on how to access the full report.

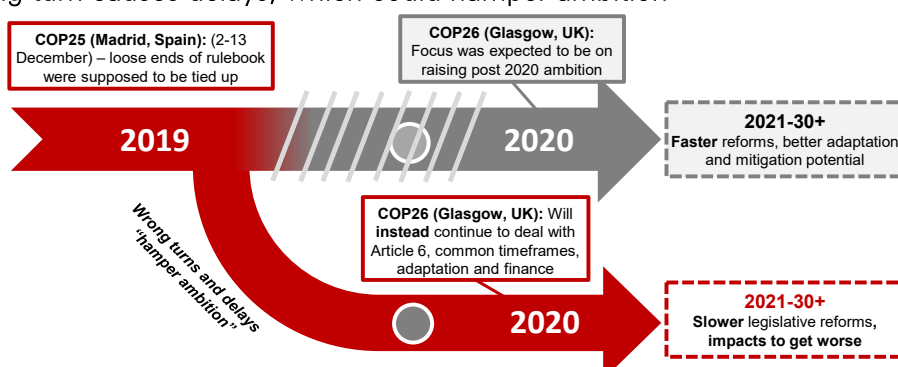
The option of failure: The 25th annual UN Climate Change Conference (COP 25, 2-13 Dec), overran by two days yet failed to tie up the loose ends of the operational guidelines of the Paris Agreement. The key issue of Article 6 (global carbon market mechanisms) was drop-kicked but missed the mark – leaving too many items on the 2020 climate agenda, in our view. Flexibility regressed to bifurcation as a 'high ambition coalition' did not include the world's biggest emitters. We think this delay is essentially a failure, as the sole focus of 2020 was supposed to be "raising ambition".

Rule 16: Other important issues, such as common timeframes for climate pledges, aspects of adaptation and many methodological points such as reporting formats, were also not agreed, which means that under 'Rule 16' they're automatically pushed out to the next negotiating

session (June 2020). In reality, however, discussions often do not start from where they left off and cannot be finalised until COP26 in late 2020. This is cutting it rather fine as the rules are supposed to apply from 1 January 2021.

Backsliding towards the future: A number of historical sticking points re-emerged over the past fortnight as matters that were either already agreed or destined to be replaced by new rules choked discussions. A number of countries held tight to old carbon credits, hoping to use them in future market mechanisms; others strived for "environmental integrity" in the face of ever-more serious climate impacts. Finance focused on promises made, promises broken. Whilst not the failure of COP15 in Copenhagen in 2009, leaving the option of ambition until next year not only suggests backsliding, but also the potential renegotiation of a pre-nup after the wedding.

COP25: A wrong turn causes delays, which could hamper ambition



Source: HSBC (based on UN Framework Convention on Climate Change [UNFCCC])

Lack of consensus



I am disappointed with the results of #COP25

UN Secretary-General António Guterres, 15 December 2019

Article 6 – Rule 16 applies

The complexities and contention that surround Article 6 of the Paris Agreement will remain undecided for at least another year as negotiators failed to compromise. It was hoped that COP25 would nail down guidance for three major issues relating to Article 6 on: bilateral trading of carbon credits (6.2), “Sustainable Development Mechanism” (6.4) and the framework that promotes emissions reduction and resilience for the public and private sectors (6.8).

No deal vs bad deal

No conclusion was reached in Madrid as the two key sides held their ground on how to count emissions credits from the old framework (“Kyoto units”) under the new mechanism.

Other contentious points under discussion seemed more promising as the fortnight progressed and it looked as though a compromise would be reached on the issue of *double counting*, on funds for adaptation; the distinction between “avoidance” and “removals” of emissions; and the possibility of “adaptation credits”; however, in the end, many felt that “no deal is better than a bad deal” and so the issue remains incomplete.

Common timeframes – Rule 16 applies

Options

Although common timeframes for climate pledges (nationally determined contributions or NDCs) will apply from 2031 onwards, there is still no agreement as to their duration. Despite this, what was previously just a timeframe (five or 10 or 5+5 years) is now qualified with language such as 5+5 “based on science” or “to be decided by the party”. Options of five, 10 or even 15 years were mentioned.

More options

The re-emergence of bifurcation was apparent as one option was for developed parties to apply a five-year timeframe, whereas developing parties may apply a five- or 10-year timeframe. Adding to the complexity was one option for separate timeframes for all the key components, such as mitigation, adaptation, finance, technology transfer and capacity building. The ballooning of options is not uncommon during negotiations, but time is running out as climate pledges were supposed to be enhanced in 2020. The issue remains on the agenda next year.

Finance – with viscosity

Finance is a key part of all climate negotiations: it has the potential to act as a lubricant smoothing out discussions and driving compromise; it can also be so viscous that it becomes a sticking point. This year, it was the latter.

Developing parties (which were supposed to receive) were asking for a **status report** on whether the USD100bn goal by 2020 was achieved; however, developed parties (which were supposed to provide) were staunchly opposed to this.

Defining a promise

The issue of finance is further complicated because some parties feel that they cannot commit to *future promises* (i.e. greater emissions reductions after 2020) if other parties have not kept *historical promises* (i.e. 2020 emissions reductions and finance).

Loss and damage

The issue of finance is closely related to ‘loss and damage’ – the concept that vulnerable parties that have suffered (or will suffer) from climate change should be compensated or assisted (financially or otherwise) by those deemed to be more responsible for climate change, i.e. developed parties. The review of the system that deals with this issue (Warsaw International Mechanism for Loss and Damage or WIM) did not really make any progress in Madrid because of entrenched positions on finance.

Science – noted but not welcome

The contention surrounding science that first emerged last year at COP24 (after the Special Report on 1.5°C) continued at COP25. Two special reports were released by the UN's climate science body, the IPCC in 2019. These reports, coupled with the real impacts of climatic events, have catalysed public opinion, which has led to further adoption of more ambitious climate targets. However, this sentiment did not spread to the negotiations in Madrid, with the two special reports of 2019 being only “noted”, not “welcomed”, which is seen to be a weaker result. Various science reports from the UN's World Meteorological Organisation (WMO) were also only *noted with appreciation*, whilst the state of the global climate system was *noted with concern*.

The next major climate science update will not be until the Sixth Assessment report series from 2021.

Other key issues also lacked consensus

Many other issues such as adaptation, methodological issues, pre-2020 stocktake and the review of the long-term goal, to name a few were discussed at COP25 but few reached meaningful conclusions and were either left to the next negotiating session (Rule 16) or depended on other issues and so could not be concluded.

Conclusion: more difficult

The idea that no deal is better than a bad or weak deal was the conclusion of many after the longest climate negotiation session ever. This may be true in terms of

environmental integrity, i.e. ensuring that overall global emissions are actually reduced. However, every delay to action means starting from a higher – and more difficult – base.

Alone on the dance-floor

11 December was supposed to be ambition day – where parties brought potentially more ambitious plans, ideas or suggestions to the table. In the end, it was only the EU which stepped up as it unveiled the initial framework for its European Green Deal.

In summary

Operational issues were supposed to have been concluded in 2019, so that everyone could focus on revising climate pledges upwards and being more ambitious with targets and actions in 2020. With so many operational issues left unresolved, the political and economic clouds may well continue throughout 2020. Unfortunately, the change in climate will not wait or slow down.

What next

The next inter-sessional negotiations will take place in Bonn, Germany from 31 May to 10 June 2020. COP26, where everything must be tied up in a difficult make-or-break conference, will take place in Glasgow, Scotland over 9-20 November 2020.

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