

## COP25: DISAPPOINTING LACK OF PROGRESS AT MADRID CLIMATE CONFERENCE

The COP 25 Madrid International Climate Change Conference has finished with a disappointing lack of progress in key areas of international action on climate change. In particular, agreement on a new carbon trading mechanism remained elusive, giving cause for concern over the timing of a replacement for the Kyoto Protocol mechanisms.

### Climate Ambition

At the time of the Paris Agreement in 2015, Parties were required to set out their chosen future emission reduction targets in the form of nationally determined contributions, or NDCs. Parties must then re-assess their NDCs every 5 years with the expectation that they will become more ambitious each time. Given that the Paris Agreement targets action from 2020, and the NDCs established so far are insufficient to achieve the ultimate goal of limiting climate temperature rise to 1.5°C, COP25 was seen as the key deadline to secure a greater level of ambition from the assembled parties.

The assembled Conference managed only to secure a fairly weak statement emphasising the urgent need to address the significant gap between current levels of ambition and the 1.5°C or 2°C goals, and urging parties to consider this gap when updating their NDCs. There were a few notable proposals from nations announced during the conference including the following:

- Canada pledging a net zero carbon target by 2050;
- Denmark signing up to a target of reducing emissions by 70% by 2030 (against 1990 levels); and
- The EU launching its European Green Deal aiming for a 50-55% cut in GHG emissions by 2030 beyond its current 40% target (See our client briefing "[EU Green Deal - Resetting the Environmental and Climate Change Agenda](#)").

Somewhat more encouraging was the announcement that 177 companies had signed up to 1.5°C-aligned science-based targets under the UN Global compact sponsored campaign: "Business Ambition for 1.5°C — Our Only Future". This group includes major businesses in a wide range of sectors having a combined market capitalisation of US\$2.8 trillion. In addition, over 500 companies committed to net zero emissions targets by 2030 under the 'B Corp' initiative (whose members seek to direct their businesses as a 'force for good'). These announcements show welcome leadership on the climate change agenda from the private sector and will undoubtedly give a major boost to carbon reduction efforts.

### Key issues

- Little new ambition from nations at the Conference on climate targets
- Business shows leadership with 177 companies signing up to 1.5°C-aligned carbon targets, and 500 others signing up to net zero by 2030
- Major areas of disagreement still remain on a new carbon trading mechanism

## Carbon Trading

A real disappointment at COP25 was the failure to make significant progress on agreeing the mechanisms that will replace the current clean development mechanism and Joint Implementation projects mechanisms (which allow for trading in climate commitments). Progress on the carbon trading mechanism stalled in a number of respects:

- **Carryover of legacy credits:** A number of states were seeking to have credits from the former Clean Development Mechanism / Joint Implementation projects carried over into the new post-2020 mechanism (around 5 billion tonnes of CO<sub>2</sub>-equivalent). This proposal has been strongly rejected by the EU, among others, due to the impact this would have on the market and the likelihood that it would depress the carbon price.
- **Accounting rules / double-counting:** Another difficult issue left unresolved was around the accounting rules required to avoid double-counting of emissions cuts when they are traded, through a process of making "corresponding adjustments" to host-country NDCs. This is a particular challenge where nations have different kinds of NDC – e.g. some contain single year targets, while others have multi-year targets).
- **Proceeds from trading for climate adaptation:** The extent to which the proceeds of carbon trading should be handed over and devoted to climate adaptation for the most vulnerable nations also proved problematic.
- **Securing an overall reduction in carbon emissions:** Another area of disagreement was how to ensure that the carbon trading mechanism would deliver an overall reduction in emissions (as required by Article 6 of the Paris Agreement), rather than simply shifting emissions around the globe.

Further negotiations on carbon trading aspects will take place at the June 2020 meeting and at COP 2026, but this failure significantly increases the risk that no formal trading mechanism will be in place when the Kyoto Protocol Second Commitment period closes at the end of 2020.

## The future

The general reaction to the outcome of the meeting has been one of disappointment that so many issues under the Paris Agreement are still unresolved four years after that agreement was signed, with the looming issue of the USA departing from the Paris Agreement process in November 2020. This, of course, places a greater burden on subsequent meetings, and in particular the COP26 meeting anticipated to take place in Glasgow in November 2020. Given the likelihood that the UK will have left the EU by this time, the UK's ability to galvanise action and achieve real progress on outstanding issues at COP26 will be a key test of UK post-Brexit climate leadership credentials. There have also been calls to review, more fundamentally, the process for climate negotiations: with increasingly urgent pleas for climate action leading to little in the way of progress since the 2015 Paris Agreement, such calls are only likely to increase.

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