

# Bonn Seminar 2018



Oxford Club, Bonn  
6 May 2018

ecbi

European Capacity Building Initiative  
[www.eurocapacity.org](http://www.eurocapacity.org)

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## INTRODUCTION

The 2018 Bonn Seminar took place on 6 May, at the Oxford Club in Bonn, Germany. It was attended by 45 participants, who discussed Article 6 market approaches under the Paris Agreement; common time frames; ambition and the Talanoa Dialogue; and predictability of climate finance under the Paris Agreement (Article 9.5 and paragraph 53 of Decision 1/CP.21).

Welcoming participants, ecbi Director Benito Müller encouraged open engagement to enhance mutual understanding of positions in the negotiations.

The first three sessions of the seminar were chaired by Jan Cedergren, Co-Chair of the ecbi Advisory Committee, who added his welcome and invited participants to introduce themselves. The final session was chaired by ecbi Advisory Committee Co-Chair Tosi Mpanu-Mpanu.

## ARTICLE 6: MARKET APPROACHES UNDER THE PARIS AGREEMENT

This session was initiated with a presentation by Müller, who based the presentation on the second part of an [ecbi policy brief](#), presenting a conceptual analysis of the Paris Agreement market approaches. (The first part of the policy brief presents a history of the Article 6 negotiations from the perspective of Europe and Brazil).

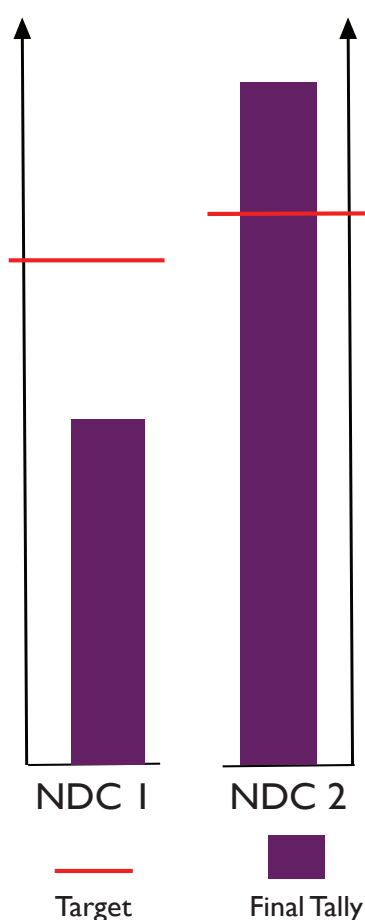


Figure 1

Müller introduced basic concepts related to Article 6 mechanisms used in the policy brief, including:

- ‘Originating Party’ (or ‘originator’), covering both ‘creating’ or ‘issuing’ Party;
- ‘Transferring Party’ (transferring out);
- ‘Acquiring Party’ (transferring in); and
- ‘Using Party’, or ‘user’.

He noted that the defining feature of Internationally Transferred Mitigation Outcomes (ITMOs) is that they can be used by an acquiring Party towards achieving its nationally determined contribution (NDC). In that context, NDCs have been associated with a “scope” (identifying what the NDC “covers”), and “quantifications” (either of the NDC as a whole, or of components).

A ‘quantification’, in this context, is given by the specification of:

- a ‘quantitative scope’ (a measurable, extensive quantity variable associated with the NDC), together with
- a ‘target level’ (the level of this quantity variable that needs to be reached for the NDC to be achieved).

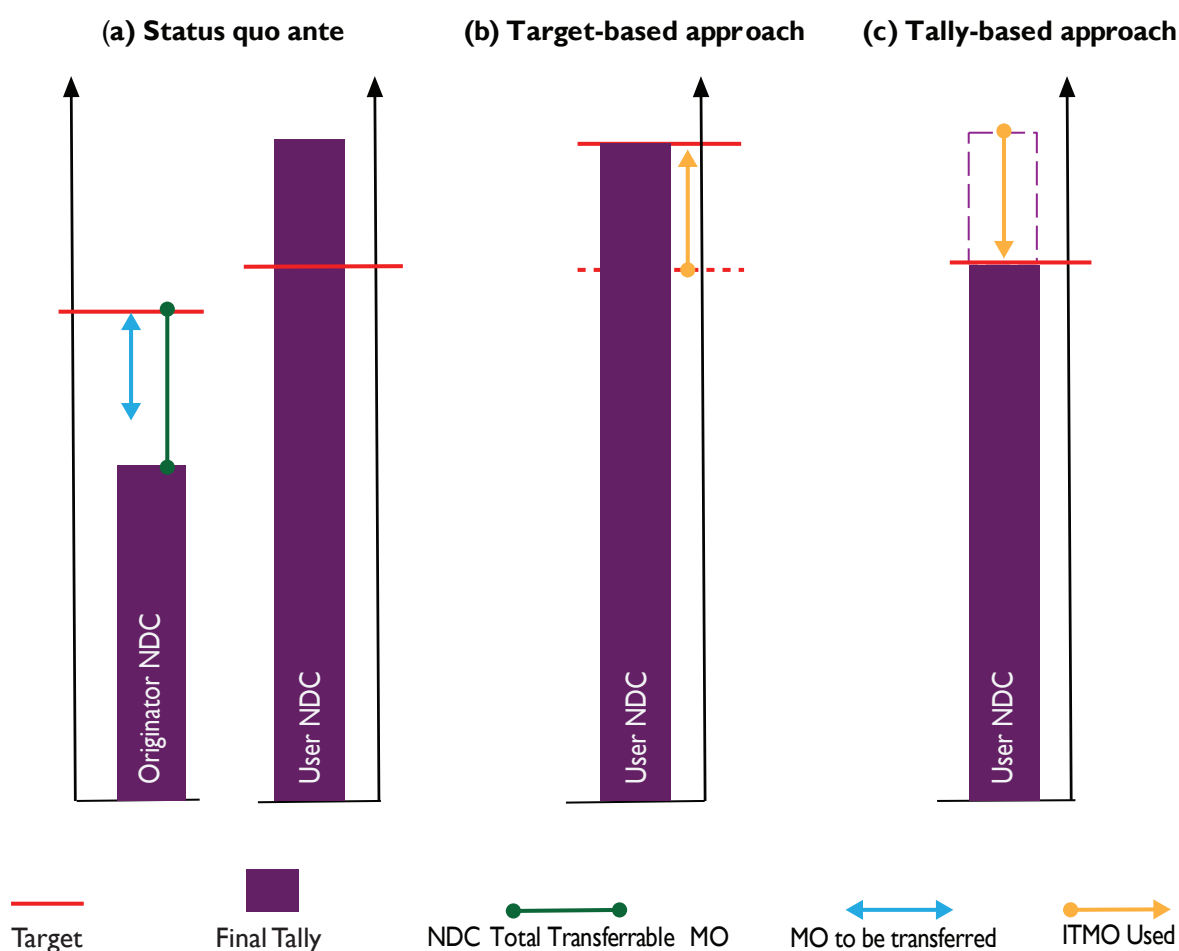
Müller then introduced the concept of a ‘**final tally**’, defining it as the actual (measured) level of the respective quantity that determines, by its relative position to the associated target level, whether an NDC has been achieved, with respect to the quantitative scope in question (**Figure 1**).

He noted that the policy brief differentiates between the micro and macro level: the former relates to activities and the latter to parameters that emerge from collective outcome of these activities. Macro-level concepts are essentially those pertaining to the ‘quantitative scope’ of NDCs with regard to ITMO usage in achieving them, such as ‘target level’ and the final level (‘tally’) used to determine whether the target has been achieved or not. This final tally is determined by ‘micro-level’ activities in ways that are not always directly attributable.

Using examples from the Kyoto Protocol trading mechanisms to elaborate these definitions, Müller said while international Emissions Trading is at the macro-level, Joint Implementation and Clean Development Mechanism (CDM) function at the micro-level. The micro-macro distinction used in his analysis is therefore about whether the parameter in question is identified through a particular activity, or with reference solely to the quantified NDC. Noting that usage of ITMOs towards NDC achievement would take place at the macro level, he said the ultimate usage of an ITMO is a macro-level activity.

Müller then presented an example of using an ITMO towards achieving an NDC (**Figure 2**). In a target-based approach, he noted, the transferred mitigation outcome (MO) is *added* to the user NDC target level. In a tally-based approach, the transferred MO amount is instead *removed* from the final tally of the user NDC. He said that under a target-based approach, as the transferred amount is used to increase the user NDC target-level, a corresponding adjustment in the form of a reduction the originator’s target-level is necessary to ensure environmental integrity.

Figure 2



In a tally-based approach, given that an acquiring Party uses an ITMO by removing the amount from its final tally, the emissions thus removed need to be “reallocated” to the final tally of the originating Party, to ensure there is no double counting.

Müller then presented a fictional case of an Article 6.2 transfer of a 10-unit MO from the Kingdom of Rohan to the Kingdom of Gondor (**Table 1**), in the fictional world of Middle Earth created by Professor J.R.R. Tolkien as the stage for *The Hobbit* and *Lord of the Rings*.

Table 1: ITMOs transferred from Rohan and used by Gondor				
a. Status Quo Ante				
	NDC Quantified Scope			ITMO Registry
	Baseline	Target	Final Tally	
Rohan	50	40	30	0
Gondor	100	80	90	0
Aggregate	150	120	120	0
b. Target-based interpretation of ‘ITMO use’ with corresponding target adjustment				
	NDC Quantified Scope			ITMO Registry
	Baseline	Target	Final Tally	
Rohan	50	30	30	(–10)
Gondor	100	90	90	(+10)
Aggregate	150	120	120	0
c. Tally-based interpretation with corresponding tally adjustment				
	NDC Quantified Scope			ITMO Registry
	Baseline	Target	Final Tally	
Rohan	50	40	40	(–10)
Gondor	100	80	80	(+10)
Aggregate	150	120	120	0

The status quo ante (the situation before the transfer and usage of the 10 ITMOs) is described in Table 1.a, he said. As both Kingdoms have a target below their baseline, final tally levels below the targets thus reflect genuine MOs.

In his fictional case, Müller, said, Rohan’s final tally is 10 units below its target, while Gondor has overshot its target by the same amount, and thus will not be able to achieve its NDC without acquiring 10 ITMOs to cover the gap. Neither Kingdom has transferred or acquired ITMOs at that point in time, as reflected in the relevant ‘ITMO registry entries’.

At the time of transfer, the ITMO registry of Rohan is debited with 10 units and that of Gondor credited with the same amount, thus leaving them with –10 and +10 units respectively. As discussed above, Gondor has the choice of using the credited ITMOs in two different ways:

- changing its target level by adding 10 units, (‘target-based use’, Table 1.b); or
- changing its final tally by subtracting them (‘tally-based use’, Table 1.c).

In either case, Müller noted, the change has the effect of Gondor achieving its NDC, and Gondor’s 10 credits are cancelled from the ITMO registry (indicated by the bracket notation). However, in order to safeguard the environmental integrity of the regime, Rohan is meant to undertake some compensatory changes in the

respective levels (i.e. target or final tally) of its own NDC, as illustrated in Tables 1.b and 1.c respectively, which in turn leads to the cancellation of Rohan's 10-unit debit in the ITMO registry.

Müller said a target- or tally-based use by the acquiring Party (Gondor) has to go hand-in-hand with a target- or tally-based compensating adjustment by the originating Party (Rohan). Mixing the two will either lead to an infringement of the target integrity (Table 1.e) or an apparent improvement of aggregate ambition due to leakage (of the emissions subtracted from Gondor's final tally) as illustrated in Table 1.d.

While this approach is easy for activities within an originator's NDC, he elaborated, it is more complicated for activities that fall outside of an originator's NDC, and a fierce debate is underway on whether or not there should be corresponding adjustments for activities outside an originator's NDC. While this cannot be resolved in a target-based interpretation of ITMO usage, a tally-based approach presents a compromise between these positions. If the activity generating the MO falls within an originator's NDC, a simple corresponding adjustment takes place. For activities that fall outside a user's NDC, however, it does not result in a corresponding adjustment in the originator's NDC. Instead, Müller proposed a buffer registry which reflects the emissions that were removed from a final user tally, so as to not lose count of them (**Figure 3**).

In the discussion that followed, participants asked what would happen if the acquirer does not have an NDC; and what would be the implications of maintaining such a buffer registry, other than keeping track of the

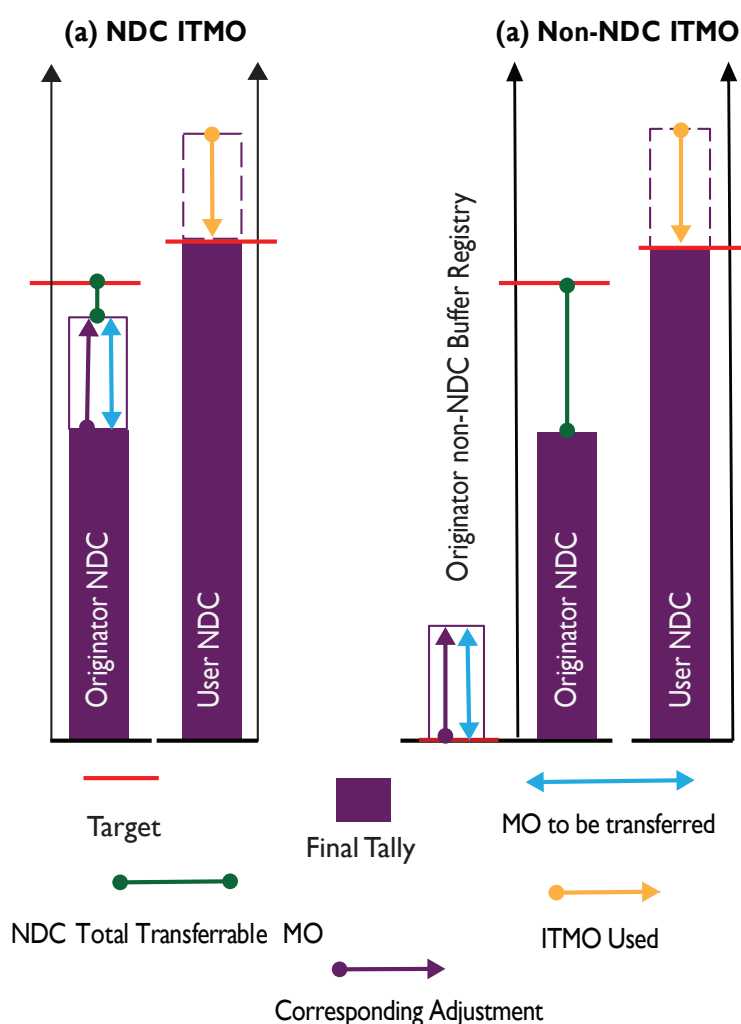
transfers. Müller responded that the buffer registry allows for a justifiable corresponding adjustment that does not impinge on the originator NDC being achieved.

A developing country participant said that while this may help to balance the ledger, the atmosphere would suffer as a consequence of generating credits not within an NDC. He said this would be similar to the CDM regime, with generators/ originators selling credits to another Party without a corresponding adjustment for the generating Party. He said all the units generated must be accounted for, otherwise markets will collapse without a cap on units generated from outside the system.

Müller replied that the proposed approach is not like the CDM, precisely because a record of the tally will be kept. However, further provisions will be necessary to ensure the full environmental integrity of the system.

A participant from Europe said Article 6 mechanisms are complicated because

Figure 3







NDCs are diverse, and some countries have a budget and for others have a business-as-usual target, presenting challenges in terms of measuring and accounting. He noted concerns regarding incentives in terms of NDC coverage and scope; potential uncertainty; equity in a world where mitigation potential in every country has a value and it is important to know the present and future value; and the integrity of the whole system, whereby a buyer may not want to use something that is being used by someone else.

A developing country participant cautioned that if the offsetting of international aviation emissions under the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) is not considered as another NDC from an international Party, this would result in problems. He also raised concerns about producing ITMOs at the beginning of a period of implementation and using it at the end. He highlighted his country's views regarding Article 6.2 as a mechanism to improve ambition.

A participant from Europe raised concerns regarding the complexity of the system for taxation of cross-border transactions, and the application of the share of proceeds to Article 6.2 mechanisms. She noted the need for international oversight through a centralised recording system.

A participant from Europe responded that Article 6.2 has technical and political complexities that are already proving hard to resolve, without the additional complexity of taxation. He said emissions trading is generally an environmental good – a way of directing finance within the sectors covered and internalising external costs – that should be encouraged, not taxed. He supported share of proceeds, but said it was not yet agreed if the proceeds would go to the Adaptation Fund.

A participant from Europe said NDCs are meant to express the maximum ambition of each Party. If a Party is able to sell MOs outside the NDC, it is either underestimating its potential or doing very well, and ways should be sought to keep the emission reductions inside the NDC.



Müller responded that measures for accounting for MOs outside an NDC are useful in dealing with emissions reductions outside the system – for instance under CORSIA, which is not under the jurisdiction of the UN Framework Convention on Climate Change (UNFCCC), but will need offsets. It will be useful for mitigation ambition to recognise ITMOs outside NDCs, because there is a value in having a mechanism to spread technologies. While the option should not be rejected, he said, it should not create situations where there is no increase in ambition.

A participant from Europe said allowing credits to come from outside NDCs could create a perverse incentive to never include that sector in an NDC. He also said financial transaction taxes have been in place in many countries, including solidarity levies for airline systems, and there is a potential for expansion.

Müller concluded the session saying the option of the buffer registry can present a fair way for making corresponding adjustments for non-NDC MOs.

## COMMON TIME FRAMES: WHAT & WHY?

This session was also initiated with a presentation by Benito Müller.

Müller noted that at the 21st Conference of Parties (COP21) to the UNFCCC in Paris in 2015, it was agreed that the Conference of Parties serving as the Meeting of Parties to the Paris Agreement (CMA) “*shall consider common time frames for nationally determined contributions at its first session*” [Article 4.10]. In Marrakech, the year after, the CMA agreed to refer the matter to the Subsidiary Body for Implementation (SBI).

SBI47, in 2017, “*invited Parties and observers to submit, by 31 March 2018, their views on common time frames for NDCs ... including on, but not limited to, the usefulness of and options for common time frames and the advantages and disadvantages of those options, for consideration at SBI 48 (April–May 2018)*”.

In response, Oxford Climate Policy (OCP) made a [submission](#) to the UNFCCC, based on the work done in collaboration with several other authors over more than two years.

Presenting the proposal in the OCP submission, Müller differentiated between “period of implementation” and “target period”, with the latter referring to a continuous time period used in defining the NDC target level. He suggested that the period of implementation can be seen to begin with the communication, and its end cannot be later than the end of the target period. However, the two should not be confused. In particular, policies requiring 10-year periods of implementation can be based on, say, five-year target periods.

Müller further noted that the Paris Agreement requires Parties to “*communicate an NDC every five years in accordance with Decision 1/CP.21*” (Article 4.9), which itself stipulates (§25) that NDCs are to be submitted “*at least 9 to 12 months in advance of the relevant session of the [CMA]*.” However, neither the Agreement nor the Decision says anything as to when this cycle is meant to start.

Both paragraphs §23 and §24 refer to time frames, he said, in the sense of periods of implementation. Yet the paragraphs are really about timetables for communicating and updating. Each of the two paragraphs defines an NDC communication and/or updating timetable pertaining to Parties that are identified by reference to the length of their initial period of implementation. The ‘common time frame’ question in this context, therefore is about *the usefulness of, and options for, combining the two timetables and the advantages and disadvantages of those options*, to paraphrase the SBI 47 conclusion.



Müller then described an example of a §24 country with an NDC with a ten-year period of implementation. He noted that this country will have communicated a 2030 INDC. In 2020, it can choose to either fix this as its NDC, or update it, thus providing a 10-planning horizon.

In 2025, this country will have the option to “communicate or update” its NDC. It can either choose to communicate a 2040 NDC or update the concurrent (2030) one. Assuming the latter option of a mid-term update is chosen, the country will have a short-term (five year) planning horizon.

In 2030, the country will have to communicate a new NDC. But since the current one is ending in 2030, and nothing further reaching has previously been communicated, this will be a cliff-hanger situation, with the planning horizon reduced to one year.

Müller also stressed that although the country has chosen the §24 option with ten-year periods of implementation, it will have to communicate something every five years.

He then described the dynamic contribution cycle proposed by participants in the 2014 ecbi Oxford Seminar, according to which all Parties would, in 2025, be requested to update their 2030 NDC and communicate an indicative 2025 NDC, and continue to do so every five years.

Müller said this option will help ensure that all countries feel the pressure to update and improve their NDCs; provide them with a longer-term ambition horizon; and allow countries to gauge the ambition of other Parties, to help them in setting the level of their own ambition. He highlighted the importance of countries knowing the intention of their peers and competitors in advance, to justify a higher level of ambition in their own NDC, to national stakeholders.

He highlighted the indicative NDC as an important enabler for encouraging ambition by Parties, without the fear of being either a free-rider or taking on an unfair burden. Without an idea of the ambition of other Parties, he said, countries are unlikely to stick their necks out and take on higher ambition levels. He said communicating NDCs every five years will also ensure that technological advances are taken into account in communicating or updating NDCs.

In the discussion that followed, a developing country participant said his country submitted a 2030 NDC to synchronise it with the 2030 national development plan. He agreed that his country could keep the 2030 planning horizon but still break it up into a shorter-term NDC, and that common time frames would result in a more coherent and systematic approach. However, he expressed concern that this will lead to the expectation that ambition will need to be enhanced each time.

Müller said no Party can be forced to update their NDC, but the shorter time frame will allow reflection on whether new technologies and changing circumstances can allow for greater ambition.

Another developing country participant agreed that from 2030 in particular, it will be challenging to match ambition with long term strategies. He asked how the indicative goals proposed by Müller will be treated, while noting that it takes at least two years for a national process to agree on an NDC, before it can be communicated globally. For the 2025 goal, for instance, the national process will have to begin in 2023 – just two years after the previous implementation period begins. He said this puts a lot of questions on the table, and Parties will need time to understand the consequences.

Müller said this is why the “plus five” indicative NDC should not be seen as immutable. National circumstances can change, which may make it possible for a country to increase ambition.

A developing country participant said from the perspective of least developed countries (LDCs), a longer-term perspective for NDCs can help align them with longer-term low carbon development strategies and national strategies, which could also help to ensure that they are not affected by circumstances such as change of governments and national policies.

A developing country participant asked for clarification on the difference between updating and communicating. Müller said this terminology, including “submitting”, could help differentiate between an NDC and what is meant to be an indicative target NDC with a “plus five” year time horizon.

A participant from Europe agreed that the language in paragraphs 23 and 24 was chosen for circumstances that were unique to pre-2020 and was based on pre-Paris language.

Another participant from Europe agreed on the need for synchronised cycles and the need for enabling environments. In practical terms, he said reconciling the five- and ten-year cycles presents a challenge, and this is an interesting attempt to do so, meriting further discussion and analysis with other options.

Müller said it is important to keep in mind that the target period length does not matter for periods of implementation, and the two should not be confused. The presented option with a five-year target period was the simplest one, which does not exclude a ten-year implementation period.

Another participant from Europe said indicative NDCs will not be a good basis to encourage investors, at least in the first period. After the first or second iteration, once they have seen how Parties deal with their indicative NDCs, investors may start to have more faith.



Müller said he would have agreed if the Paris Agreement did not include the provision of “no backsliding”. The fact that an indicative NDC can only get more ambitious should be sufficient for investment decisions, he said.

A developing country participant said the indicative NDCs submitted before Paris should be reconsidered once the Paris rulebook is agreed, to allow countries to incorporate the decisions in their new and updated NDCs.

A participant from Europe noted assumptions underlying the debate on synchronisation and spontaneity, saying ambition often has more to do with national politics, policies, and the economy, than with achieving parity with the NDCs of “competitor” countries. Another participant from Europe felt the option was based on a theoretical theory of change.

Müller concluded the session by re-stating that while the Paris Agreement has a communication cycle and review cycle, it does not yet have a genuine ambition cycle, to enable Parties to be as ambitious as they can be. Without synchronised updating to focus Parties’ minds, he said, ambition is unlikely to increase.

## AMBITION AND THE TALANOA DIALOGUE

This session was initiated with a presentation by Achala Abeysinghe, Head of the ecbi Training and Support Programme, based on an ecbi [Policy Brief](#).

Abeysinghe noted that the process is designed to help countries to take stock of efforts to reduce carbon emissions and to uncover ideas, innovations, and technologies that can help them to raise ambition in their NDCs.



She said paragraph 20 of Decision 1/CP.21 provides the mandate for the Talanoa Dialogue, with additional references in paragraph 16, 1/CP.22 and paragraph 10, 1/CP.23. The Dialogue is a process, which started in January 2018 and will convene throughout 2018, and will present an opportunity to reflect on the adequacy of currently submitted NDCs against the goals of the Paris Agreement and inform the preparation of new or revised NDCs to be presented by 2020. She noted that current NDC ambition leads to 3.2°C by 2100, so enhancing the level of ambition of current NDCs is crucial.

The Talanoa Dialogue provides new mode of engagement for different voices to be heard, she said, and it recognises the growing involvement of non-Party actors in the UNFCCC process and in climate change action. It also provides an opportunity to identify: untapped mitigation possibilities; good policy and best practice; and solution-oriented examples to strengthen ambition in climate action. The Talanoa process is expected to be inclusive, participatory, and devoid of finger pointing, aimed at making decisions for the collective good.

Abeysinghe said the Dialogue will include a preparatory phase, including national, regional or global events in support of the process, and inputs from all stakeholders. At the current session, an opening meeting took place on 2 May, a discussion was taking place on 6 May, and a report back session will take place on 8 May, with a closing on 9 May. The preparatory phase will continue through the year and conclude with a political phase at COP2 in December 2018, with the engagement of leaders and heads of state.

Summarising the inputs into the Dialogue so far, she said the Talanoa Dialogue Platform received 220 inputs as of 2 April 2018, which were included in a synthesis note ahead of the Bonn Session. Most of the inputs were received from non-Party stakeholders. She said the secretariat summarised the responses based on the three questions of Dialogue: where we are; where we want to go; and how do we get there.

On the question “where we are”, inputs ranged from information on greenhouse gases (GHGs); climate impacts and vulnerability; initiatives and actions taken including strategies, plans, and policies; and means of implementation and support needs.

On the question “where we want to go”, inputs ranged from future visions towards zero net emissions and climate resilience (either for the specific constituency or globally); catalysing ambitious climate action and the achievement of poverty eradication and the Sustainable Development Goals (SDGs); emissions trajectories; and visions for a functioning international regime to achieve the objectives of the UNFCCC and the Paris Agreement.

On the question “how do we get there”, inputs ranged from recommendations and calls to action for the secretariat, bodies of the Convention and national governments; sustainable high-potential solutions with socioeconomic and environmental benefits, including on technology and collaboration models (with sub-national inputs touching on collaboration models, human settlements, transport and energy); crosscutting actions (including finance, gender, health, education, less well-represented constituencies and decent work); and actions on the ground (such as national climate plans and strategies). The inputs also include recommendations for peers, the secretariat, and the bodies of the UNFCCC.

Abeysinghe said the IPCC Special Report on 1.5°C in October 2018 will be a critical input into the Dialogue and efforts to raise ambition, and it requires a formal space for consideration in advance of COP24. Additional input can be provided by stakeholders until 29 October 2018, and a synthesis report of the preparatory phase will be prepared to inform the political phase of the Dialogue.

The outcomes of the dialogue at COP24 should result in a clear political commitment to significantly reduce emissions when communicating NDCs by 2020, she said, to put the world on track for 1.5°C. To continue building political momentum for greater ambition after 2018, a plan should be in place by the end of COP24 for activities in the period up to the communication of new and updated NDCs by 2020.

Abeysinghe concluded with the following list of questions for participants to consider:

- How do we address lack of capacity of some countries to participate in the Talanoa Dialogue?
- What could the outcome look like? (COP decision or political declaration). How do we capture concrete lessons from the stories told that catalyse real action?
- How do we use the Talanoa Dialogue to ensure that there is enough support for where we need to be?
- How can we utilise other high-level events such as the Climate Summit and the UN Secretary-General’s summit to take raise ambition?
- What can we learn and improve upon for the global stocktake?
- What should be the process between 2018 and 2020 and 2023?

In the discussion that followed, a developing country participant said it is hard to see what the purpose of the Dialogue is. While a collection of best practices is always useful, and it could be useful to capture international cooperation action, he felt it is important to know what the political product from the Dialogue would be. He warned that it would be risky to simply tell ministers and heads of state that the ball is in their court, without specific policy recommendations.

A participant from Europe agreed that the Dialogue included good questions without clear answers, but said she was more optimistic in her outlook. While it was not clear what the outcome would look like, she noted this was by design – it had been agreed not to pin down an outcome, but to give the presidency leeway in staging the Dialogue in a way that is true to the process, to give a collective push to reaffirming the dynamics of the Paris Agreement, and then go home to re-look at the NDCs. She agreed that the support question needs to be part of the discussion.

A developing country participant said the Dialogue should reach all actors, with a take-home for all stakeholders to do what they can to improve ambition in its wake.

A participant felt expectations from the Dialogue were too high, and there are other elements leading up to 2020, when the NDCs have to be updated. While the Dialogue has the mandate to inform the process, the process itself is nationally determined. The outcomes are likely to be uneven, with different actors taking home different lessons. She was not convinced that something on paper was necessary, to produce results that are somehow predetermined.

A developing country participant felt the formal process was focused on rules and procedures, but the Dialogue provided space to discuss the substance and have a more substantive conversation.

A developing country participant said because it is a facilitative dialogue, he would like to see a decision coming out of it. He noted that 80% of the Parties had presented NDCs in response to a COP decision, and a similar COP decision could lead to more national action to improve ambition in the NDCs in 2020.

A participant from Europe agreed that expectations were too high from a process that is meant to be the first opportunity to talk about NDCs. He said the process could help build trust, to make sure everyone does as much as everyone can do. He also felt that it should not be confused with pre-2020 ambition, which has a separate process.

Müller said the Dialogue was meant to be a precursor for the global stocktake, with a similar motive to enhance ambition in 2020. He invited participants to discuss what lessons have been learnt through the Dialogue, to improve the global stocktake process.

Abeyasinghe said the Dialogue goes beyond the boundaries set in the formal process, and the expectation that only governments can handle the problem. She agreed that a COP decision will give technical experts at the national level a stronger mandate. She added that the global stocktake will have a broader mandate than just mitigation.

Another developing country participant said assessing progress in relation to the IPCC report will be a critical step for the Dialogue. He felt a decision, even a procedural one, will be necessary to have a summation of the Dialogue, which could inform the UN Secretary-General's summit in 2019 and drive momentum.



A participant from Europe said the Fijian presidency has always made it clear that they will provide the process, while Parties are expected to provide the content. He felt the graphic showing more submissions from non-Party stakeholders is misleading because submissions were made by groups of Parties. This resulted in less of a national perspective, and the challenge could be the same during the political stage, he noted. He felt it was less important whether the outcome was a decision, saying the main outcome should be the willingness to reflect on the level of ambition in NDCs. On lessons for the global stocktake, he said the stocktake is likely to be a negotiation process, unlike the Talanoa Dialogue.

A developing country participant said the climate issue is dealt with mainly at the technical level at the national level, and it is important to bring it up to the political level, with political agreement on climate change policies that need to be implemented.

## PREDICTABILITY OF CLIMATE FINANCE UNDER THE PARIS AGREEMENT

This session was initiated with a presentation by Orlando Rey Santos, Cuba, who focused on Article 9.5 and paragraph 53 of Decision 1/CP.21. It was chaired by Tosi Mpanu-Mpanu, Co-Chair of the ecbi Advisory Committee.

Santos noted that the predictability of climate finance is essential to allow for long-term planning and scenario-building at the national level; and for predictability of mitigation, well-organised cycles, and low carbon strategies at the global level, in the medium- and long-term. The provision of climate finance is also a matter of trust and confidence, and intrinsically linked to the Paris Agreement Work Programme (PAWP) and the implementation of the Paris Agreement.

He noted that Article 9.5 calls on developed country Parties to “...*biennially communicate indicative quantitative and qualitative information related to paragraphs 1 and 3 of this Article, as applicable, including, as available, projected levels of public financial resources to be provided to developing country Parties*”. Other Parties providing resources are also encouraged to communicate such information biennially on a voluntary basis.

Paragraph 53 of Decision 1/CP.21, meanwhile, states that “... *prior to 2025 the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement shall set a new collective quantified goal from a floor of USD 100 billion per year, taking into account the needs and priorities of developing countries*”.

With regard to the ex-ante communication referred to in Article 9.5, he said such information is essential to know ahead of time where financial flows are going and have a consistent aggregation around finance. As most developing country NDCs have conditional elements, the lack of ex-ante information on finance has an impact on the predictability of NDCs and the intention of enhancing ambition.

On the new collective goal to be agreed before 2025, he said this is essential to ensure the adequacy and predictability of climate finance. The new goal is to be set collectively as a result of a process that include a mechanism to take into account the needs and priorities of developing countries. Article 2.1.c of the Paris Agreement explicitly states that finance flows have to be made consistent with the global climate goal. To limit mean temperature increases to “well below 2°C” while aspiring to keep it within the 1.5°C limit already means that the scale of finance needed will in fact be much higher. Declaring a new climate finance goal will not be enough – a clear roadmap is also essential, he said.



Santos said the extension of the US\$ 100 billion goal to 2025 was already a flexibility shown by developing countries in the Paris Agreement negotiations, that should be honoured with early engagement in the definition of the new goal. Given the experience with the previous goal, where it took several years to translate a pledge into a roadmap, discussion should begin as soon as possible. He felt the reluctance to consider a proper framework for ex-ante information and to start discussing the new climate finance goal could be interpreted as a lack of commitment to climate finance by developed countries, and this could compromise agreement on a balanced outcome at COP24.

Santos also addressed the question of whether countries can predict their contributions in advance. Despite national budgetary limitations, he said, countries make multi-year commitments to international finance organisations such as the Global Environment Facility (GEF), suggesting that it is possible to provide indicative information several years into the future, and it is at least possible to clarify contributions within defined replenishment cycles. Stating that high ambition in the Paris Agreement will not be possible without predictable finance and a realistic guarantee that this finance will be available, he noted that some options in this regard had been considered in a concept note published by OCP and ecbi, on *A Paris Replenishment Cycle for Contributions to the UNFCCC Financial Mechanism*.

Müller noted the uncertainty surrounding the US\$ 100 billion pledge made at Copenhagen, including whether it will be sourced from public or private finance. He said it will be difficult to agree on a metric to measure private sector sources contributions to climate finance, and such figures can be recipes for mutually assured unhappiness without agreement on metrics. He proposed separating the two, and only have a public-sector goal and mobilisation to take the inherent unhappiness out of the process. One way to get predictability, he said, could be to have a five-year replenishment process as proposed in the ecbi note referred to by Santos. He warned that unless something is done to address the root causes, the climate finance discussion will continue to breed mistrust.

Session chair Mpanu-Mpanu then invited questions and comments from participants.

A participant from Europe said while Article 9.5 should create trust, instead it creates fear that whatever you say will be used against you. She noted that the Article calls not only for developed country Parties to report, but also for voluntary reporting from other donors. Noting lack of incentives to ask those Parties to come up with predictable funding flows, she also said longer-term projections are likely to be less and less predictable.

Another participant from Europe said from the perspective of the donors, there are serious limitations in providing projections of finance. He noted cuts in official development assistance (ODA) in his country recently, citing difficult times; and asked developing countries to also consider progress that has taken place in previous years on improving climate finance flows.

A developing country participant said ambition and support are opposite sides of the same coin, and the ambition in many developing countries' NDCs is based on assumptions of ongoing support. He noted that one major donor has withdrawn from its climate finance commitments, and eligibility criteria is changing in several institutions to exclude middle income countries, while the replenishment window of the GEF is much smaller than it used to be. There are therefore reasons to be concerned, particularly in the new era where all countries have the same responsibilities, but not the same capacities, and politicians are getting nervous about the costs. Article 9.5 is therefore crucial, he said, to provide a broad idea of budgeted funds in the system, as opposed to just pledges. On a practical level, he noted, this is not new, countries already provide projections of ODA.

Müller said if there are systemic problems with budgeting of public finance over the longer term, other sources of climate finance outside traditional sources should be considered, such as share of proceeds from sub-national emissions trading schemes and aviation levies. These may vary with market fluctuations, but are not as easily politically changeable, he said. The intention would not be to substitute traditional sources, but to compliment them.

A developing country participant agreed, saying the problem developing countries are facing cannot be addressed by public sector finance alone.

A participant from Europe said there are several sources of climate finance. While public sources from governments will continue to be important, there has been a sharp increase in private sector sources for climate activities, particularly in larger economies. He said the lack of predictability should not be misinterpreted as a lack of commitment – the record over the past ten years should generate trust, as overall climate finance has increased.

Santos said while commitment may not be lacking, predictability is key to balance finance and mitigation.

A developing country participant said an intergovernmental negotiation can only deal with public sector sources, and cannot tell the private sector what to do, other than send market signals. Public funds are also important as seed money, he said, to generate private sector investments and to get projects off the ground. He further noted that private sector funds are not grants, and adaptation in particular needs public finance.

A participant from Europe said very important pledges have also been made by major economies, some dwarfing those of developed countries, and Article 9.5 should also apply to them. He asked whether these countries had indicated what kind of information they are able to share on South-South flows.

Another participant from Europe highlighted the importance of connecting the dots between what countries want and the ultimate objective of the negotiations. She said the shift from the billions to trillions could come from providing the right signals to the private sector, through the discussions on mitigation.

Mpanu-Mpanu asked participants whether information on voluntary contributions from developing countries would be productive and positive to the discussions. A developing country participant responded that is not going to happen until industrialised countries show leadership. However, the reality on the ground is that the bigger and emerging economies are doing a lot, and his own country has increased its GEF contributions at a time when others were cutting theirs down.

Another developing country participant agreed that South-South flows have increased; and said that at a time when a major developed country donor had pulled out, the negotiations should open the door for innovative sources of finance such as solidarity funds, and levies on the fossil fuel industry.

A developing country participant said the insurance industry is already engaged, but the “marriage made in heaven” between the insurance and reinsurance industry and climate finance has not yet been consummated. He pointed to at least US\$ 6.7 trillion owned by corporations and considered “idle cash”, with the corporations paying negative interest rates in some cases to park the money. This idle cash, he said, could translate into climate finance via a mechanism such as green bonds, which would have a minimal impact on the balance sheet of the corporations; generate returns; and give the corporations a green image. He also pointed out that Agenda 2030 risks being “blown out of the water” if the Paris Agreement temperature goals are not met, and this could be the case if climate finance is lacking.

Chair Mpanu-Mpanu agreed, citing large amounts of cash held by corporations that could be put to good use. He supported innovative sources of climate finance to supplement public sector finance, to provide more certainty in flows. He noted challenges faced by less developed countries in attracting private finance without public sector resources, and concluded by saying the EU has been a trust-worthy partner, which should not show solidarity with Parties who are not living up to their commitments.

In conclusion, Müller thanked participants for attending the seminar.