

November 2023 **A STOCK-TAKING COP I IETA COP28 PRIORITIES**

THE STATE OF CLIMATE NEGOTIATIONS

The 28th annual meeting of the Conference of the Parties (COP28) to the UN Framework Convention on Climate Change comes at a time of persistent geopolitical tensions and a difficult macroeconomic environment.

The current context is highly different from the momentum that characterised the lead-up to COP26 in Glasgow only two years ago. Only a handful of countries have submitted enhanced national determined contributions (NDCs) and the fight against inflation and energy security trump the climate crisis on the agendas of governments worldwide - already stretched thin with current geopolitical realities.

Still, initiatives such as the Inflation Reduction Act (IRA) and the expansion of the EU ETS, as well as several developing and emerging economies discussing the implementation of carbon pricing instruments, are strong indicators that countries remain committed to increase climate ambition.

Negotiations within the UNFCCC continue apace, but no major breakthrough is expected in Dubai. Big-ticket items on the agenda include the conclusion of the first Global Stocktake (GST) and Loss & Damage (L&D).

The GST is a regular process enshrined in the Paris Agreement to review and assess current NDCs every five years. While the process is formally still ongoing, its final outcome is no surprise as we know very well that current NDCs are insufficient to achieve the goals of the Paris Agreement (ambition gap)¹, while still hard to achieve given the circumstances of most countries (finance gap).

Work on L&D has kicked off this year after the agreement at COP27. A "transitional committee" has been formed to determine the nature and entity of financial transfers for L&D, but its work has progressed slowly, with the usual rift between developed versus developing countries playing out. An agreement on a set of recommendations to operationalise the fund was achieved a few weeks before COP28. Still, discussions are expected to remain polarised in Dubai and might affect the mood of delegations in other negotiating tracks.

With limited prospects for a major negotiated outcome, Parties are focusing on high-level declarations. A call to triple global renewable generation capacity to 11 TW by 2030 is likely to be adopted in the final COP28 decisions.

The European Union, the United States and small island states are pushing for a commitment on peaking fossil fuel usage by 2030 and the phase-out of unabated fossil fuels by 2050, but they are encountering

¹ Last September, the UNFCCC Secretariat released the synthesis report on the technical dialogue of the first global stocktake. This report provides an assessment of the collective progress toward achieving the purpose and long-term goals of the Paris Agreement and demonstrated a critical gap between 20.3 and 23.9 Gt CO₂ between current NDCs and what is needed to achieve the Paris Agreement through 2030.

resistance from major emerging economies. The key point remains the lack of a definition for the term 'unabated' and the level of carbon capture and sequestration (CCS) that Parties would agree to commit to.

The UAE Presidency is providing a strong steer. It outlined its positions and priorities², which include tripling renewable capacity by 2030, a clear set of targets and indicators on adaptation, and enhancing climate finance flows (with \$100bn/year to 2025 and a doubling of adaptation finance by 2025). It is also active on several sectoral initiatives. For instance, it is promoting the mutual recognition of certification schemes for clean hydrogen.

The Presidency has also been involved in voluntary carbon market (VCM) matters, calling on carbon crediting standards to "align on high integrity." This is the first time a COP presidency has taken such a close interest in the VCM. Beyond working with standards on a joint declaration, we expect to see the COP Presidency promoting end-to-end integrity, high integrity transactions and the interplay of Article 6 and the VCM as three non-negotiated outcomes in Dubai.

The role of the UAE is becoming more prominent as it is rumoured that the country will maintain its role for another 12 months. This scenario would be unprecedented, but it is becoming more likely as there is still no agreement on who should host COP29 among countries in the UN Eastern Europe grouping, due to extensive use of veto powers against potential hosts (with Russia blocking EU candidates Czechia and Bulgaria, Armenia and Azerbaijan blocking each other). Another option would be to hold COP29 at the UNFCCC headquarters in Bonn.

ARTICLE 6 IN THE NEGOTIATING ROOM

After the landmark agreement at COP26 in Glasgow, Article 6 is no longer high on the political agenda. This shift could present the opportunity to avoid extreme politicisation and focus on key decisions to operationalise international carbon markets. The schedule of negotiators remains busy, but it is now focused on technical and operational matters. Below is a summary of key Article 6 topics and IETA's position on each of them.

Cross-cutting themes

- **Authorisation** - After intense discussions at COP27 led to no outcome, Parties are hoping to agree on guidance regulating the timing of authorisation and the scope for changes to, and revocation of, previously granted authorisations. IETA strongly advocates providing authorisation statements as early as possible in the project lifecycle and limiting changes to specific cases, well-defined in advance. Revocation should be avoided, except in exceptional and clearly specified circumstances. It must be noted that in case of no agreement on this item, the lack of UN guidance would leave countries free to provide, change and revoke authorisations at any time. Those countries could expect market prices to reflect any revocation risks.

² COP28 Presidency letter to Parties: <https://www.cop28.com/letter-to-parties>

- **Registries** - While the UNFCCC launched a tender to procure the A6.4 mechanism registry and the international registry (a registry operated by the UNFCCC to be used by countries who decide not to set up their own national registry), Parties are still debating some crucial aspects of the architecture to track mitigation outcomes and transfers. Key questions include whether the A6.4 mechanism registry will hold units after issuance (with some Parties pushing for a transfer to national registries) and how to connect national registries with the A6.4 mechanism registry.

IETA believes a decentralised approach to registries is in the spirit of Article 6.2 and can deliver high integrity and innovation, so we urge Parties to avoid implementing overly prescriptive requirements, which can also lead to prohibitive costs. Interoperability, integrity and access to data can be guaranteed by non-profit entities such as the Climate Action Data Trust (CAD Trust), a metadata layer housing data from participating registries launched in December 2022 by IETA, the World Bank and the Government of Singapore.³ IETA serves as the CAD Trust interim secretariat.

Article 6.2

- **Reporting templates** - While an agreement on the format of the Initial Report was reached at COP27, negotiations are still ongoing on the format of annual and biennial reporting templates. These discussions do not impact the private sector directly, but IETA urges Parties to reach a pragmatic agreement on these matters to enable countries to transparently report their activities and build confidence in the process.
- **Review process** - IETA supports a robust review of the Information reported by Parties on Article 6.2 approaches. The review process is key to ensure that all transactions under Article 6.2 are high-integrity and that trust in international market mechanisms is built. A key element of contention is the sequencing of reporting and review. IETA believes that potential delays in the outcome of the review process should not hold up the submission of subsequent reports by Parties. A properly staffed and trained review team would provide sound and timely reviews.

Article 6.4

- **Adoption of recommendations by A6.4 Supervisory Body (SB)** - The operationalisation of the new crediting mechanism under Article 6.4 has been delegated to a body made up of 24 individuals appointed by Parties, most of whom are negotiators. The SB met six times this year and has produced several operational procedures, but it has failed to reach an agreement on crucial guidance on methodologies and removals. A last-ditch attempt to finalise these recommendations is ongoing in

³ <https://climateactiondata.org/>

November 2023, with an exceptional virtual meeting due to conclude 17 November. Any decisions and recommendations by the SB must be endorsed by Parties at COP28, so a failure to finalise all guidance would push back operationalisation by 12 months. IETA provided extensive feedback to the SB throughout the year based on input from members.⁴ As we consider a timely operationalisation of the A6.4 mechanism as crucial for the development of carbon markets and the achievement of the goals of the Paris Agreement, IETA urges the SB to finalise the guidance on methodologies and removals and Parties to then adopt it at COP28. This would allow for methodologies to be approved under the A6.4 mechanism and projects to start registering in 2024.

- **Emission avoidance and conservation enhancement** - Parties are expected to decide whether these new categories of activities (in addition to emission reductions and emission removals) can generate credits under the A6.4 mechanism. While most delegations do not consider this topic a priority, it is generating confusion as the concepts of reduction and avoidance are often conflated in market parlance. IETA urges Parties to reach an agreement on definitions, so it is fully clarified that activities in the field of avoided deforestation are considered emission reductions (not avoidance) and are therefore eligible for crediting under the A6.4 mechanism (if the SB approves a relevant methodology). A similar discussion is expected to take place in the context of Article 6.2 next year.

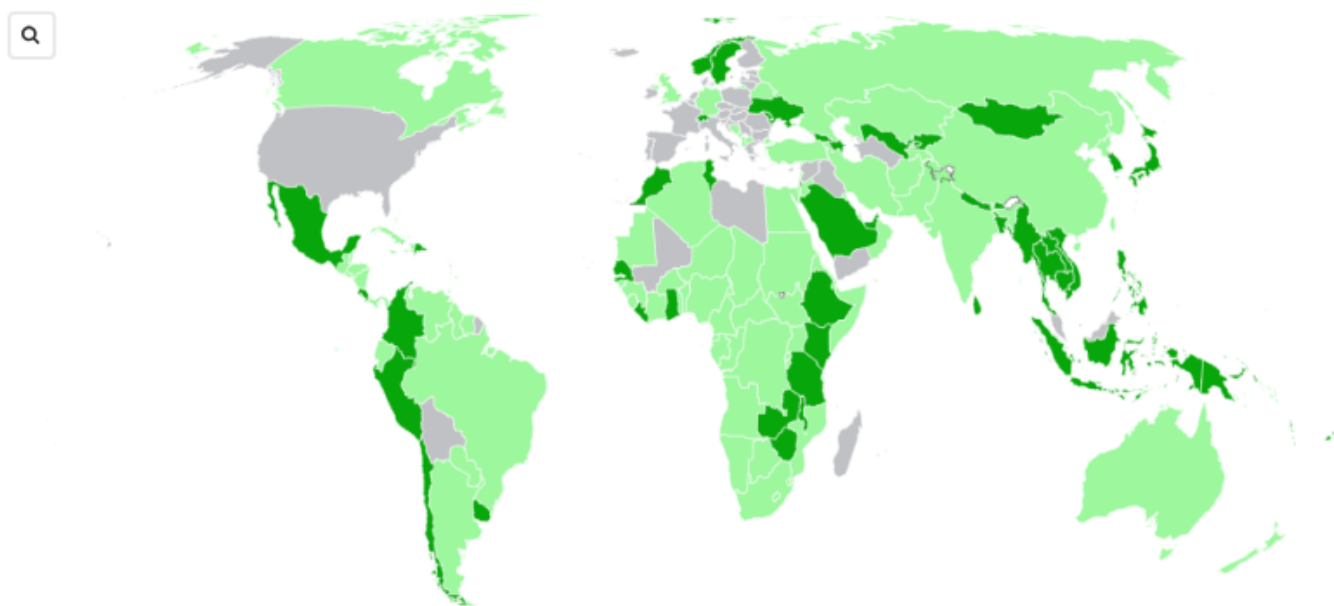
ARTICLE 6 IN THE REAL WORLD

While negotiations within the UNFCCC are expected to continue for several years, countries can (and should) begin to implement Article 6 now. A review of NDCs conducted by IETA shows that over 80% of countries intend to use Article 6 or broader international support to achieve their climate goals. 50 countries (over 25% of the total) are already involved in Article 6 through the signing of MOUs, implementation agreements or pilot projects. Over the last 12 months, the first three transfers of mitigation outcomes under Article 6 have been authorised by Ghana, Thailand and Vanuatu (Switzerland is the acquiring country in all cases).

⁴ <https://www.ieta.org/resources/submissions/>

International Cooperative Approaches Tracking Map

- Countries that signalled their intention to use international market mechanisms or broad international support to meet their NDCs or increase ambition.
- Does not mention or without information
- Countries actively engaged in at least one cooperative approach through bilateral agreements, MOUs or participation in pilot projects.



Source: International Emissions Trading Association, UNFCCC NDC Registry
Last Updated on 10/11/2023

Going forward, we expect progress on national policy frameworks to be more important than UNFCCC negotiations for Article 6. Building technical capacity and political support in both host and acquiring countries will be crucial. In the lead-up to COP28, IETA will release an updated version of its discussion paper on "ingredients for success" in Article 6 implementation.

IETA AT COP28

IETA will host the Business Hub, a pavilion located in the Opportunity Petal. It will include a Carbon Market Networking Lounge, a Side Event Room, a Boardroom, a Partners Private Lounge, and a Private Terrace. Side events run by IETA or BusinessHub partners will be held throughout COP28.

IETA will also provide daily e-mail updates on Article 6 negotiations and other key developments.

Practical information and the BusinessHub side event programme will be shared on this webpage: <https://www.ieta.org/events/cop28-ieta-businesshub/>.