Environmental Insights
Guest: Paul Watkinson
Record Date: December 10, 2019
Posting Date: December 10, 2019

Paul Watkinson: Not everything will be finalized here. There'll be some technical follow-up work next year, that's for sure, but we need the major decisions to make it operational now.

Rob Stavins: Welcome to Environmental Insights, a new podcast from the Harvard Environmental Economics Program. I'm your host, Rob Stavins, a professor here at the Harvard Kennedy School and Director of the Harvard Environmental Economics Program. Today we're in Madrid at the 25th conference of the Parties of the United Nations Framework Convention on Climate Change or the UNFCCC. These are the annual international climate negotiations. And we are very fortunate to have with us Paul Watkinson, who has had a tremendous amount of experience in these annual negotiations and currently plays a very important role as he has in the past. Paul is currently serving as the chair of the Subsidiary Body for Scientific and Technological Advice. And the acronym for that -- SBSTA -- is pronounced "substa," part of the secretariat of the UNFCCC. Before that, for many years, he was chief negotiator and head of climate negotiating team for France and he played a key role, not surprisingly, in developing the Paris Agreement. Paul. Welcome.

Paul Watkinson: Thank you. I'm glad to join you.

Rob Stavins: So I'm really interested to hear your impressions of COP25m in particular of course SBSTA and what's come out and what's going forward. But before we get to that, our listeners will be interested to learn how you got to be where you are now. So I want to go back to the beginning almost. So tell me where were you born and raised?

Paul Watkinson: I was actually born in the UK, although I'm also French, so I'd been working for the French government for 20 odd years now, mainly on international climate policy. But I've had a chance also to work in other areas over time.

Rob Stavins: And so primary school and high school were where?

Paul Watkinson: That was back in the UK, in the North West, and I studied also at Cambridge University, but I've also studied in France at the École Nationale D'administration, which is a high leading school for French public service.

Rob Stavins: And what did you study at Cambridge?

Paul Watkinson: I was a mathematician at the time, but that's a long, long time ago.

Rob Stavins: After the École, did you go directly into the Ministry?

Paul Watkinson: I've been working for the Environment Ministry, it's got different names over time, for a long time now and in particular in these areas, which have always fascinated me and I'd worked on them previously in different incarnations.

Rob Stavins: Okay. So I know you're so immersed in it that one could talk at great length about the progress that's taken place here so far, but in a nutshell and then we'll burrow down a bit. In a nutshell, how would you characterize the progress over now I guess it's a bit more than a week?

Paul Watkinson: Well, I think this is a conference which has got two main features I would say. One is a really negotiation-based focus. That's we've been trying to work out the rules of Article Six of the Paris Agreement around markets and non-markets, transparency, and a series of other technical issues that we need to take forward. But it's also a political conference trying to put us into this, particularly with the summit in New York a few months ago, and as we move into 2020 when we're hoping parties will raise the ambition of their climate action.

Rob Stavins: Now you mentioned Article Six and that's the one part of the so-called rule book, putting flesh on the bones of the 13-page Paris Agreement, Article Six. That was not completed last year in Katowice, Poland at COP24. Can you tell us what's Article Six? Why is it important if it is? And then why has it been so difficult to reach agreement?

Paul Watkinson: Well, I mean sometimes people think Article Six is about global carbon markets. I don't think it's quite that. It's about the way parties cooperate and that includes markets. So if parties are going to exchange carbon credits between them, we need a way of tracking that. So it's really about accounting for the use of that by different parties to make sure the system is credible, robust, credible, ensuring environmental integrity, and avoiding double-counting. It does have a mechanism which takes over from what we had under Kyoto in the past, which would be a specific tool available to parties to develop a project which generates credits.

Rob Stavins: Article 6.4.

Paul Watkinson: 6.4. And then it's got the idea of non-market approaches, which I think is a really interesting idea. But I think the question is what's the added value of having that under a UN system? Because that's basically about partnership, cooperation around specific challenges.

Rob Stavins: So I think that you may be the first person who I've spoken with here who has the same perception that I do of Article 6.2, sometimes people describe it as carbon markets and worst yet I've heard it described in Reddit, described as country A selling or buying from country B. And my understanding, but now do correct me if I'm wrong, my understanding is that individual countries put in place policies that might be cap-and-trade, it might be carbon tax, more likely it's probably a performance standard of some kind. And then countries may

decide to link as on January 1st the EU will with Switzerland, almost did with Australia. And then if there is linkage, all of that is in a sense separate from the Paris Agreement.

But then the question comes up as I understand it, okay, after there are these transfers as a result of a linkage, how do we know that there isn't double counting? How do we know that they are meeting what they say they're doing under their nationally determined contribution? So Article 6.2 both the ITMOs and the what is it? The Adjustment for Compensation-

Paul Watkinson: Corresponding adjustment.

Rob Stavins: Corresponding Adjustment. That that's the accounting mechanism. So is that fair?

Paul Watkinson: I assume that's an accurate way of putting it. And the real complexity in the system under the Paris Agreement is parties don't have the same type of commitments and objectives. Under Kyoto, there was an absolute cap on what a party had. We can measure it the nearest ton of CO2. We've set it out as a set of units, assigned amount units. So when parties exchange those or other credits, we could add them up very accurately. With the Paris Agreement, parties have nationally determined contributions. They take different forms. Some have very clearly defined ones we can quantify. Some, it's harder to do so, they can be growth targets, they can be sectoral targets, it can even be policies in specific areas.

Rob Stavins: Relative to business as usual.

Paul Watkinson: ... So the question is how do we measure the type of exchanges between those different things? So with Kyoto we had an accounting system which was based on the assigned amount units and other credits. Keeping track of that was not difficult. You could have individual numbers and with a transaction log you could follow where they went. With the Paris Agreement we don't have that centralized infrastructure and that's why keeping track of these changes, ensuring we're not getting double counting and so we're keeping the environmental integrity of the system requires us to invent arrangements which can take account of a multiplicity of objectives and the types of engagement parties have. So that's technically very complex, and we'd been struggling because different parties are coming to this from different places. How to make something which will work for everyone. That's the big challenge of the Article Six negotiations.

Rob Stavins: And indeed as you said, a big difference from Kyoto is that here, the actual form of the pledges, if I can call them pledges, the NDCs are exceptionally heterogeneous and are not by any means all in mass based units with carbon budgets over a period of time. Having said that, you know since you brought up the Kyoto Protocol, although that was easier to measure, my view, which I had

written in 1999 with Bob Hahn, I don't know if you've ever seen that, was that Article 17 of the Kyoto Protocol was never going to be important because of the fact that it's country-country trading. Countries are not cost minimizers. They don't have the information to cost minimize even if they wanted to. But it had to be the firms. And this is about Paris, it's about firms would be doing the trading, right?

Paul Watkinson: I think it's a mixture. I think the actual trades are between firms, the business entities which are going to be engaged in that. But the Paris is about what parties do. So the question is how do we get the accounting at the country level because that gives us a credibility. France said we do this, we need to know if that's actually what we've done given what has been sold or bought from within our emissions. So, the difference is the actors on the ground, the economic actors, are making the transactions, but the parties have to account for what happens. Then if we've got a carbon market internally that's not too difficult to manage. If you don't have a carbon market, it gets more complicated, because you're using different tools.

And then of course you have the mechanism, the 6.4 mechanism, and that is particularly targeted at business, firms which will invest in a project and then seek to use those credits. So I mean that's again a different aspect of it, but it really gives a particular way in which the private sector can be involved.

Rob Stavins: I confess that I've been much more interested, engaged into actually doing research and writing at Article 6.2 issues, but Article 6.4 is obviously very important to many of the parties who are here at the negotiations, is it fair to characterize 6.4 as the extension of, in some sense, the Clean Development Mechanism or is that not fair?

Paul Watkinson: It is and it isn't as often in these cases. Clearly parties use the experience of the CDM to think what could a mechanism under Article 6.4 be like and how could it work. And we can build on it, the methodologies, the way in which you develop the understanding of what is additionality. That's something we can build on. But of course the challenge with the Paris Agreement, in Kyoto, we're in a binary world between developed countries that had targets, developing countries that didn't. Now everybody has got an NDC with this diversity of types. So a project is not necessarily only in a developing country, but if it is, that country also has an NDC it has to account for. So how do you account for the use of the mechanism when you also have, the country has to account for their NDC. It adds a level of complexity we didn't have with Kyoto. And of course the additionality of it is also compared to the policies the party is putting into its NDC. The calculations are doable, but they become more complex because they are taking account of a more complex world.

Rob Stavins: That's interesting. So it certainly seems it would be more complex, but given the fact that the project is taking place in a country that does have compliance responsibilities, it seems that the horrible additionality problem that we

confronted with a CDM might not be the same because at least there is something you can measure performance against. Is that fair?

Paul Watkinson: I think part of it is also then the multiplicity of those NDC types. They're not the same and we haven't yet got into how in detail that will work. I think this is something we're going to be in a learning process in the next few years. We need to get this going. We won't get it going as a perfect system. If we try and get it perfect, we will, everyone has an idea of what's perfect and then we don't agree on it. So we need something we can work with, something which is decent, a good set of rules and then we can test how some of these things work and learn and strengthen it over time. So I think these challenges such as how we improve our understanding of additionality, particularly in a world where all parties have targets is going to be something we learn and improve in the coming years.

Rob Stavins: Now it's Tuesday afternoon here in Madrid, is Article Six going to be tied up with a bow and agreed to by Friday afternoon or God forbid if there's an all-night session sometime on Saturday?

Paul Watkinson: Let's say Friday. It'd be optimistic at this stage. I think what we've done in the first week and as chair SBSTA, I had the oversight of that. I've now handed that over to the presidency and they're going to take it forward to some ministers to help them from New Zealand and South Africa in the next few days. But I think the challenge we've been trying to do is to get away from that real complexity of this topic and an accounting system and mechanism and then a work program or non-market approaches and sorts of focus on what are the real questions that need to be solved.

There are technical elements where some very good ideas but we need to choose which ones are we going to use, and then there were some quite fundamental issues about the way the accounting system works, about the linkage from the old system under Kyoto into the new one. What do we let through methodologies broadly with some improvement projects, why not? But units, units from the past coming in dilute what we're trying to do in the future, and then we've got debates on how we can use a sort of taxation on it to generate funding for adaptation. And a few other questions we also need to solve.

Rob Stavins: Was that on 6.4? I know that it's there. Are you referring to 6.2 as well, the taxation?

Paul Watkinson: This is a question about how the voluntary cooperation on Article Six helps us to mobilize funding for adaptation. We have an arrangement under the mechanism which is agreed that we'd have a taxation on those credits to fund the adaptation fund. The question is, should that also be used for the exchanges, which we're accounting for between parties? Some of those exchanges, they're bilateral cooperation, which is quite similar to the mechanism. Some of them it's more the reconciliation of say carbon markets in

different countries where you're tracking very different types of changes. But, I think the question is less does this apply to that? But how could the overall action we're doing generate resources for adaptation? So, we've got to solve these issues. We've got a few days left.

They're technically complex, but I think what we've done is we've isolated the key points that need to be dealt with now. There's a bit of noise as usual in a negotiation text, particularly when several hundred negotiators have got gotten near it. But I think we've been trying to isolate it, begin a higher level, more political discussion on these issues, and I think that's just set up the choices we now need about how it operates. Not everything will be finalized here; there'll be some technical follow-up work next year, that's for sure. But we need the major decisions to make it operational now.

Rob Stavins: Well, you mentioned taxation, at least in my mind, I think, but there's a price taxation, there's a quantity taxation instrument, there's the overall mitigation, and there's the share of proceeds. Both would have, if they were Article Two, would have the effect of possibly doing some good things, as you've mentioned, generating revenue for adaptation, perhaps achieving greater ambition, but they also have the possibility of discouraging trading. How do you view those trade-offs?

Paul Watkinson: Yeah, well, I'm using the term taxation as a simple word.

Rob Stavins: I use the same word.

Paul Watkinson: But people understand it. People understand it. You take something out of what's reduced. I mean, you can do it in different ways. And under the Kyoto Protocol, we took 2% of credits and put it in a fund, which then had to monetize it. And that proved difficult at times, particularly when demand dropped off. So there was also another system to fund the running costs. And that was actually a fee that had to be paid. And that actually ended up generating more resources than taking a certain percentage of credits. So there's a debate about what's the best way to get resources from that. A taxation in terms of credits or a fee to be paid for using it? And I think parties are still thinking what's, they're looking at options around that. Maybe they'll think of several as they move forward.

Of course, the higher you fix that level, the question is does that start to be dissuasive? But I mean you can have other ways in there as well. And then you have, as you were saying, two different issues. One is about generating revenue and we said we'd use that revenue to fund adaptation. The other is how do we create greater ambition through this because if trading or markets are used just to move things around within as a given set of ambition, and particularly if that ambition isn't very high, which is the problem with the NDCs we have today, it doesn't help us overall, typically, if we're just optimizing in a fairly short timescale.

So how do we build in something which will ramp up the ambition? Again, some parties, particularly the Island States are saying we should take out some of each exchange, but that goes down badly with many in this process who think it will simply dissuade the use. So that's a big area of disagreement still.

Rob Stavins: You know, we've had experience with that. So in the United States in the Emissions Trading Program in the early 1970s, long before the SO2 Allowance Trading Program, environmental advocates wanted to get something out of this very early form of trading. So the government through regulation put in place the 20% rule. So, if I trade 10 tons to you, you only get eight tons. And the result was it did discourage trading. Now, there was almost none. So I worry that, it's one of these things if I learned from my mistakes and I can repeat them exactly the same again.

Paul Watkinson: And of course, parties are also thinking of other options. They're using conservative baselines. When you're working as, particularly, this isn't the mechanism area, how would you calculate these things? And obviously if you're using the most accurate system, you get it right. But that doesn't exist. So how would you make sure that every time you're doing a calculation, you're doing it in a conservative way? That's another approach, which many parties are pushing in this process.

Rob Stavins: So thinking more broadly than the negotiations, but thinking about the Paris Agreement, when you leave these hallways and get out in the world, whether it's government officials that are not necessarily working on climate or it's people in private industry or people on the street, you have much more diverse views about the Paris Agreement to whatever degree it's known, and I'm not even referring to climate skeptics, I'm not referring to Trump and all of that.

So even a lot of my colleagues that are passionate about climate change, their view is not positive about the Paris Agreement. And my take on that, which I want to hear yours, is that the very element of the Paris Agreement, which has brought about this incredibly broad scope of participation of what is it, 98% approximately of global emissions with associated countries compared to 14% under the current commitment period of the Kyoto Protocol. That element is the fact that it was this bottom up nationally determined contributions, that very same element, however, they will point out that's what produces the lack of ambition global commons problem free rider issue. There's the trade-off.

So I have a particular view, which is a positive one about the Paris Agreement in terms of that trade-off. I'd love to know yours.

Paul Watkinson: Okay. It's a very important question. I can remember when we were negotiating Paris and trying to set it up, we really felt it important to get a universal agreement. We'd had Kyoto, which affected part of the system, only part and less and less, particularly once the US never came onboard and countries like Canada and Russia and Japan didn't take targets. So finding something with everybody in it was vital. I can remember the Indian Environment Minister

calling it a game changer that we use a nationally determined contribution. This will allow countries like India and others to come on board and not feel threatened by that. The Kyoto model, they weren't willing to take part in.

So whilst in a theoretical model you can say everybody having a rather top-down target defined in the same way, even sharing our burdens, you can model that sort of thing. But trying to get parties to agree to it, it just doesn't deliver. So having that bottom up approach was critical.

And I think for me Paris does four or maybe five things. The first it sets the overall direction of travel. That's where we've got two degrees, one and a half degrees, reaching a peak in emissions, which we still haven't quite done. We must do. And then coming down to neutrality by the middle of the century. So, that's an overall ambition of the system. And I think that system is ambitious because two degrees, one and a half degrees is very high ambition. We're not on track.

Rob Stavins: I actually think what is accomplished by the initial set of NDCs if they were fully complied with is actually quite impressive. I mean in terms of what it does in terms of predictions of temperatures.

Paul Watkinson: It's much better than where we were without them. But it's a starting point. That's where the universal [inaudible] came in. Everyone's on board, everyone has an NDC. The question is how much will we strengthen it each time we go through this? And so the third strand is then the centralized piece, it's the transparency system, the global stock take and the idea that all parties will update the NDCs every few years, every five years, is essentially the cycle we built in. We left flexibility in there. It's not obligatory because the Paris Agreement isn't, but it drives it forward. It creates a presumption that we're going to go there. The big test we're going to have is next year, 2020. See how many parties ramp up seriously their NDCs. We know some unfortunately aren't on board. The US we know will be leaving and clearly we can't expect ambition there.

We have a number of other big countries. We have big question marks, but the fact that we have a significant number of parties using this to strengthen and hopefully others will then come on board and then the final aspect is corporation. That's where the Article Six comes in, but it's also financial support, technology cooperation and capacity building, which are essential for building this ability to act. So, building ability and facilitatingm particularly for the weaker and poorer countries, building the infrastructure which is really needed in the institutions to strengthen climate policy, the cooperation in a wider sense. The action agenda we launched in Paris, which allows other actors to come on board, it's more an ecosystem which is created around that. So setting the direction, allowing everyone to participate, having a centralized structure, which at least gives us common information and then cooperation in the broader sense.

For me, that's what we're trying to do with Paris and to make it work involves political commitment. Many countries are showing that. Some unfortunately are not. I think the big test is how we can collectively ramp up. So we go from somewhere maybe three degrees if we're lucky, towards real ambition, which brings us progressively down each time towards the two degrees or even better, the one and a half.

Rob Stavins: So you're referring to the overall ambition, the aggregation of it. You mentioned the US now submitted withdrawal process for approximately a year from now back in June, 2017 or in May. June 1st was the announcement at the White House of the withdrawal by President Trump. I made the argument with Ban ki-Moon. We had a bet at the time, strong arguments of why the US shouldn't pull out. Just play with your NDC if you want, but stay in for God's sake. And what concerned us, what motivated us was not the effect on US emissions because the Trump Administration has already taken care of that domestic policy. It was what would be the effect? Not on the EU, because I think it might make the EU more aggressive, but rather on the large emerging economies, China, India, Brazil, Korea, blab la. My perception from the outside is that it has not had the effect of causing them to step back, although there's a sense in which I guess we don't know because we don't know what they would've done otherwise. What's your perception of the effect of the US announcement potential likely withdrawal on those key countries?

Paul Watkinson: I think in terms of their policies, it hasn't forced, hasn't encouraged other countries to back out or to support less strongly what we're doing under Paris. What it does is it creates a lack of trust and a sense that there's always a sense in the climate negotiations or always had a strong North-South dimension which is sometimes problematic. And with Paris we went beyond it by having all parties with the same type of participation. The sense amongst many developing countries in this process that the US withdrawal is a sort of betrayal of what we were trying to achieve, and the developed countries are still not standing up for what they're supposed to have done.

And I don't think that's entirely true, but at the same time it's the feeling you get. So it hasn't fed in to, it hasn't. The US withdrawal hasn't encouraged other major economies to pull out, on the contrary, everybody still seems to be very strongly in. Domestic policy changes happen. The question will be, and I think the big test will be how far those countries really change their policies when we move into 2020, and the changes, the updates of the NDCs. I think if we'd had a US administration putting a revised strengthened NDC on the table, that would've been something others would have been trying to show they're coming part of.

I think the fact that they're not doing so means the rest of us have to stand up. And of course I very much hope that will include the large emerging economies very much playing a role. We're all looking to where China will go of course.

Rob Stavins: But remember the US, if it does pull out in November, 2020, could be back in late January of 2021.

Paul Watkinson: Well, of course at that stage the US would then also have to develop a new NDC and I think one of the interesting things is how far…one of the things I did hear of the NDC of the US has done before is it didn't a great deal of collaboration and ownership beyond the administration. How far do you build that support? How far do you associate stakeholders in developing this sort of thing? I guess it would take some time if the US came back in to do that, but I think it might be interesting that that happens and I think for all parties, how do we go beyond things which are just targets to something which actually gets ownership and buy-in from the economic community, but also from the population.

And I think this is one of the big challenges we have in future of climate policy. It's not just a figure, it's not just an announcement. It's something which affects all of our lives, our economic prospects and the way we organize our societies. And that is going to be a challenge for the future.

Rob Stavins: If the opposition candidate, if the Democrat is elected in November 2020, one day after the election, one of the primary activities of the transition period will in fact be on Paris, which in my recollection is that there's a 60-day period after withdraw before a country can….

Paul Watkinson: I can't remember the timing now…

Rob Stavins: But 30 is short. It's short.

Paul Watkinson: On the other hand it does create the sense that there's uncertainty, you can come in, you can come out, that doesn't, again, it undermines the sense of ownership because how can we engage with someone who comes in, goes out, comes in, what's happening next? What's the long term? And that does potentially create a tension for the future.

Rob Stavins: So I want to think at the end here. I want to think more broadly than the international negotiations even and the Paris Agreement even. I just like to know to what degree are you optimistic or pessimistic about the progress on climate change that we all in the world are making?

Paul Watkinson: Well, I think in several of my meetings as chair of SBSTA, I've started my putting the Keeling Curve on the screen, the curve, which shows the increasing carbon dioxide concentrations in the atmosphere and it's just continuously going upward. You got this wonderful little oscillation during the year, which is the change in vegetation, but the trend is still up and it hasn't stopped. And until we turn that trend, stabilize and potentially even bring it down, we are going to have greater and greater problems of climate impacts, a warming world we will have to adapt to, and in some cases we can't adapt to. We'll have to deal with the loss and damage that causes.

So I think if we look at that, it is for me the key indicator. Are we anywhere near on track? And unfortunately for the moment we're not. So, that's our biggest challenge. I think the other side is how do we really start to build economies and societies, which are different. That's where I think there's more optimism. We know there are things we can achieve. We've seen an enormous transformation just in the last 10 years in terms of the costs of renewable energy, solar in particular, we're seeing issues around electricity storage. I think issues around the way we design our cities are going to be central to the next stage. So there are things that are going the right way. There are things which are definitely not going the right way.

So we're going to have to put those together and think, have we yet got the type of policy frameworks, irrespective of whether the Paris Agreement lives up to its needs and potential, at a national level and at a local level, can we develop those fundamental policy frameworks? Until now, a lot of the time, we have been in marginal changes, we really have to think where are we 40-50 years down the line? What type of society are we living in? What type of cities are we living in and do we have the policies to get us there?

And that's one of the other tools we put in the Paris Agreement. It's thinking about long-term strategies for that transformation and that starts to bring us into the social dimension much more. How do we manage the transition? How do we deal with employment factors? How do we deal with other social aspects of that? So it's opening up a new area for us to think about, much of which is not at an international level, it's often very local. So am I optimistic? I don't like being optimistic or pessimistic. I just think we have to deal with this challenge in front of us. Otherwise, it's going to be a really nasty place we'll be living in, in the next few decades.

Rob Stavins: That's a perfect place really to bring our conversation to a close. Paul, thank you very much for having taken time to be with us today. Our guest today has been Paul Watkinson. He's the Chair of the Subsidiary Body for Scientific and Technological Advice, the SBSTA of the UNFCCC, and a longtime key observer and key participant in these climate negotiations. Please join us again for the next episode of Environmental Insights: Conversations on Policy and Practice from the Harvard Environmental Economics Program. I'm your host, Rob Stavins. Thanks for listening.

PODCAST OUTRO: Environmental Insights is a production from the Harvard Environmental Economics Program. For more information on our research, events, and programming, visit our website, www.heep.hks.harvard.edu .