



Select Committee on the European Union

Energy and Environment Sub-Committee

Corrected oral evidence: Climate Change and COP 26

Wednesday 11 March 2020

12 noon

Watch the meeting

Members present: Lord Teverson (The Chair); Lord Addington; Lord Arbuthnot of Edrom; Baroness Bryan of Partick; Lord Cameron of Dillington; Lord Kerr of Kinlochard; Baroness McIntosh of Pickering; Lord Maxton; Lord Young of Norwood Green.

Evidence Session No. 1

Heard in Public

Questions 1 – 8

Witnesses

[I](#): Gilles Dufrasne, Policy Officer, Carbon Market Watch; Peter Betts, Associate Fellow, Energy, Environment and Resources programme, Chatham House; Anita Lloyd, Director, Squire Patton Boggs.

Examination of witnesses

Gilles Dufrasne, Peter Betts and Anita Lloyd.

Q1 The Chair: I welcome everybody to this evidence session of the EU Energy and Environment Sub-Committee. We are looking today at international carbon markets. This is part of an exercise by five Select Committees in the House of Lords looking at climate change-related issues in the lead-up to COP 26 in Glasgow in November. We will, collectively, have the Secretary of State and the president of COP 26, Alok Sharma, in front of us to go through some of the issues we are going through today and in other committees this week.

I remind everybody that this is a public session. It is being broadcast. Before I ask the witnesses to introduce themselves, I remind them that the session is being transcribed as well. We will send you a copy of that transcript. If there is anything that we have got wrong, please let us know. I remind Members to declare any interests they have the first time they speak. I am a trustee of Regen SW, which is a renewable energy organisation, but it is a non-financial interest. First of all, could our witnesses introduce themselves?

Anita Lloyd: I am a lawyer at the law firm Squire Patton Boggs, specialising in environmental law, which includes climate and sustainability matters. I have been following with interest the development of the system underpinning the Paris Agreement over the various COP meetings and in the run-up to COP 26.

Gilles Dufrasne: I am a policy officer at Carbon Market Watch, an NGO specialising in carbon markets and carbon pricing policies. I have been following international carbon market negotiations at the UNFCCC and the ICAO.

Peter Betts: I was for 35 years a British bureaucrat, including six years as lead negotiator for the European Union in the UN climate talks. I now do a range of things in the climate and energy space, including at Chatham House.

The Chair: Thank you. That is an excellent range of experience. We look forward to the evidence session. I will start. For many people—dare I say, including me—if you mentioned Article 6 of the Paris Agreement, they would probably go, “Why is that so important? Why is that so fundamental to resolve in November at this conference?” Perhaps you could explain that to us.

Anita Lloyd: For me, there is an underlying principle in the Paris Agreement about equity and common differentiated responsibility, the idea being that the spread of carbon reduction can take place where it is most achievable. The introduction of market mechanisms helps spread out where those carbon reductions take place. Also, the engagement of the private sector through market mechanisms is identified as one of the essential measures to allow us to inject finance into the system and cut

emissions further and faster. That is fundamentally why I think it is important.

Peter Betts: To complement that, on the one hand the carbon market offers the potential to achieve reductions at lower cost, and the prospect of significant financial transfers and technology transfers from richer countries to poorer countries; on the other hand, there is the potential for things to go wrong, for emissions to be scored that are not real emission reductions, or for emission reductions to be double-counted. The experience of carbon markets over the last 15 years has shown that there is a lot of potential for those kinds of weak projects. Striking the balance between allowing a carbon market but getting good rules around it is a big challenge.

Gilles Dufrasne: I echo the last point on the risks of carbon markets. These negotiations are very important and have been very difficult, not only because they provide flexibility to countries, but because the negotiations carry enormous risks. Indeed, the experience of past markets under the Kyoto Protocol urges extreme caution, since we have seen serious shortcomings with the clean development mechanism and other markets under the protocol. The big challenge with Article 6 is to make sure that we have a system that contributes to the aim of the Paris Agreement, but the main risk is ending up with a system where countries meet their climate targets on paper without leading to a reduction in the concentration of greenhouse gases in the atmosphere. There is a bit of a disconnect between real emission reductions and maintaining or attaining targets on paper.

The Chair: Thank you. As I understand it, the crux of the issue at COP 26 is that this should have been resolved in Madrid at the end of last year and that this is the last chance saloon. Is that right, or is that too exciting an interpretation?

Anita Lloyd: No, it is really. It was supposed to have been agreed in Poland in 2018. The rest of the Paris rulebook, as it is called, was agreed, but they parked Article 6. It then went forward to COP 25. It was again deferred to COP 26, but the Paris commitments take effect from 2020, so it is the last chance saloon to get that system and the rulebook fully formed so that people can start to work properly under the Paris Agreement.

The Chair: Apart from actually enacting it, which is the biggest challenge, is this the last bit of the Paris Agreement that has not been tied up administratively?

Anita Lloyd: I think so.

Peter Betts: It is the last major chunk. There are other details that still have to be resolved. If there is no agreement in Glasgow, I would say that it is not the end of the world. Carbon markets can continue because the Paris Agreement basically permits carbon markets and carbon trading. We would have missed the opportunity to get multilaterally agreed rules constraining how these markets operate. If it is not possible to reach an

agreement there could be fallbacks around, for example, the use of clubs, with purchasers getting together to agree rules and producers doing the same. It is not the end of the world, but it would be highly desirable, from a technical and a political standpoint, to get them resolved.

The Chair: That is very useful. Thank you.

Q2 **Lord Kerr of Kinlochard:** Can you educate us on how the double-counting problem has arisen and how it will be solved? I see in the article that there is a reference to no double-counting, but it is in relation to the bilateral bit, where an emitting country pays another country. It is not in the multilateral bit, where, as Mr Betts was saying, there might be international rules governing an international system. Why is it not there and why does that matter?

Peter Betts: I am not a carbon market expert so I will let others come in. The system we had under Kyoto was much more top-down and rigorous. In the first instance it was for developed countries only, but in principle countries had these things called “assigned amounts” so that you knew exactly how much a country was emitting. If it traded it had to deduct an amount from that assigned amount and put it on to the assigned amount of the country it was trading with so that you could measure it. We no longer have that in the Paris world.

Secondly, we have now managed to get an agreement through the International Civil Aviation Organization that we should regulate aviation. It is also subject to trading requirements, which it will have to achieve through offsets because the technology is not there yet. There will be significant purchases coming from the aviation industry and, unless there is some mechanism for scoring them, there is a big risk that they will be double counted.

It seems like a no-brainer that there should be rules against double-counting. That was always the view of the UK and the EU. There was pushback on that for different reasons, often from Brazil, which would argue that having accounting for developing countries was inappropriate because the Kyoto deal had been a much softer regime for developing countries—that is a crude simplification of its argument, but that was one of the reasons it was difficult to agree what to any outsider might seem like a self-evident need for such a provision.

Lord Kerr of Kinlochard: How are we going to crack that? Will the Brazilians change their position? What will happen?

Peter Betts: That is one of their issues. Another issue Brazil has had is that during the years up to 2020, when we were in the Kyoto world, it, China, India and others generated huge amounts of credits, often from doing projects in their own countries. There are different estimates of this, but there could be as much as 5 billion tonnes of these credits from before 2020 floating around. To put that in perspective, 5 billion tonnes is about 1/10th of global emissions. It is quite a big number. They are arguing that

they want to carry forward these units into the new world and be able to buy and sell them, which is one of the complications.

There is a potential deal—Gilles and Anita might have views on this—where you could put a very tight limit on the amount of those transferred units. There is a potential deal where you give a grace period before the double-counting requirements bite on countries such as Brazil. That could fly, and there is a lot that could be done to try to explore that before then with Brazil and others. If we do not get it, we should not compromise too far, because we have this fallback option of using a club-based basis; that is, where people agree not to buy weak credits.

The Chair: We are going to come on to the carryover of credits in the next question, so let us keep to the issue of double counting.

Anita Lloyd: To go back to Article 6, as you identified, part of it specifically refers to no double-counting. It refers to one of the two mechanisms, but my understanding is that it refers specifically to the market mechanism rather than the bilateral mechanism. When you then look at the draft texts being negotiated in the COPs to set out these rules, in relation to the para 2 bilateral trading arrangements that seems to be less contentious. That very clearly states in the drafts—albeit they have not been adopted—that there would be no double counting.

In the latest draft of the carbon markets rules there is reference to there being, for a period of time, the ability to opt out—although it does not describe it; it says it is to be “further agreed”—in respect of sectors and greenhouse gases which are not covered by the nationally determined contribution. That seems to be the direction this discussion is going in. In some ways Brazil in particular, although not just Brazil, is saying more absolutely that it should not be subject to an adjustment or a no double-counting rule. It seems to have been honed down a bit to describe a situation where a reduction would be made in an area not covered by that country’s NDC. If it was not covered by the NDC, they should not have to make an adjustment, but then it is not clear whether they would still be able to add that saving into their emissions inventory and still achieve double counting.

To me, it seems quite unclear, even having looked at those detailed texts, exactly where Brazil wants to get to, but it is critical to engage ahead of the COP very closely with those countries that are very clearly saying that they are against these rules being applied in a more general way.

Gilles Dufrasne: To bring it back a bit, I will explain concretely the problem with double counting. I will be brief. There is a big difference between the Kyoto Protocol and the Paris Agreement; under the Paris Agreement every country has a climate target. Under the Kyoto Protocol, the idea was to purchase emissions reductions from countries where there was no target. There was no double-counting problem because there was no target, but under the Paris Agreement everyone has a target. This means that if Brazil, for example, reduces a tonne of CO₂ emissions on its territory, it is asking to be allowed to reduce that tonne and count it

towards its Paris Agreement target and sell it to another country which will also claim it.

This is not about the double counting of credits, which would be a problem directly related to the transaction. It is about double counting an emissions reduction. On the question of what kinds of negotiations we can arrive at, I stress—I think I can speak for many NGOs here—that we cannot really negotiate on double counting. It is not about making the Paris Agreement more ambitious but preventing plain cheating. We strongly urge the UK, the EU and many other countries which have taken the position of not accepting double counting to keep those positions, especially since, regarding the carbon markets under Article 6, if the EU and the UK were to enter into bilateral trades this would not necessarily require agreement under Article 6.

The pressure is on the side of countries that want to sell the credits they have from the Kyoto Protocol. If they wish to sell those credits, they need to ensure that there will be no double counting. Very simply, there are two things that we need to prevent double counting: first, clear transparency—we need to make sure that we know where the emissions reductions are coming from, who is purchasing them and how they are traded; secondly, accounting rules—we need to make a correction to make sure that, when a country reports its emissions to the UNFCCC, it takes into account how much it has sold to another country. If Brazil has reduced 100 tonnes of CO₂ but has sold 20 to another country, it can report only 80 because 20 have been sold and 100 have been reduced. The high-level accounting principle is really simple; it is about common sense. It is not a very difficult thing to negotiate.

Lord Young of Norwood Green: It is only with that last contribution that I think I understand double counting. If they sell off 20, they cannot say, “We have got rid of 100”—no you have not, you have got rid of only 80. Thank you for that. Is the tenor of your message that the worst result is that emissions will still keep rising as a result of this?

Anita Lloyd: Yes, definitely. One of the principles in Paris was the acronym OMGE—I wrote it down; let me check that I got it right—the overall mitigation in global emissions. That should flow through everything. There should not be any ability for there not to be actual emission reductions globally. There should also not be any perverse incentives, if this mechanism is not done right, to allow emission increases, which would be even worse.

Q3 **Lord Arbuthnot of Edrom:** Mr Betts has explained the carryover issue to us. The Paris Agreement was meant to be a step forward from Kyoto and it was meant to tighten the amount of emissions that we are allowed. What are the main reasons for arguing, if you are, say, Brazil, that carryover should be permitted in the circumstances that Paris was meant to tighten Kyoto?

Gilles Dufresne: One of the main reasons that has been put forward is to maintain investor confidence and to argue that investors have

implemented projects on the basis that they would be able to sell credits to countries. Therefore, it would be unfair to them to now decide that they are not allowed to sell those credits. In explaining that position, I am also saying that we disagree with it. For the investments made under the CDM, which is the main market under the Kyoto Protocol, it is very clear that most of the projects were started before 2013. It is very doubtful that the project developers implemented those projects with the hope of being able to sell credits after 2020.

A very important principle also has to be respected in carbon markets, which is the idea of additionality and vulnerability. We need to ensure that, if a project is selling carbon credits, it relies on the revenues from the carbon credits to operate. This is very important, because if I am purchasing a carbon off-set I believe that I am contributing an emission reduction: thanks to my financial contribution, an extra emission reduction has been achieved. The fact is that, under the CDM, about three-quarters of projects—72%—are deemed to be not additional, which means that they were going to happen anyway. We have projects that have been implemented for many reasons—it can be because they made economic sense on their own, or because there was legislation in place to force those projects to exist—for which the project developers then realised that it was possible for them to get extra revenue from selling carbon credits, which means that, if I purchase an off-set, I am not financing an emission reduction; I am channelling money to a project that was going to happen anyway.

This brings me back to the point of why I do not think that we should carry over any of those credits. By doing so we will not be generating any additional emission reductions; we will just be purchasing credits from 10 years ago that were not even additional in the first place, so there are huge risks. As was said, the volume is enormous

Lord Arbuthnot of Edrom: Mr Betts suggests that there might be a trade-off between the issue of double counting and carryover. Is that a fair description of what you said?

Peter Betts: No, that was not quite what I was trying to say. There are three big issues outstanding on Article 6. One is the question of double counting and accounting requirements. The second is the potential carryover of credits from before 2020. A third is a proposal that has come from poorer countries that there should be a levy on trade, which could be 2% or even 20%, in their view, which would go towards funding their countries to adapt to the impacts of climate change. They have also proposed a second levy.

I was speculating on what could be a potential compromise across that package. I strongly agree with Gilles that it would be better not to move on any of these points. Accounting is a no-brainer, as he explained. He is completely right that a large proportion of the projects that have been proposed for carryover are of a very weak quality. Ideally, one would not make any concessions at all. However, there were discussions about a

potential compromise where we could have a grace period for accounting before countries would have to apply it.

On the backlog, you could have some kind of vintage date before which no credits could count. Different years have been suggested for that, which would potentially eliminate the vast bulk of the potential. The levy idea is probably a non-starter for some, particularly if the US was to re-enter. There are various ideas for other ways of satisfying developing countries that there will be money for them to adapt.

I know that attention is focused on Article 6 because it is the negotiation issue for Glasgow. I do not think that Article 6 is anything like the biggest issue for Glasgow. The really big issue is whether we can get countries to ramp up their commitments. We do not look to be in a great place on that. I do not know what the scope of your Committee is.

The Chair: We are not in any way denying that fact. We are holding our breath on that one as well, I promise you. Mr Betts, I think you said that the Brazilian clean development mechanism unit holds something like a tenth of global emissions. Give us an idea of these units that are still there in the bank, if you like, globally for these underdeveloped nations.

Peter Betts: May I spend two minutes to set the context for the scale? If we are to get on track for well below 2 degrees, global emissions need to reduce by 25%, more or less, by 2030. For 1.5 degrees, they have to halve. That is a reduction of, respectively, 15 billion tonnes or 30 billion tonnes a year by 2030. That will not happen in Glasgow. My back-of-an-envelope calculation, based on the most benign situations where countries do the top end of what looks feasible, is that we might get 5 or 6 billion tonnes of additional abatement. There is a good chance that we will not even get that. We have a big gap between our stated objectives and what we might do. There are lots of issues for the UK around messaging that and having something that the people will see as a success. It is a risk for the UK.

In that context, letting lots of credits from pre-2020 into the system is doubly worrying, because we already have a situation where we are not doing remotely enough. Gilles and Anita will be much more expert than I am. As far as I can see, there is no settled assessment on how many tonnes there are. Some people say that there could be as much as 5 billion tonnes. That is not per year—it would be spread over the period—but it is still a large number. It might be that, with vintage dates, we could dramatically reduce that potential.

The Chair: I think we will move on from there.

Q4 **Baroness McIntosh of Pickering:** Not all the EU Member States have signed the San Jose principles. Will that matter when it comes to the next round of negotiations?

Gilles Dufresne: I would urge all countries to sign the San Jose principles. They also represent a very good basis for the UK presidency to work from and to engage in diplomatic work ahead of COP to support more countries signing up to those principles. Most countries that have signed are LDCs or

European countries. I would also argue that one very important thing relating to those principles is to add a principle related to preventing negative local impacts. This is not discussed a lot or enough generally when we talk about carbon markets. We focus on the climate impacts, but under the clean development mechanism and other systems there have been very clear instances of projects that have damaged local communities or the environment, and in some cases have infringed on human rights. This is obviously a difficult topic to negotiate at a global level. However, regardless of how difficult it is, human rights are also a priority in climate agreements and they need to be inscribed in Article 6 and the list of San Jose principles.

Baroness McIntosh of Pickering: Some have expressed concern that because the UK is leading and presiding over the Glasgow discussions, the UK might have to appear to be more neutral and therefore not act in the way that you would suggest. Do you share that concern?

Gilles Dufrasne: The UK has signed on to those principles so I hope it will promote them and recognise them as forming a very good basis for the negotiations, and not only that; in case there is no agreement, the principles can form a basis for rules for operating markets without an agreement. So far as it has been clear that the UK supports those principles, I do not see why it would need to distance itself from them.

Baroness McIntosh of Pickering: If everyone agreed the principles, would that meet the terms of Article 6?

Gilles Dufrasne: They would need to be detailed because they are more high-level principles, but it would be a very good step.

Anita Lloyd: It covers the two issues that we have been talking about: it absolutely says no use of Kyoto credits, and it absolutely says no double counting. So it covers those for sure, as well as the general overall target of reducing emissions.

Peter Betts: Others will be more expert than me but it would be better to do it within Article 6 because then you could incorporate it within the monitoring, reporting and verification system. It is not as rigorous as Kyoto but you have a system for tracking it to some degree and holding countries to account.

Gilles Dufrasne: Just to clarify this, I do not know if it always very clear that under Article 6 there are two different carbon markets. One of them is very centralised and we need rules to operate it, and if there is no agreement under Article 6 then we have no market. The other consists of bilateral agreements, and that is the system that could be covered by these principles.

Q5 **Lord Addington:** I think you have touched on some of this already, but some stakeholders have argued that it may be better not to agree Article 6 rather than to agree rules that would effectively drive down emissions. Others have pointed out that the Paris Agreement is due to take effect in

2021 so Glasgow is the last chance. In your view, what is the ideal outcome from COP 26 when it comes to the carbon market rulebook?

Peter Betts: I think we have covered it. Others are more expert than I but I agree with what Gilles said: ideally, we would agree Article 6 with tight rules but we have a fallback. He is right that Article 6.2 provides for a UN mechanism while Article 6.4 is a much more permissive power for countries to do this bilaterally. Most countries are going to use Article 6.4. That is already happening; there are carbon markets all around the world that are operating and will continue to operate, and we need to put some minimum rules around the way they operate. Ideally, we would have robust Article 6 rules, but if we cannot get others to agree, then we should not compromise too far. We should essentially use the San Jose principles and have a club-based approach, a coalition of purchasers and consumers, to try to drive standards up in that way.

Anita Lloyd: I think we all agree with that. Fundamentally, no deal is better than a bad deal. Thinking back to another era, there.

Lord Addington: That is a rather worrying suggestion.

Lord Young of Norwood Green: It is déjà vu all over again.

Anita Lloyd: Yes, sorry, but I have seen that said about this as well. This is the last chance under the auspices of the Paris Agreement to have that debate, or at least the last chance when everyone wants to be having that debate. As Peter has said, though, there are other ways in which carbon markets can continue and indeed can link with each other. It is possible to link existing carbon markets other than under this mechanism, but if we had an outcome from COP 26 where we had agreed rules under Article 6 that were as close as possible to the San Jose principles, we would have a really robust platform to make sure that carbon markets worked in a very effective manner.

Lord Addington: But you are effectively saying that in your opinion if we do not get that agreement and we have something that is not fairly robust as a legal framework, we are best off without it.

Anita Lloyd: I think so.

Gilles Dufrasne: I would agree. Also, to echo what I said earlier, the EU NDC is clear that the EU will not be relying on any international credits to meet its climate targets after 2021. Very concrete legislative steps have been taken to that effect, excluding the use of credit in all European policies. That is also Scottish policy, and the UK climate change committee has recommended in its net-zero report to the Government not to rely on international credits. Again, that shows that EU and UK interests are not necessarily in operationalising the market as fast as possible. Yes, we want to close the loopholes, but we would rather have no deal than a bad deal because having a bad deal would legitimise the use of those markets; it would put a UN label on a system with loopholes. I urge every stakeholder not to undermine the importance of that: once there is a UN logo on credits, it gets a loss of credibility and legitimacy.

Peter Betts: I do not know if it is helpful if I contribute here as a general marker, or if you want to move on. I will start, and then interrupt me if it is not useful. I think the whole vision of carbon markets has changed. Ten years ago, or indeed 20 years ago when we signed the Kyoto Protocol, people thought there would be billions of tonnes going backwards and forwards across borders because people would just send the money where the emission reduction was cheapest. My experience from working with Ministers is that when it came to it, their response was, "You mean we have to give money to others on top of our official development assistance?" They were very wary of paying other countries to make reductions. That was not just in the UK; we have seen Canada, Australia and others step back from international trading. So it is a much smaller part of the picture than when it was originally conceived.

Having said that, there is a growth of it in some sectors. We have a big growth in aviation; there are some 2.5 million tonnes of demand embedded in the international civil aviation agreement. We also have more and more companies setting net-zero targets for 2050, not through any regulatory requirement but because for various reasons they think that is the right thing to do. There is no regulatory framework around that at the moment and it is serious money: £100 million a year each from both Shell and Total, and people say it could soon be \$1 billion a year in this market. It is growing again, so the case for having some kind of framework around it is strong, but it will probably not be the top-down framework that we originally conceived.

Q6 **Lord Kerr of Kinlochard:** I was going to ask about enforcement but Mr Betts mentioning energy companies reminds me that I should have declared at the start that I have an interest: I am a director of an energy company and of a think tank that writes about energy matters from time to time. On enforcement, Mr Betts's answer to Lord Arbuthnot's question on possible trade-offs contained three elements. Is there not a fourth element, the stick as well as the carrot? Would any of this international system mean anything if it did not have some enforcement underneath it? What do you envisage would be possible as an enforcement machinery? Is this where carbon border taxes come in?

Peter Betts: I used to be a humble minion of Lord Kerr many decades ago.

The Chair: You do not have to declare that interest. You just have our sympathy.

Peter Betts: The Kyoto Protocol framework had compliance provisions in it, penalties so that if you did not meet your target you had to pay extra, but it was impossible to enforce. The Paris Agreement has a very soft compliance regime, essentially because the US, China, India and others were unwilling to agree a compliance regime; the EU would have wanted one. My own view, for what it is worth, is that if the US, India and China ever get really serious about climate change, that might change and we could easily see a compliance regime developed.

A border adjustment mechanism or tariff is an interesting development which may be used over time. It will need to be used with caution. We saw the EU bring international aviation into the Emissions Trading Scheme a few years back. The Chinese threatened not to buy Airbus and we could not see Paris, Berlin and London for dust. It has to be done in a cautious, measured way, but it is the way to go. I think that the EU hopes that this will be part of its conversation with China in the context of the Leipzig summit in September, which is supposed to explore whether there is scope for each of them to raise their target.

Anita Lloyd: Notoriously, one does not have robust compliance regimes under big international agreements because they can never be agreed. Compliance and enforcement tend to filter down to EU-level or national-level legislation. It tends to be compliance of the private sector and individuals within those countries rather than compliance of the nation. It is notoriously difficult to enforce such obligations against nation states.

Q7 **Baroness Bryan of Partick:** Obviously, the UK will be the host nation for COP 26, and it will have to do a lot of groundwork in preparation for it. It comes at a time when the Government have a lot on their agenda elsewhere. A new president has been appointed at relatively short notice. It follows quite a disappointing COP 25. What do you think the Government should do in their preparations for COP 26 that will produce a more positive outcome?

Peter Betts: This is a really challenging COP. The UK has chosen to host it. The geopolitics could hardly be worse. We will have had a US election six days before the COP starts, so there will have to be contingency planning for both outcomes. Secondly, bandwidth to focus on this issue will be limited at the very top of government, as it was always going to be. It is not a November issue; it is an issue that needs to be gripped now and last year. That is a challenge. Thirdly, the UK is going to have to be Caesar's wife. It will be under huge pressure to be beyond reproach on its emissions reductions, its finance and everything else in a context where we might struggle to get China or India to do much in return. It is hard. It has accelerated a bit over recent weeks, but it needs to accelerate a lot more. I do not think that this is remotely on the agenda of heads of government around the world outside Europe, and it needs to be. It will need senior, top-level UK ministerial engagement to put it there and to try to get some reasonable outcome. The big test of success in Glasgow will be whether countries have raised their ambition. It is not looking very benign at the moment.

Gilles Dufrasne: On carbon markets, and as I was saying before, the work that needs to happen before COP is on engaging countries, and I would suggest the San Jose principles as a good avenue. It will also be important for the UK presidency to manage expectations around carbon markets, making sure that it is seen as an important aspect but not the most important. The Chilean presidency at the last COP did a lot of very good work, but it ended up in a difficult situation at the end of it when it made statements such as, "We will do whatever it takes to get to an agreement on Article 6." That contributed to the perception that COP 25 was a failure,

when I think that, following carbon market negotiations, we averted disaster. The fact that there was no agreement was much better than what was on the table. Managing expectations beforehand is important.

Anita Lloyd: The UK should make its own position clearer regarding its own plans for carbon trading and carbon tax from January 2021. It is still not clear to me what the plan is. The most recent indications are that we will leave EU ETS and have a form of carbon tax, but there are still options out there. We are still awaiting a response to the 2019 consultation on the future of carbon pricing. Our next NDC was talked about a couple of weeks ago. The Government are indicating that our next nationally determined contribution later in the year will be based on the fifth carbon budget. That is 2028 to 2032 and it was put in place before the country committed to the target of net zero by 2050. The fifth carbon budget is not aligned with our overall carbon target, but the current message is that that will be our next NDC. We have been talking about increasing our ambition and leading by example, but for the UK's own NDC not to be consistent with net zero by 2050 seems to fall short of where we would like the Government to be.

Lord Kerr of Kinlochard: I agree with you on the substance, but it does not seem to me that COP 26 is likely to be more or less of a success dependent on what UK national policy is. The job we have to do for COP 26 is to negotiate an international agreement. The problem countries that need to be brought on board, Brazil, South Africa, India and so on—I would leave aside the United States—will be easier to move if the Chinese are moving. It seems to me that if Mr Betts and I were out negotiating this, we would start by going to Beijing and seeing how far it was possible.

I assume that we will not simply be a presidential chair but that, as the French did in Paris, we will be working very hard on a text and trying to generate a series of moves by some countries and reciprocal moves by others in response. I agree with you that it would be nice if British policy was clearer, but I hope that the person doing this job—and I hope that somebody is out doing it right now; it looks like a full-time job between now and November—is going to Delhi to report what they believe the Chinese would do if the Indians did such and such a thing and talking to the EU to report what they believe the Chinese response would be if the EU said such and such a thing—that kind of negotiation, that kind of role. Is that wrong?

Anita Lloyd: Not at all. I sincerely hope that that is happening and will be happening in earnest. As Peter mentioned, the EU-China summit in September—albeit I do not think it can all wait till then—will be a key moment in understanding where China is at. The point that I was trying to make as much as anything was that if we are trying to convince others to do something or to agree to things, it always helps if we show that we know where we are going.

Peter Betts: I mostly agree with Lord Kerr. We are not negotiating a text as we were in Paris. These targets are nationally determined and agreed in capitals. The US and China agreed their targets more than a year before Paris. That is another reason why we need to move now.

China is the big prize. It is bigger than the EU and US put together in terms of emissions. They have a lot of other things on their minds. I think that key people in the UK recognise that we are likely to have more leverage with China working with the EU. I know that we are talking to China. That Leipzig moment will be key, which unfortunately is quite late in the year. With India, it will probably have to be a play directly with Mr Modi at the right moment, which is what the French did before Paris, and an attempt at bringing something forward that is owned by him.

I think we have been a bit slow to mobilise particularly vulnerable countries in the Caribbean, the Pacific and Africa which are not ready with their own targets. That is a problem and we need a robust offer to them on adaptation and resilience. It is an area of UK strength and we need to be engaging with and building a leadership group among those countries quickly so that their voices are also calling for China to do more. We are not hearing those voices at the moment. The UK legally has to produce a new target because we have left the EU. It will be scrutinised very carefully, whether we like it or not, and will need to be higher than the existing target.

Lord Maxton: Is not one of the problems that China's emissions are due to its global manufacturing of goods, which are then used in America, elsewhere in Europe or wherever? Also, what about devolution in Scotland? Production of energy in particular is a devolved matter.

Peter Betts: It is true that a large amount of China's emissions is attributable to its exports. It probably makes sense for producing countries to be responsible; I am not sure that we would want to be held responsible for reducing emissions in China, although we should have regard to our carbon footprint. We need to find the arguments that will resonate with China. China sees opportunities in moving to low carbon; there are certainly people who argue that it is producing more electric vehicles than anybody else because it wants to capture that market. Renewable energy is cheaper than coal in most parts of China now, but it is still building coal for political economy reasons. China worries about the risk of climate change and cares a bit about its international reputation. It is being criticised on many fronts, so we have to find arguments and messengers that resonate with it. We need to step up the pace of that. I will leave others to answer on Scotland, but it is important that the two Governments work together and avoid the temptation on either side for point-scoring, which is clearly a big risk.

The Chair: We are getting quite broad. It is a very interesting area and, clearly, to sort out one bit of COP you have to do it more broadly with your international negotiations. Lord Young, can we keep it brief?

Lord Young of Norwood Green: Yes, will do. I would have thought that China has found one answer itself; its population is getting concerned about the quality of the air they breathe, so that is another impetus. You used the phrase—pardon my ignorance—adaptation resilience. Could you explain that, because I did not understand precisely what you meant by it?

Peter Betts: Sorry, we use jargon all the time in our bubble. In our jargon, “mitigation” means reducing emissions. “Adaptation” means that you make changes in the way your society or economy is organised so that you can better withstand the impacts of climate change. Adaptation might be building a sea wall or the Thames Barrier to stop London flooding. A lot of developing countries say, “The fact is that climate change is happening; yes, we need to reduce emissions, but we are on the front line in vulnerable countries and feeling the impacts worst. We need money and help.”

Q8 **Lord Cameron of Dillington:** In a couple of weeks, we are meeting the Secretary of State for BEIS, Alok Sharma. Do you have any ideas what we ought to ask him, or what we ought to tell him, in this space?

Peter Betts: In the area of carbon markets, as in others, he needs to get out and talk to people. As others have said, he needs to talk to the Brazilians, the Indians, the Chinese and others. He needs to consider convening or getting others to convene informal groups to test potential compromises before we get to Glasgow. I am sure that he will have to be very visible and engaged, as he is—I know that he has already made a couple of trips—across the piece.

Anita Lloyd: I agree with that. At his first speech at the UN in recent days, he called for more ambitious NDCs. That is one of the key things; going out there and getting countries to commit to higher ambition, because the levels we are at currently will not get us to the 2%, let alone the 1.5%, target. He should engage with those nations, particularly those blocking the final position on the carbon markets and Article 6.

The Chair: Will it not be rather dangerous for a British Secretary of State to meet the President of Brazil at the moment? It is not exactly liberal democrat, in its non-party political sense.

Anita Lloyd: I cannot profess to understand how the wheels of diplomacy work in that respect.

Peter Betts: I do not think it will raise its target, but even Brazil has arguments that might resonate with it. Most of its deforestation is driven by agriculture. A lot of Brazilian businesses worry that their markets will be closed off to them over time if they cannot show that their production is sustainable. There are a lot of moves afoot to build sustainable production chains, and Brazilian companies want to be part of that.

The Chair: That is a very useful contribution.

Lord Cameron of Dillington: I think it is more difficult talking to China at the moment.

Gilles Dufrasne: I do not want to repeat myself too much, but, as has been discussed, you could ask the COP president how he plans to promote safeguards in the market using the existing San Jose principles and the texts we have had which include good positive elements, and how he will prioritise issues within the negotiations between markets and the finance package, loss and damage package and, crucially, NDC enhancements.

The Chair: Thank you all very much indeed. We have learned a lot. It has been interesting to go through some of the broader aspects as well. All of us are very aware of the short timescale and how important it is for the United Kingdom to come through on this. It is a high-risk strategy chairing these meetings, as we know, and we all hope that the United Kingdom is successful not just for our own reputation but in terms of the important objectives that need to be achieved. I bring this public meeting to an end.