Climate Brief Focus on the economics of climate change





International climate negotiations at COP 18: the art of the Doha-ble

The Doha climate conference (November 26 - December 8, 2012) allowed the UN process to edge forward. Through the definition of the rules for the second commitment period of the Kyoto Protocol with a foreseeable increase in the ambition of Annex I countries second period commitments by 2014, the conclusion of the negotiation process stemming from the Bali Roadmap and by getting the Durban platform off the ground, the "Doha Climate Gateway" tries to pave the way for a more ambitious international agreement in 2015. However, the need for interim financing by 2020 was not clearly nor decisively addressed in Doha. Thus, the route to a stronger agreement in 2015 remains a long one.

Background: a transitional conference

The United Nations Framework Convention on Climate Change (UNFCCC) celebrated its twentieth anniversary this year. Signed in 1992, it has created a framework for 192 countries to negotiate the coordination of the global fight against climate change. Each year, the signatory countries of the Convention meet at the COP (Conference of the Parties) and, for the countries that are members of the Kyoto protocol, at the CMP (Conference and Meeting of the Parties to the Kyoto Protocol). The conference in Doha (Qatar), the 18th COP and the 8th CMP, follows the Durban Conference (2011).

2012 is a turning point between two negotiation cycles

The Durban conference¹ has led to critical breakthroughs in the negotiation process. By allowing both a second commitment period of the Kyoto Protocol and giving direction towards post-2020 action, it paved the way to the closure of the process initiated in Bali in 2007. The year 2012 and the Doha conference should thus allow the transition between the Bali Roadmap and the Durban Platform.

Between 2007 and 2015, three cycles can be identified (Figure 1):

- 2007-2009: the "original" Bali process mandated to reach an agreement for post-2012 in Copenhagen in 2009;
- 2010-2012: the "post-Copenhagen" phase of reconstruction of the negotiations marked by significant progress towards bringing negotiations back on track for a post-2012 international agreement;
- **2013-2015:** the "Durban Platform" process focusing on the development of an agreement to be implemented from 2020.

¹ For a more detailed analysis of the Durban conference, see the Climate Brief n°10 "*Durban: one small promising step for climate… by 2020*" (2011).

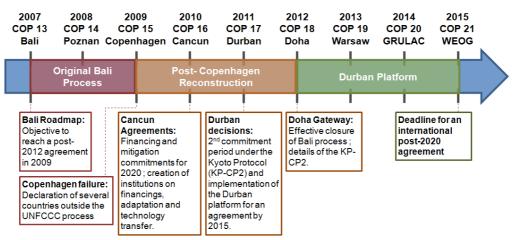


Figure 1 – Negotiation cycles between 2007 and 2015

Notes:

GRULAC: Latin American and Caribbean States Group. WEOG: Western Europe and Other States Group.

Source: CDC Climat Research.

The 2010-2012 cycle was marked by two major conferences: Cancún (2010) and Durban (2011) that allowed substantial progress, particularly on following issues:

- funding: creation of the Green Fund, commitments by developed countries to provide \$30 billion between 2010 and 2012 (*fast-start finance*) and to mobilize \$100 billion per year by 2020 towards developing countries;
- commitments in principle for developing countries: mitigation actions (NAMA²), targets of emissions limits and improvement of transparency;
- limiting of post-2012 emissions and the extension of existing mechanisms: second commitment period of the Kyoto Protocol and national targets for 2020.

The Doha conference was therefore expected to define the rules for the second period of the Kyoto Protocol, to conclude the negotiation process outlined by the Bali Roadmap, to pave the way to an agreement in 2015 and to advance on the issues of funding and emissions monitoring.

Growing alarm signals and limited initiatives

In terms of negotiations, the year 2012 has advanced the development of the Durban Platform agenda and the sharing of the positions of different countries. The Green Climate Fund Board also held its first two meetings. The end of the year was marked by several reports – World Bank and United Nations Environment Program in particular – reaffirming the urgent need to increase ambitions of greenhouse gases emissions mitigation targets and actions.

In terms of climate action, at the global level, the prices of Kyoto credits from the Clean Development Mechanism and the Joint Implementation fell below \leq 1 per ton of CO2eq. without any expected mid-term recovery³. On the other hand, the development of domestic carbon markets around the world has continued to unfold the work of pricing carbon emissions. Australia and the European Union have announced the linking of their two

² Nationally Appropriate Mitigation Actions

³ See Bellassen, V., Stephan, N. and Leguet, B. (2012). *Will there still be a market price for CERs and ERUs in two years time?* Climate Brief n°13. CDC Climat Research.

markets⁴, China took concrete steps to establish a national carbon market by 2015, the Californian market will start as of 1 January 2013 and South Korea adopted a carbon market law to be implemented in 2015.

News: the "Doha Climate Gateway"

The Doha conference partially met its modest expectations. The intervention of national ministers at the end of the conference allowed for compromises to be reached on a number of issues. Despite protest from some countries – notably Russia –, the Qatari president of COP 18 decided to adopt decisions during an extra day of negotiation because "they reflect the will of the Parties". These led to the principal outcomes of the conference:

- the detailing of the second period of the Kyoto Protocol with emission reductions targets to be revisited by 2014;
- the closure of negotiating tracks established in Bali;
- a work plan for the Durban Platform in 2013.

The terms of the second commitment period of the Kyoto Protocol

In Doha, countries agreed on the technical terms of the second commitment period of the Kyoto Protocol (KP-CP2) that will take place in 2013-2020.

Commitments in line with what was proposed in Copenhagen, but with restricted scope

After the renouncement of Canada, Japan and Russia in 2011, New Zealand announced its wish not to commit to the second period of the Kyoto Protocol. In the end, 37 countries (Table 1), representing 14% of global emissions⁵, have pledged to reduce their emissions compared to the base year. Originally, the Kyoto Protocol was made to cover 37% of 2008 global emissions.

Commitments under the KP-CP2 are generally the extension of the voluntary commitments for 2020 agreed in Copenhagen in 2009. A rule (article 7ter) was added to ensure that the commitments made by countries do not result in a net increase of their current emissions. Thus, second period allowances corresponding to additional emissions compared to the 2008-2010 average emissions shall be canceled. Therefore, the proposed commitments by countries as they appear in the Doha decisions do not correspond to actual targets to be achieved by the countries (Table 1). *De facto*, this ensures that there is no "hot air"⁶ created during the KP-CP2. However, this rule could undermine the participation of some economies in transition (EITs) to the KP-CP2.

In the end, excluding Ukraine, allowed emissions under KP-CP2 correspond to a slight decrease of current emission levels. However, some countries – including the EU – have raised the possibility of increasing their ambition in case of a "satisfactory" international agreement. They wish to keep this possibility open in view of a possible global agreement by 2015. Annex I countries participating in the KP-CP2 will revisit their commitment by April 2014. They are invited to enhance their ambition by giving targets between -25% and -40%. An amendment facilitating this review was added.

⁴ Sartor, O. and Stephan, N. (2012). *EU ETS links to Australia: Lifted up from Down Under.* Tendances Carbone n⁷2. CDC Climat Research.

⁵ Data for the year 2008 and all greenhouse gas emissions from EDGAR model.

⁶ Countries of the former Soviet Union have seen their emissions of greenhouse gases significantly decreasing after 1990. Emissions from the base year are thus higher than current emissions. This surplus is called "hot air".

Country	Base year emissions (1990 for most countries) (MtCO ₂ eq.)	Commitment KP-CP1 (2008-2012) compared to base year	Commitment KP-CP2 pledged by countries (2013-2020) compared to base year	Commitment KP-CP2 pledged by countries compared to 2008-2010 emissions ¹	Commitment KP-CP2 compared to base year after article 7ter	Commitment KP-CP2 compared to 2008-2010 emissions ¹ after article 7ter	Commitment KP-CP2 compared to base year after article 7ter and carrying- over	Commitment KP-CP2 compared to 2008-2010 emissions ¹ after article 7ter and carrying-over
Australia	548	+ 8%	-0.5%	-5%	-0.5%	-5%	+ 2%	-3%
Belarus ²	139		-12%	+ 37%	-36%	0%	-36%	0%
Croatia ³	31	-5%	-20%	-12%	-20%	-12%	-18%	-10%
EU-27 ⁴	5,772	-7.9%	-20%	-2%	-20%	-2%	-20%	-2%
Iceland ³	3	+ 10%	-20%	-33%	-20%	-33%	-20%	-33%
Kazakhstan ²	360		-5%	+ 34%	-29%	0%	-29%	0%
Liechtenstein	0.2	-8%	-16%	-22%	-16%	-22%	-16%	-22%
Monaco	0.1	-6%	-22%	-8%	-22%	-8%	-16%	-1%
Norway	50	+ 1%	-16%	-19%	-16%	-19%	-16%	-19%
Switzerland	53	-8%	-15.8%	-16%	-15.8%	-16%	-15.8%	-16%
Ukraine	921	0%	-24%	+ 81%	-58%	0%	-22%	+ 87%
TOTAL	7,878	-6%	-18%	+ 5%	-24%	-2%	-19%	+ 4%
TOTAL excl. EIT ⁵	6,457	-6%	-18%	-2%	-18%	-2%	-18%	-2%

Table 1 – Commitments for the second period of the Kyoto Protocol

Notes:

Carrying-over calculation is based on 2008-2010 emissions. The percentages in the last two columns for Ukraine are valid only if Ukraine reviews its emissions target to match the levels of 2008-2010 emissions.

¹A positive percentage indicates that the average annual emissions for the 2008-2010 period (including credits and debits under LULUCF) are above the permitted emissions under the KP-CP2. The year 2010 is the latest year for which data have been validated in the framework of the UNFCCC.

Amendments including Belarus and Kazakhstan for the KP-CP1 have not been ratified so far.

³ Croatia and Iceland will fulfill their commitments jointly with the EU in accordance with Article 4 of the Kyoto Protocol.

⁴ The EU-27 countries have differentiated commitments under the KP-CP1. The provided data therefore aggregates those of the concerned countries. According to the European Climate and Energy Package, countries are not allowed to use their surplus of AAUs for 2013-2020. ⁵ EIT: Economies in transition. Here, only non-European countries are included: Belarus, Kazakhstan and Ukraine.

Sources: UNFCCC and CDC Climat Research.

With the issue of the "hot air" addressed, the environmental integrity of the Protocol has emerged stronger

Besides commitments for the KP-CP2, three main topics were discussed:

- a legal arrangement allowing an application starting from 1 January 2013;
- limitation of the use of Kyoto credits⁷ for countries not committing in KP-CP2;
- limitation of the use of surplus allowances⁸ from the KP-CP1.

During the COP 18, attention was particularly drawn to the third point, given that there was no consensus on this issue even within Europe. Poland, in particular, campaigned for a carrying-over of surplus allowances from KP-CP1 to KP-CP2 (IISD, 2012).

In the end, countries will be allowed to transfer the surplus of AAUs from the KP-CP1 to a special account: the "previous period surplus reserve" (PPSR). The surplus of CERs and ERUs from KP-CP1 can also be transferred to the PPSR up to 2.5% of the amount of AAUs obtained by the country for the KP-CP1. These allowances and credits can then be used for compliance by the country during the KP-CP2, but not beyond. There may also be transfers between the PPSRs of two countries of up to 2% of the amount of AAUs obtained by the buyer country for the KP-CP1.

⁷ Mainly Certified Emission Reductions (CERs) from the Clean Development Mechanism and Emission Reduction Units (ERUs) from Joint Implementation.

⁸ Assigned Amount Units (AAUs).

If countries campaigning for the carrying-over appear to have won their case, the measures are mainly symbolic. The European Climate and Energy Package does not allow the use of AAUs from KP-CP1 for compliance for the period 2013-2020. Poland thus has two options to exploit its surplus: selling AAUs to non-European countries or transforming them into carbon credits (ERUs) through the Joint Implementation mechanism. In both cases, the possibility of use of surplus credits appears extremely low. In addition, Australia, the EU, Liechtenstein, Monaco, Norway and Switzerland have announced they will not to buy AAUs for compliance. Further, only Ukraine can massively use its surplus from KP-CP1 for the KP-CP2 as its real target is to not increase its emissions compared to average 2008-2010 emissions (Table 1).

Finally, the victory of the countries in favor of carrying-over the surplus is balanced by various measures including Article 7ter as discussed above. If for now, this carry-over is only allowed for the KP-CP2, this question may nevertheless reappear by 2015 as part of the overall agreement to develop a successor to the Kyoto Protocol.

Restricted access to project mechanisms for the second period

On other issues, it was finally decided that Annex I countries with no commitment under the KP-CP2 could not transfer nor purchase allowances and carbon credits eligible for this period. With regard to CERs, the impact of this decision is limited given that, since September 2012, it is possible to directly cancel CERs without going through the registry of an Annex B country. These countries should also be able to acquire CERs by directly financing CDM projects.

Amendments to the Kyoto Protocol require ratification by three quarters of the signatory countries. However, until the national ratification processes are completed, countries will implement the amendments. In practice, this should allow KP-CP2 commitments to effectively start on 1 January 2013.

With project-based mechanisms in a bad patch, the improvement process continues

In Doha, the continuation of the project-based mechanisms, implicitly acquired in Durban, has been confirmed. The process of their improvement was also extended. Nevertheless, the issue of the lagging demand for credits – which is only marginally within the jurisdiction of UNFCCC – has not been resolved. Until now, it was mainly carried out by the European Emissions Trading Scheme. However, the latter will soon reach its quantitative limit⁹ as both mechanisms have jointly issued more than one billion and a half carbon credits. The creation of new national and local carbon markets and the commitment of many countries not to buy AAUs under the Kyoto Protocol could still lead to a marginal increase in the demand.

Clean Development Mechanism (CDM)

During the year 2012, recommendations on reforming the CDM were made by a high-level group, the "CDM Policy Dialogue"¹⁰. The Doha conference acted that the CDM Executive Board should consider these recommendations in the context of the review of the mechanism already planned for 2013 by the Marrakech Accords.

The mandate of the CDM Executive Board has been extended. In particular, it will focus on the implementation of voluntary frameworks for sustainable development targets to be met by projects as well as further improvements to monitoring methodologies and additionality demonstration. Regional centers should be established by the UNFCCC secretariat to train and assist in the development of CDM projects in all developing countries.

⁹ See footnote n³ p.2.

¹⁰ See Shislov, I. and Bellassen, V. (2012). *CDM Policy Dialogue: a traditional "treatment" coupled with new "prescriptions"*. Climate Brief n^o20. CDC Climat Research.

Joint Implementation (JI)

The reform of the JI is already much more precisely framed: fusion of the two tracks with UN supervision of baselines, monitoring and reporting of emissions reductions, implementation of an appeals procedure for decisions, and convergence of procedures for accreditation of auditors between CDM and JI. The SBI is also working on a procedure for issuing transitory ERUs. Without interim procedure, the first ERUs of the second period could not be issued until early 2016, the plausible date of reception of KP-CP2 AAUs. Finally, a 2% tax is introduced on the issuance of ERUs – as well as the transfer of AAUs and RMUs¹¹ – in favor of the Adaptation Fund.

Possible access to new mechanisms

The amendments to the Kyoto Protocol also offers to countries the possibility to comply with their mitigation commitments thanks to new market mechanisms that would be recognized by the UNFCCC by 2020. This notably opens the way for a request to recognize REDD+¹² credits. The SBI¹³ will monitor the implementation of these amendments.

International climate finance: small progress and limited clarity

The Standing Committee on finance is responsible for setting up a forum on climate finance and conduct the fifth review of the financial mechanism. It will also release its first biennial report providing an update of international climate finance flows and accounting methodologies.

No quantified commitments for post-2012 funding

In order to extend the commitments taken Copenhagen and Cancún, the developing countries advocated that the developed countries provide quantified financing commitments for the 2013-2015 period to prepare for the due date of 2020. However, the Doha Climate Gateway does not contain new quantified commitments but rather requires developed countries to detail their strategy to reach the 2020 target by the next COP in 2013 and provide at least as much funding as for *fast-start finance*.

A busy agenda for the Green Climate Fund

The decision to install the secretariat of the Green Climate Fund in Songdo, Incheon City, South Korea has been validated. South Korea, which has proven ambitious in terms of its climate policies and as a source of international funding, is considered as a gateway between developed and developing countries.

The work programs for 2013 of the Green Climate Fund Board as well as arrangements with the COP were also adopted. They should help make the Fund operational as soon as possible, but will have to especially address the issue – still unresolved – of its business model. Developed countries are thus called to commit for the capitalization of the Fund.

Progress towards the 2015 agreement is getting organized slowly but surely

The Durban conference had decided that the negotiating track¹⁴ from the Bali Roadmap should be completed in Doha and the political negotiations would continue only under the ADP¹⁵.

¹¹ Removal Units.

¹² Reducing emissions from deforestation and forest degradation and increasing forest carbon stocks.

¹³ The role of the SBI (Subsidiary Body for Implementation) is to support the UNFCCC for matters relating to the implementation of measures.

¹⁴ AWG-LCA: Ad Hoc Working Group on Long-term Cooperative Action

Subsidiary bodies take responsibility for multiple subjects from the AWG-LCA

The closure of the mandate of the AWG-LCA proved to be complex. Various oppositions between developed and developing countries on the determination of whether topics have been sufficiently addressed or require additional work punctuated the negotiations throughout 2012. The technical issues covered in the AWG-LCA have been redirected to the subsidiary bodies: SBI and SBSTA¹⁶ (Table 2). Political negotiations on mitigation, adaptation, financing, development and the transfer of technology, capacity building and transparency of actions and support will be addressed within the Durban Platform.

Topics	Institutions	Dates
Clarification of emission reduction commitments of developed countries	SBSTA	2013-2014
Limitation of emissions in developing countries (NAMAs)	SBI	2013-2014
Forest management in developing countries		
Result-based finance	SBSTA	2013
Support of action (financial, technical and technological support)	SBI-SBSTA	From 2013
Non-market-based approaches	SBSTA	2013
Non-carbon benefits	SBSTA	2013
Drafting framework for "various approaches"	SBSTA	2013
Work programme to elaborate non-market-based approaches	SBSTA	2013
Elaborating modalities and procedures for the new market-based mechanism	SBSTA	2013
Economic and social consequences of response measures	SBI-SBSTA	Continuation
Adaptation	SBI-SBSTA and Adaptation Committee	Continuation
Technology development and transfer	Technology Executive Committee - Climate Technology Center and Network	From 2013
Finance		
Commitments of developed countries and long term finance	Standing Committee on Finance	From 2013
Progress of the Green Climate Fund	Green Climate Fund Board	2013
Capacity Building	SBI	Continuation
Review of the Convention	SBI-SBSTA	2013-2015

Table 2 – Distribution of main technical topics from AWG-LCA among Institutions

Sources: UNFCCC and CDC Climat Research.

The implementation of last years' decisions has led to precisions on the information to be provided by developed and developing countries about their emissions and actions. Nevertheless, no new decision was taken to specify the review procedures of the developing countries national inventories and of baselines for the REDD+. The registry identifying mitigation actions in developing countries (NAMAs) was officially established and has already collected submissions from several countries.

The COP 18 also appointed the host structure of the Climate Technology Centre and Network. It will be a decentralized structure carried out by several organizations coordinated by the United Nations Environment Program. It is thus a network of regional networks. The purpose of this structure is both to assess the needs, but also to create tools, for the development and transfer of climate technologies.

¹⁵ Ad Hoc Working Group on the Durban Platform for Enhanced Action

¹⁶ The SBSTA (*Subsidiary Body for Scientific and Technological Advice*) advises the UNFCCC on scientific, technological and methodological issues.

The Durban Platform has difficulties in implementing a pathway

The negotiation process from the Bali Roadmap being closed, the Durban Platform (ADP) is the main track for future negotiation. During the year 2012, it was divided into two subworking groups respectively in charge of developing a new instrument and of raising the level of ambition of emission reduction.

So far, discussions have simply enabled countries to express their positions. In particular objections appeared on the interpretation of "under the Convention" and "applicable to all Parties" as written in the Durban decisions. The principle of "common but differentiated responsibilities, [of] respective capabilities and [of] social and economic conditions" as written in the UNFCCC has also been at the center of discussions as some believe that its interpretation must evolve over time while other countries insist on maintaining the distinction between Annex I / Non-Annex I nations.

A work program has been established for 2013. The ADP should lead to a first draft of the negotiation text by late 2014 and a more advanced version by mid-2015. There is no information on intermediary outputs expected before then, particularly for COP 19. This calendar would give a central role to the 5th IPCC report slated for delivery between late 2013 and late 2014.

Emerging topics: political progress on "loss and damage"

Countries also wanted to address the issue of permanent "loss and damage" generated by climate change in developing countries. The underlying idea is that these impacts are the result of a failure to act to fight against climate change. Important work on climate risk management is also expected.

A work program was agreed in Durban on these issues. It is extended and could now lead to the establishment of an international mechanism to be approved during the COP19. The SBI is responsible for continuing this work program. If, as noted by developing countries, this decision lacks concrete progress, it nevertheless paves the way for an international mechanism.

Conclusion: negotiations move forward with Copenhagen in mind

In the end, the Doha conference has played the role of a gateway between the negotiation process resulting from Bali in 2007 and initiated in Durban in 2011. Nevertheless, the gap between the slow pace imposed by a UN process and the urgency to act on climate change perceived by many participants remains. The choice of the host country whose energy-intensive economy is based on fossil resources, participated in this impression of disconnection between the negotiation process and its purpose, the climate urgency.

In Durban in 2011, countries agreed that the deadline for the next significant climate agreement was 2015, after the 5th IPCC report and the review of the Convention. This future agreement was presented as a way to balance commitments between different groups of countries. As such, at the current stage of negotiations, the unilateral commitment of a group of countries to new concrete efforts with nothing in return appears hardly conceivable. The pace of negotiations did not presage strong political decisions, particularly concerning increased ambition this year. This mainly explains the lack of concrete commitments in the Doha decisions. The aim appears rather to prepare the ground for the next international agreement in 2015. As such, the next two conferences should better delimit the expectations and framework for the 2015 conference.

While waiting for 2015 and 2020, existing processes continue and can provide a basis for the definition of new mechanisms. The experience of the monitoring, reporting and verification of data and commitments is thus valuable and will have to improve transparency. The 2013 negotiation agenda is already busy, as it contains, in particular, a review of the Clean Development Mechanism and the development of an institutional arrangement on loss and

damage. Further, while the pace may be perceived as slow at the international level, this does not necessarily reflect inactivity at the national level. Next step: the 19th Conference of the Parties in Warsaw (Poland) in November 2013.

To find out more...

- CMP 8 decisions on the Kyoto Protocol (2012):
 - Outcome of the work of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol http://unfccc.int/resource/docs/2012/cmp8/eng/109.pdf
 - Guidance relating to the clean development mechanism http://unfccc.int/files/meetings/doha_nov_2012/decisions/application/pdf/cmp8_cdm_v1.pdf
 - Guidance relating to joint implementation http://unfccc.int/files/meetings/doha_nov_2012/decisions/application/pdf/cmp8_ji.pdf
- Other COP 18 decisions (2012):
 - Agreed outcome pursuant to the Bali Action Plan http://unfccc.int/files/meetings/doha_nov_2012/decisions/application/pdf/cop18_agreed_outcome.pdf
 - Advancing the Durban Platform http://unfccc.int/files/meetings/doha_nov_2012/decisions/application/pdf/cop_advanc_durban.pdf
 - Approaches to address loss and damage associated with climate change impacts in developing countries that are particularly vulnerable to the adverse effects of climate change to enhance adaptive capacity http://unfccc.int/files/meetings/doha_nov_2012/decisions/application/pdf/cmp8_lossanddamage.pdf
 - All decisions http://unfccc.int/2860.php#decisions
- Other studies:
 - French Ministry of Environment and Energy (MEDDE) and CDC Climat Research (2012). *Key Figures on Climate France and Worldwide 2013 Edition* http://www.cdcclimat.com/Key-Figures-on-Climate-France-and-Worldwide-2013-Edition.html?lang=en
 - Morel, R., Bellassen, V., Deheza, M., Delbosc, A. and Leguet, B. (2011). *Durban: one small promising step for the climate... by 2020.* Climate Brief n°10. CDC Climat Research

http://www.cdcclimat.com/Climate-Brief-no10-Durban-one-small-promising-step-for-climate-by-2020.html

- IISD Reporting Services (2012). Doha Climate Change Conference – COP18/CMP8 http://www.iisd.ca/climate/cop18/enb/

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