

Carbon Markets in the Paris Agreement:

IETA's priorities at COP 22

November 2016

IETA congratulates Parties on the immense success of the Paris Agreement's approval and entry into force this year. The momentum from COP 21 must now carry over into implementation of the Paris Agreement by completing guidance and rules for the use of its Articles and Decisions.

IETA set out its vision for Article 6 of the Paris Agreement ahead of the Bonn UNFCCC climate negotiations earlier this year in [A Vision for the Market Provisions of the Paris Agreement](#)¹. We noted the long-term durability of the Paris Agreement, making it especially crucial for its implementation to incentivise the maximum level of emissions reductions – powered by the use of harmonised carbon pricing systems. This vision can be achieved through cooperative action, as emissions outcomes are transferred between various national carbon pricing systems. Such transfers are described in Article 6, with paragraph 2 establishing internationally transferable mitigation outcomes (ITMOs) as the means of accounting for such linkages.

The system of transfers must be sufficiently robust to support large-scale mitigation investments in a wide range of jurisdictions. The system must promote confidence not only for the Parties involved and their constituents, but also for the international community. To deliver that confidence, Article 6 guidelines should be agreed to at CMA 1. Our priorities for Article 6 in Marrakech are outlined below.

1. Agree on accounting guidance for Article 6 at CMA 1, allowing Parties to raise the ambition of their NDCs and meet them at lower cost.

- Article 6 of the Paris Agreement offers the opportunity to build a global carbon market to assist in accelerating the energy transition and in delivering a net zero emissions outcome at lowest cost to society. It also provides the opportunity to expand the reach of carbon pricing to enable full implementation of Nationally Determined Contributions (NDCs) and possibly to help raise ambition amongst NDCs in order to deliver on the overall goal of the Paris Agreement. **In Marrakech, Parties should strive to approve high-level guidance for accounting under Article 6.2 and 6.4.** This will enable Parties to incorporate the possibility of using Article 6 to meet their emissions reduction goals in their their NDCs as they are approved and move towards implementation.
- As Parties discuss Article 6 accounting guidance in Marrakech, they should incorporate **best practice accounting concepts** with both transactional and governance elements. These will boost public confidence and prompt greater investment in climate mitigation

¹ http://www.ieta.org/resources/Resources/Position_Papers/2016/IETA_Article_6_Implementation_Paper_May2016.pdf



by both public and private actors. IETA has further elaborated these concepts in its submission to the UNFCCC [here](#)².

- By agreeing on Article 6 accounting guidance at CMA 1, Parties can move towards implementing their NDCs collectively with other countries. Early analysis by the World Bank Group shows that financial savings by countries working collectively through Article 6 (linking their carbon pricing policies in an international carbon market) can achieve a 30% cost reduction than countries working on their own to meet their respective mitigation targets for 2030 and a 50% saving by 2050. This is consistent with prior economic studies, all of which suggest that international market cooperation can deliver significant savings.

Linking carbon pricing systems can help drive costs down and create the economic conditions for greater emissions cuts in the future. If national systems operate in isolation, they can end up costing more – which can discourage ambition. **Taking steps to form rules guiding Article 6 cooperation at CMA 1, including on accounting and transparency, can help Parties go beyond the minimums proposed in their INDCs in the months leading up to COP 21 in Paris.**

2. Agree on an open framework for the Article 6.4 mechanism that delivers emissions reductions at the scale needed to meet the ultimate temperature stabilisation goals of the Paris Agreement.

- Article 6 of the Paris Agreement offers the opportunity to build a global carbon market to assist in accelerating the energy transition and in delivering a net zero emissions outcome at lowest cost to society.

Article 6.4 establishes a mechanism to contribute to the mitigation of greenhouse gas emissions, or an Emissions Mitigation Mechanism (EMM), and support sustainable development. The EMM, in conjunction with the ITMO, could be designed to promote carbon pricing.

- With the full implementation of the Paris Agreement, the EMM could offer a universal carbon allowance or credit system for those countries that choose to unitize their contributions. This could facilitate trade between NDCs (i.e. simple conversion to ITMOs). The EMM could provide registry facilities for these units, therefore expanding the choices for adopting carbon pricing for many economies. This in turn could channel additional investment into the hosts' economies.

In Marrakech, Parties should create a broad framework for the EMM whereby many types of mitigation approaches can be executed with assured additionality and avoidance of double counting, rather than a single purpose mechanism such as the CDM under the Kyoto Protocol.

² <http://ieta.org/UNFCCC-Submissions/4283757>



- Parties should establish a work programme in Marrakech for an Article 6.4 mechanism that delivers the following elements:
 - Quantifies and delivers emission reductions (as an allowance type of unit) against an emissions reference level in a Party's NDC;
 - Provides a universal emission reduction credit or emissions allowance that can be transferred from one country to another as an ITMO;
 - Encourages large-scale emissions mitigation activities as cost-effectively as possible;
 - Undergoes and follows oversight rules on the EMM set by the COP;
 - Promotes sustainable development through economic transition across all sectors of the economy.
- Furthermore, Parties should include a work programme in the Article 6.4 framework that identifies the relevant technical elements to ensure a project-based mechanism can also be available to Parties to deliver emissions reductions under the Paris Agreement.

3. Ensure that accounting and environmental integrity guidance for Articles 6.2 and 6.4 also apply to Article 6.8 on non-market approaches

Non-market based approaches should also meet the same standards for environmental integrity as those of market-based approaches put forward under a Party's NDC. As such non-market-based approaches should make use of mitigation infrastructure provided by the UNFCCC or other intergovernmental organisations including:

- Monitoring and verification protocols for key sectors;
- Standardized emission performance benchmarks for key sectors;
- A registry and issuance system to establish ownership of emission reduction units;
- A standardized reporting template;
- An accreditation system for independent verifiers; and
- A co-benefits 'checklist' to ensure approaches address sustainable development.

Any non-market based approach that delivers emission reductions will need to be reported and tracked under the same standard as those of market-based approaches under Article 6. As such, non-market based approaches will need to be designed in conjunction and cooperate with Article 6 standards for reporting, tracking, and certification of emission reductions.

4. Decide on guidance to the CDM Executive Board that offers investor confidence prior to the operation of Article 6 and provides continuity from the Kyoto system to the Paris framework.

- Despite current market challenges, the CDM remains an attractive option for carbon compliance in advance of the Paris Agreement's first contribution period. Some sovereign purchasing initiatives continue to invest in CDM projects, and some private



entities use CDM credits for both compliance and voluntary offsetting. Some non-Annex 1 countries are considering policies to allow CERs for domestic use, potentially with banking for future use against domestic NDCs. The CDM may also prove valuable for international airlines, subject to the decisions of the International Civil Aviation Organization on acceptability of units for compliance with CORSIA.

- A bedrock principle of the CDM has been to promote regulatory stability. This is evidenced by the efforts for consistency in the Executive Board's decisions and in the reliability of host and recipient approvals. Historically, investors could rely on Letters of Approval from host and recipient governments to remain effective during the life of the crediting period.
- IETA is concerned that draft proposals under SBI on CDM guidance to allow revocation of Letters of Approval (LoA) without due process could erode investor confidence and further stifle demand for CDM credits. We urge that these proposals be rejected or amended to provide clear and proper due process. Investors in the CDM thus far have treated the LoA from the host country as providing political certainty to move forward with a project concept, and investors then base further investment decisions upon the successful granting of the LoA. Certain details included with the LoA related to timescales are currently sufficient from an overall business perspective. If Parties move forward with procedures to allow host countries to withdraw those LoA's, business certainty in the CDM will be lost.

IETA's priorities for COP 22 are based on the principle that the sooner guidance on Article 6 is agreed by the COP, the sooner Parties can begin making relevant decisions and investments in emissions reductions to meet their NDCs.

Please also drop by the IETA Hub at COP 22 which is located in Hall D of the Blue Zone. A full list of events taking place at the IETA Hub can be found on IETA's website [here](#)³.

Should you have any follow up questions on these priorities, please contact Jeff Swartz, IETA: swartz@ieta.org

³ <http://ieta.org/cop22>