

THE POWER OF COOPERATION

AHEAD OF THIS YEAR'S UN CLIMATE TALKS IN CHILE, NEGOTIATOR JUAN PEDRO SEARLE SOLAR LAYS OUT THE TRANSFORMATIVE POWER AND IMPACT A FULLY-OPERATIONAL ARTICLE 6 COULD HAVE ON THE WORLD'S ECONOMY

The Paris Agreement foresees carbon markets as a fundamental tool to reduce greenhouse gas emissions, highlighting it as one of the essential means to meet the goals of controlling the temperature increase to less than 1.5°C and to achieve carbon-neutrality by 2050. To this end, parties included Article 6 in the Agreement and defined it as an element that opens spaces for cooperation and that, through the transfer of mitigation outcomes (which could take the form of emission reductions, emission allowances, offsets or other types of certificates), will allow countries to reduce emissions more cost-effectively and to balance the global burden of reaching those mitigation levels by mid-century. In short, it enables the establishment of a market for issuance and transfer of certificates between countries and/or other actors (authorised by the parties involved), in order to accelerate the required decarbonisation and lower the costs of clean technologies with high mitigation potential, among other benefits.

Lower costs, higher ambitions

Article 6 has the potential to reduce the overall cost of implementing Nationally Determined Contributions (NDCs), the emissions reductions that each party to the Agreement has planned. According to the World Bank, climate finance and carbon markets could reduce this cost by \$115 billion in 2030 and by \$1.9 trillion in 2050, while increasing resource mobilisation, taking into account the experience with the CDM, where each \$1 invested in mitigation projects is estimated to have leveraged between \$5-10 of private investment in the low-

carbon transition.

An ongoing study by IETA – while estimating lower cost reductions (\$350 billion by 2050 and \$990 billion by 2100) – emphasises that these would be realised only if the parties apply cooperative approaches under Article 6, making it clear that all countries would achieve more for less if they act together. Similarly, this study indicates that Article 6 has the potential to further reduce 5 economy.

This mutual cooperation between the parties would also have a positive effect on the cost of implementing public policies, which could be reduced to 55% in 2030 and 41% in 2050. These figures were estimated considering the great heterogeneity of existing NDCs. To the extent that they become more ambitious and comparable, such estimates could change and be even more promising in terms of costs and expected reductions when parties act together.

Chile and Article 6

The full operation of Article 6 could accelerate the decarbonisation of Chile's energy matrix and achieve carbon neutrality by 2050 (as well as maintaining it over time, or even go "negative"). The measures which will have the greatest impact on GHG emissions reduction include the phasing-out of coal-fired power plants (a concrete commitment between the government and the main energy utilities was recently adopted); an increase in renewable energy generation, energy efficiency, and electric vehicles; and the electrification of energy intensive sectors such as mining and cement. If

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measures to maintain – or even increase – the absorption capacity by forests are in addition to this strategy, the country would likely become carbon neutral by 2050 or a bit earlier, becoming a world leader in addressing climate change at the levels required by science.

This scenario is not seen without carbon pricing. By no means. As a way of fomenting or accelerating this transition, especially in the energy sector, the country will require carbon pricing instruments that lead to mitigation outcomes towards Chile's NDC or for other purposes. As such, ITMOs, offsets, emissions allowances or other forms of mitigation outcomes envisaged under Article 6 are needed to facilitate a cost-effective transition in Chile.

Article 6 could become an essential pillar towards national decarbonisation, since the financing flow from the transfer of certificates with other parties, will facilitate investments in those technologies with high mitigation potential, which today are more expensive to implement in the country, such as energy storage, carbon capture and utilisation or storage, geothermal energy and the electrification of transport and industrial processes, among others. Likewise, this financial flow could also accelerate the expected trend of increasing renewables, such as solar and

wind, as well as the withdrawal of coal-fired power plants.

Article 6 in limbo

However, with so much at stake, Article 6 rules were not adopted at last year's UN talks (COP24), since parties needed more time to understand the technical and political implications.

The negotiations stumbled upon several key issues of this article, in particular one that is cross-cutting to the successful implementation of the Paris Agreement in general, and that is closely linked to the transparency system advocated and supported by this Agreement: to avoid double counting when mitigation outcomes or emission reductions are transferred between parties towards or beyond NDC achievement. This is known by the term of “corresponding adjustments” and is particularly important for the proper implementation of aspects of Article 6, especially for Article 6.4 units that are transferred internationally and for the potential transition of certificates, methodologies and project activities from the CDM. In “simple” terms, these are additions or subtractions (based on the GHG emissions inventory? or the NDC?)

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when a party transfers or acquires (adds or subtracts emissions respectively) a mitigation outcome or an emission reduction certificate.

Other relevant unresolved issues are the charge of a Share of Proceeds for each ITMO transaction under Article 6.2 — which would mainly fund a climate change adaptation fund for the most vulnerable countries— and the application of an “overall mitigation in global emissions” concept, whereby each party that integrates a bilateral agreement aimed at the transfer of ITMOs or other reduction certificates, deducts a percentage of the reductions achieved and does not use it for its NDC or does not transfer it to another party, generating a net benefit for the atmosphere. However, its application could discourage the establishment of a global carbon market, according to some views.

Expectations for COP25

Parties need to adopt the rules of Article 6 at COP25 in December. Completing this final piece of the Paris Rulebook would ensure that this Agreement is in full implementation mode from 1 January 2020. The level of granularity of the rules should be such that it allows Article 6 to be immediately used by countries, leaving some technical issues pending for a subsequent work programme.

The risk of not approving the rules in Santiago is a two- to four-year delay in the instrument being fully operational – delaying the start of new efforts under Article 6. All this, with the consequent slower impact on the progress of national contributions, whose first compliance period is due by 2030.

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