

Using “cooperative approaches” towards emissions targets in a bottom-up world: Implications of Article 6.2


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“Perspectives on Article 6: Using carbon markets towards climate goals”

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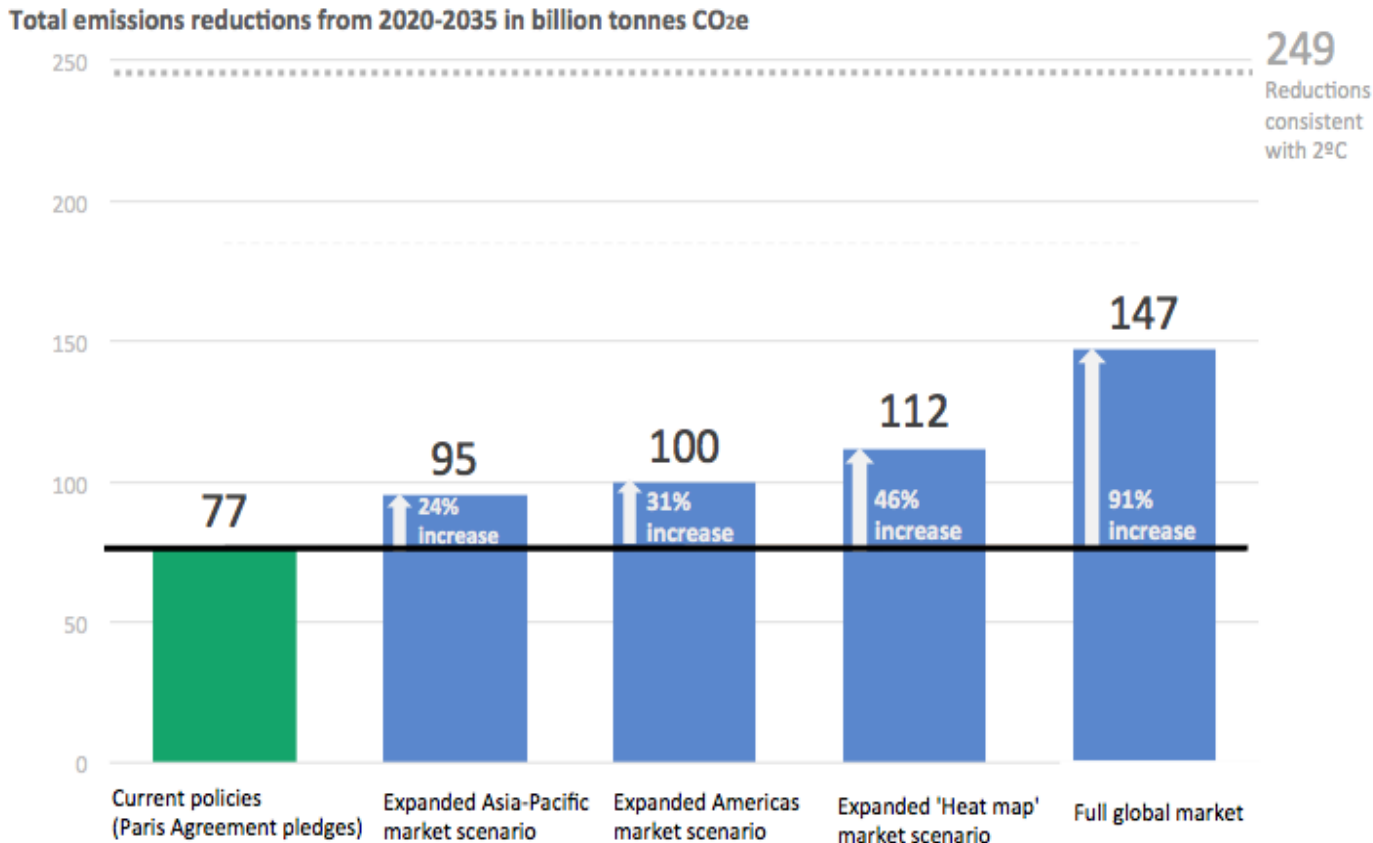
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Overview

- **Linked carbon markets can drive significant ambition:**
Carbon market linkage can help reach Paris goals, but only if well-designed (including avoiding double counting)
 - **Cooperating partners are key:** The UN's role is limited.
There are practical steps cooperating jurisdictions can do now to build confidence in integrity of cooperative approaches
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International carbon markets can enable greater emissions reductions for the same cost relative to current Paris Agreement pledges

Emissions reductions to 2030 under various scenarios for market coverage, including additional reductions achievable from reduced deforestation (holding total cost constant)



Key findings from new EDF modeling

1. The global use of carbon markets could allow the world to nearly double climate ambition relative to current NDCs
 - i.e. **achieve almost double the emissions reductions** at the same total cost
2. The increase in ambition is **due mostly to the gains from international trade** (not increase in use of domestic markets to meet national targets)
3. Significant increases in ambition could still be achieved even with limited international emission trading
4. **Reducing deforestation** is a key driver (~1/2) of greater ambition

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2. The increase in ambition is **due mostly to the gains from international trade** (not increase in use of domestic markets to meet national targets)
 - carbon pricing policies that facilitate international cooperation—such as carbon markets—may be able to capture more cost savings (increased ambition) than carbon pricing policies that are less prone to linkage
3. Significant increases in ambition could still be achieved even with limited international emission trading
4. Reducing deforestation is a key driver (~1/2) of greater ambition

Market Cooperation in the Paris Agreement

Article 6

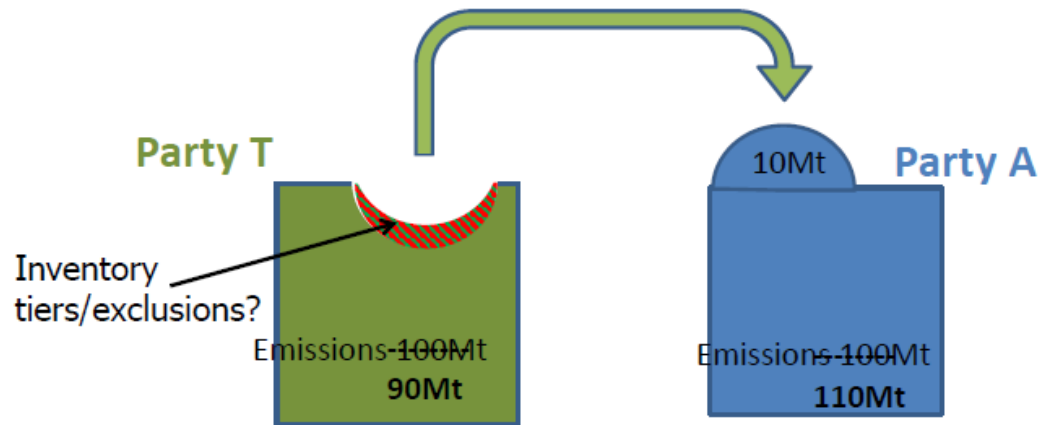
2. Parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred mitigation outcomes towards nationally determined contributions, promote sustainable development and ensure environmental integrity and transparency, including in governance, and shall apply robust accounting to ensure, inter alia, the avoidance of double counting consistent with guidance adopted by the Conference of the Parties serving as the meeting of the Parties to this Agreement.

3. The use of internationally transferred mitigation outcomes to achieve nationally determined contributions under this Agreement shall be voluntary and authorized by participating Parties.

“Cooperative approaches/ITMOs” language: Art. 6.2

- Recognizes transactions, but does not charge UNFCCC with oversight or creating market institutions
- UN role limited to “robust” accounting guidance when ITMOs used toward NDCs (i.e. determines **eligibility to account** (not to “participate”))
- Clear path for countries to move ahead with bilateral and “minilateral” trading on a voluntary, decentralized basis (→ coalition develops common stds?)

Ensuring Robust Accounting



Source: OECD/IEA CCXG

- Emissions inventory total = $90 + 110 = 200\text{Mt}$
- If Party T DOES NOT account for **export** but party A DOES account for **import**, then declared total = $90 + 100 = 190\text{Mt}$

- Accounting of exported units/credits across countries is key issue
 - Various ongoing efforts, including how to account for use of voluntary market units for compliance (e.g. ICAO)
 - Conceptual solution: Transparent +/- of net flows in/out of country, reflected in report based on national inventory (do NOT adjust the national inventory)

Can subnationals contribute to robust accounting?

- Subnationals to model “good practice” Paris Agreement transparency/reporting of ITMO transfers?
 - PA Art 13.7: requires information to “track progress” towards NDCs at least every two years
 - Concept: “tracking balance” based on inventory, but inclusive of net cross-jxl transfers
- **Parallel process modeled by subnationals, for transparency?**
- Other ways subnationals could “set the bar” for robust accounting:
 - Subnationals signal they will 1) never accept CDM units?; 2) accept Jxl REDD that adheres to no double counting rules?
 - Opportunity: California Summit

KEY TAKEAWAYS

- Carbon market linkages can help meet the Paris Agreement's ambitious goals
- Article 6 recognizes “bottom up” opportunities for carbon market cooperation
- **No need to wait** for UNFCCC guidance before cooperating
 - Sovereign choice of what instruments to accept for compliance with domestic emissions trading systems
- Opportunity for “minilateral” initiative (including subnationals) to create common standards and guidelines for environmental integrity of international emissions trading, in order to 1) broaden participation and 2) promote ambitious reductions

Thank you!

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