Article 6 and international carbon markets

Stefano De Clara – International Policy Director, IETA
4 March 2021

What is IETA

Global Cross-Sector Business Association

- 130+ companies from oil, electricity, banking, industry, traders and brokers, law, consulting, project developers, exchanges, verifiers, etc.
- … Collectively providing a global business voice on carbon markets

What do we do?

- Promote the use of carbon markets around the world
- Provide an information service to our members on the latest market developments
- Build a global community of carbon market stakeholders

IETA
A IS FOR AMBITION

3Degrees
ACT
ACWA POWER
ACO2 AitherCO2
allcot
American Carbon Registry
APX
Arbor Day Foundation
argus
ATCO
Baker McKenzie.
Bank of America Merrill Lynch
bgc
BHP
BloombergNEF
bluesource
BNP PARIBAS
bp
bp
target neutral
CSA GROUP
Capital Power
carbonbay
CARBONCREDIT SOLUTIONS INC.
carbonsink the sustainable change
cbl markets
centrica
Chevron
CLP 中電
ClearBlue Markets
CLIMATE ACTION RESERVE
climatecare
Stiftung Klimarappen Fondation Centime Climatique Fondazione Centesimo per il Clima Climate Cent Foundation
Climate Neutral Group
CLIMATE SOLUTIONS GROUP
ClimeCo Environmental Market Solutions
co2balance.com
COMMERZBANK
CPE Cell CDM & Renewable Energy Developer
DELPHI GROUP
DEMARCO ALLAN LLP
大成 DENTONS
DNV·GL
DOW
ecoact
ECOEYE
ecosphere+
EDF
EnKing INTERNATIONAL India's Largest Carbon Credit Developer & Supplier
ELBOW RIVER
ENBRIDGE
enel
EnerKey
ENGIE
eni
ENVIRONMENTAL COMMODITY PARTNERS
equinor
eex
firstclimate
fortum
GORD Gulf Organisation for Research & Development
G.C.T
Global Commodities Trading
国泰君安证券 GUOTAI JUNAN SECURITIES
Hydro
IBERDROLA
ice
ICIS
IHS Markit
INLANDSIS
KOCH SUPPLY & TRADING
KPMG
KRIC 한국기후변화연구원 Korea Research Institute on Climate Change
LafargeHolcim
LATHAM&WATKINS LLP
Linklaters
Marubeni
MICHELIN A BETTER WAY FORWARD
microenergy credits
MITSUI&CO.
NATURAL CAPITAL PARTNERS
Naturgy
Nexus
NORTON ROSE FULBRIGHT
NOVA Chemicals
Nutrien Feeding the Future
ONTARIO POWER GENERATION
PG&E
PERMIAN GLOBAL
PetroChina
POINT CARBON THOMSON REUTERS
powerex. Supply. Flexibility. Commitment.
pwc
Quimobásicos S.A. de C.V.
ReedSmith
REPSOL
RioTinto
RUBY CANYON ENGINEERING
RWE
Sheppard Mullin
SOLVAY asking more from chemistry
south pole
SSE
Statkraft
SUNCOR ENERGY
dalkia GROUPE EDF
TDREnergy CARBON MANAGEMENT
Terra GLOBAL CAPITAL
THE CLIMATE TRUST
TOTAL COMMITTED TO BETTER ENERG
tradewater
TransCanada In business to deliver
uniper
VATTENFALL
VEOLIA
VERRA
VERTIS
:vivideconomics
VNV ADVISORY
xpansiv
置信碳资产 ZHIXIN CARBON ASSET
永智顧問有限公司 YC Consultants Ltd.

The Kyoto World vs the Paris World

Kyoto Protocol

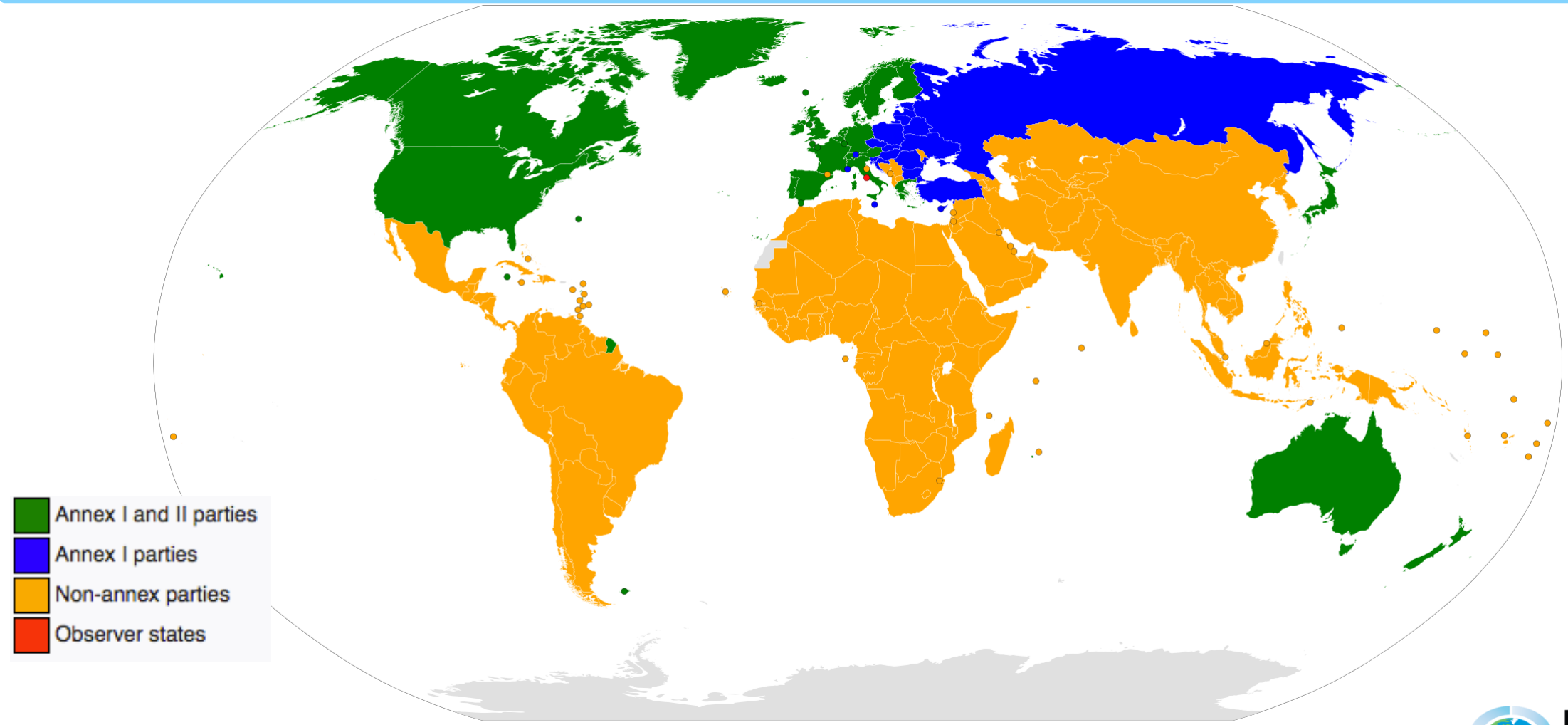
- 37 countries with top down targets
- CDM and JI mechanisms to generate carbon credits via the UNFCCC
- Crediting "outside" the reduction commitment

Paris Agreement

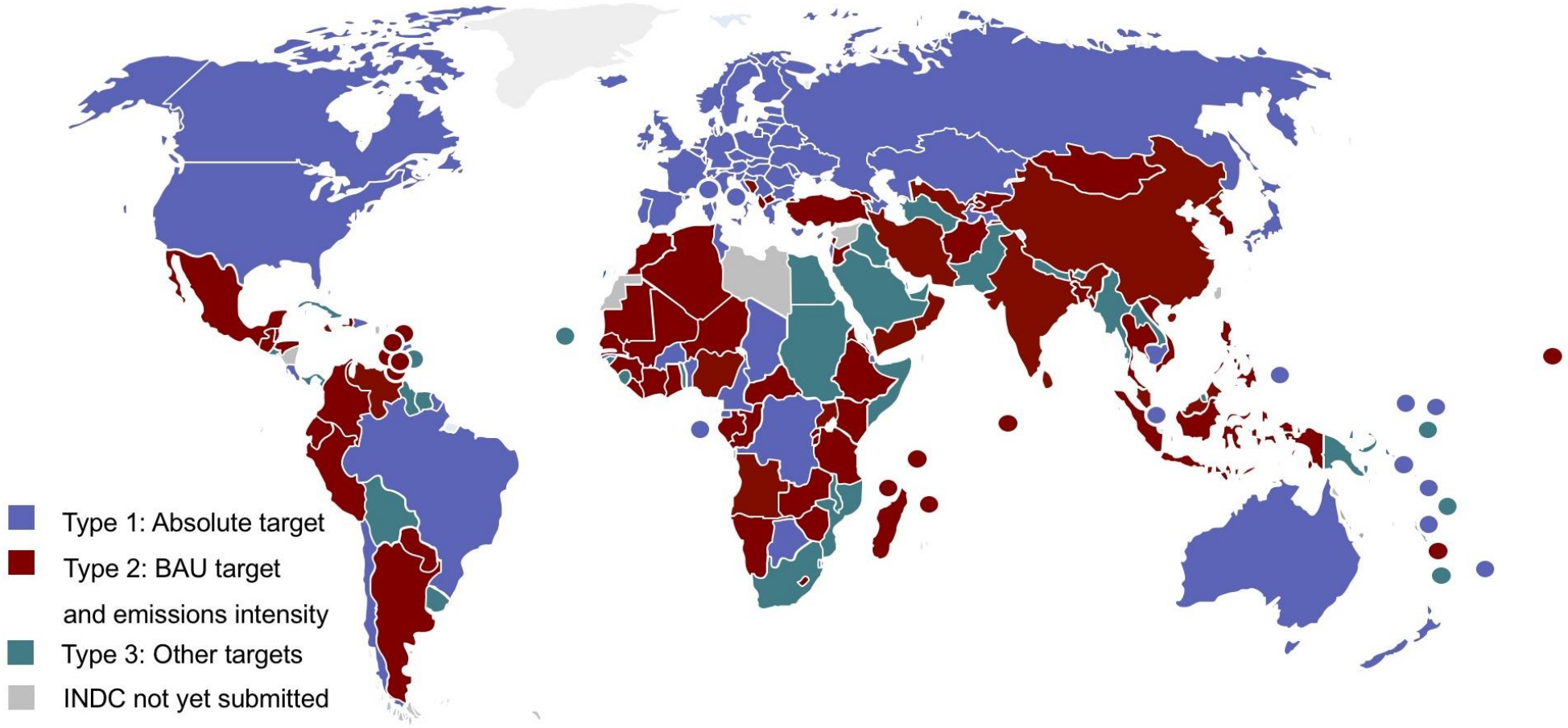
- 192 countries with bottom up pledges
- New market mechanisms will be established under Article 6
- Crediting will require corresponding adjustments

IETA
CLIMATE CHALLENGES
MARKET SOLUTIONS

The Kyoto World



The Paris World



Basics of Voluntary Cooperation in Article 6

- **Article 6.2:** Accounting guidance for reporting of "internationally transferred mitigation outcomes" (ITMOs) with "corresponding adjustments"

- **Article 6.4**: An emissions mitigation mechanism to issue units for programs or activities, building on Kyoto mechanisms (CDM, JI)

- **Article 6.8:** Work programme for non-market approaches to advance cooperation that does not involve ITMOs.

CLIMATE CHALLENGES
MARKET SOLUTIONS

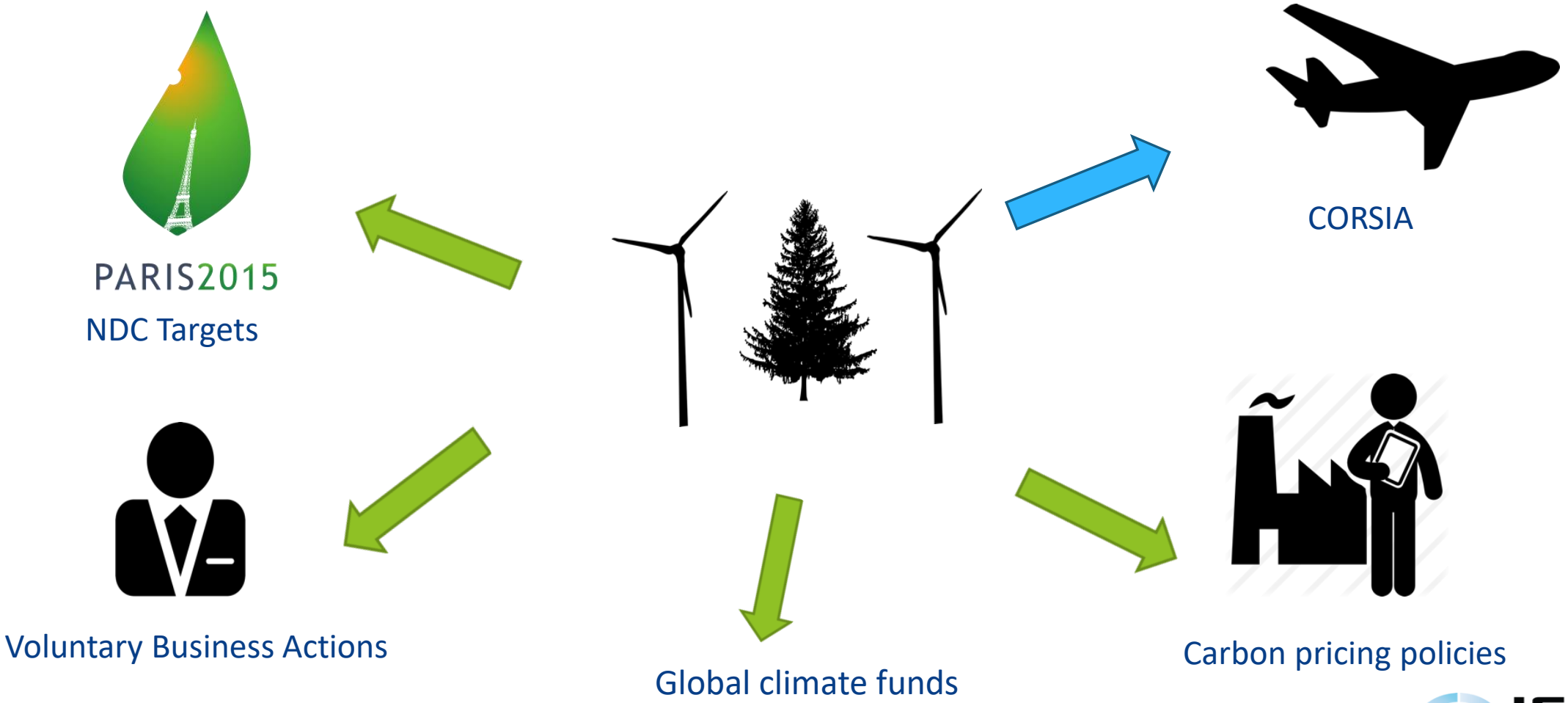
Article 6:
Expectations vs Reality

IETA
CLIMATE CHALLENGES
MARKET SOLUTIONS

Expectations…

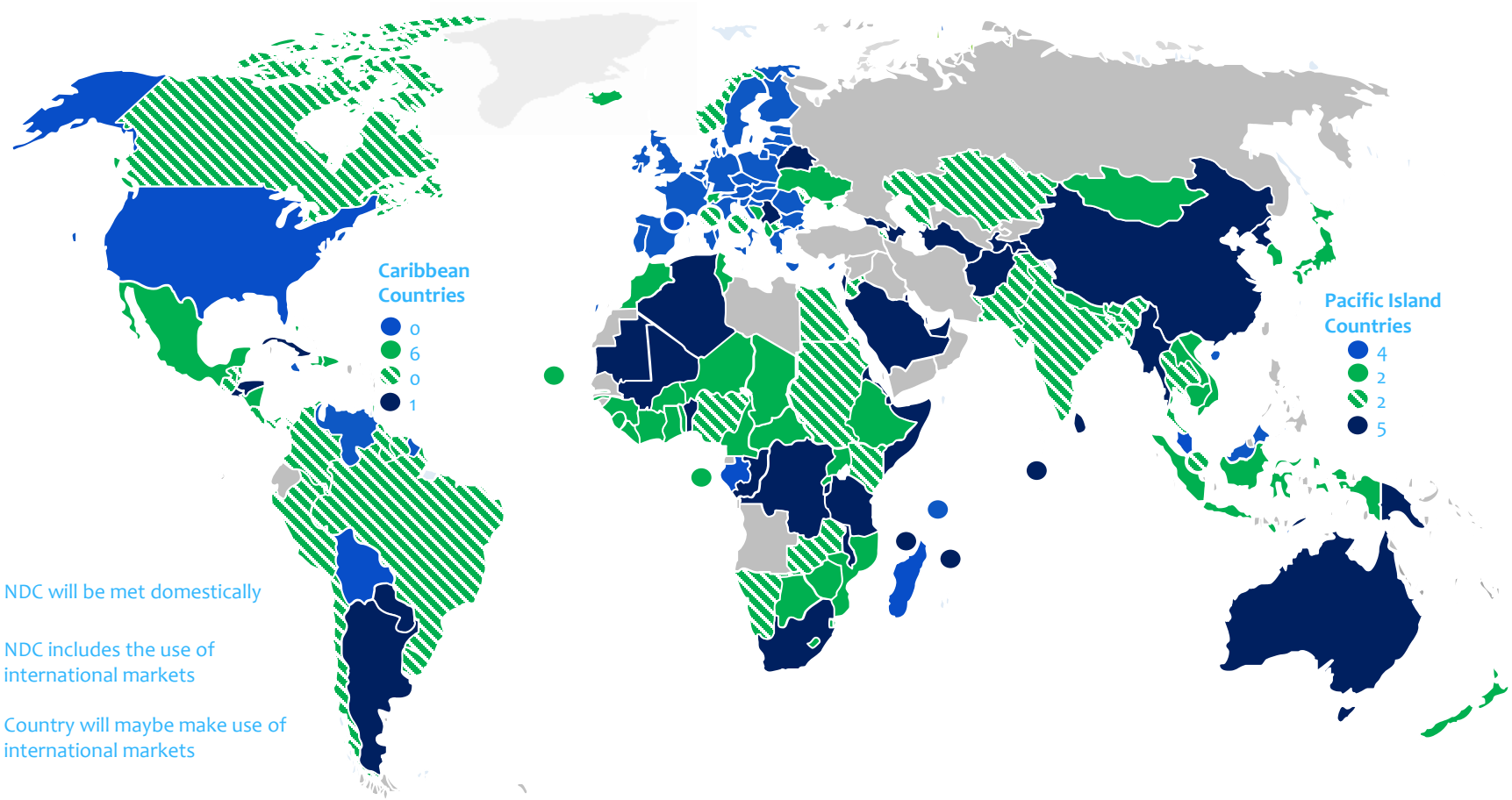
IETA
CLIMATE CHALLENGES
MARKET SOLUTIONS

Article 6



IETA
CLIMATE CHALLENGES
MARKET SOLUTIONS

Market Friendly NDCs



41 NDC will be met domestically

55 NDC includes the use of international markets

35 Country will maybe make use of international markets

47 Not Specified

19 NDC not Submitted

IETA CLIMATE CHALLENGES MARKET SOLUTIONS

How Valuable is Article 6?

What is the potential economic value of implementing Article 6?

- What is the **potential** size of the carbon market?
- Who would be the sellers and who would be the buyers?
- How much could costs be reduced?

How much additional ambition could be enabled?

Source: https://unfccc.int/files/focus/long-term_strategies/application/pdf/mid_century_strategy_report-final_red.pdf

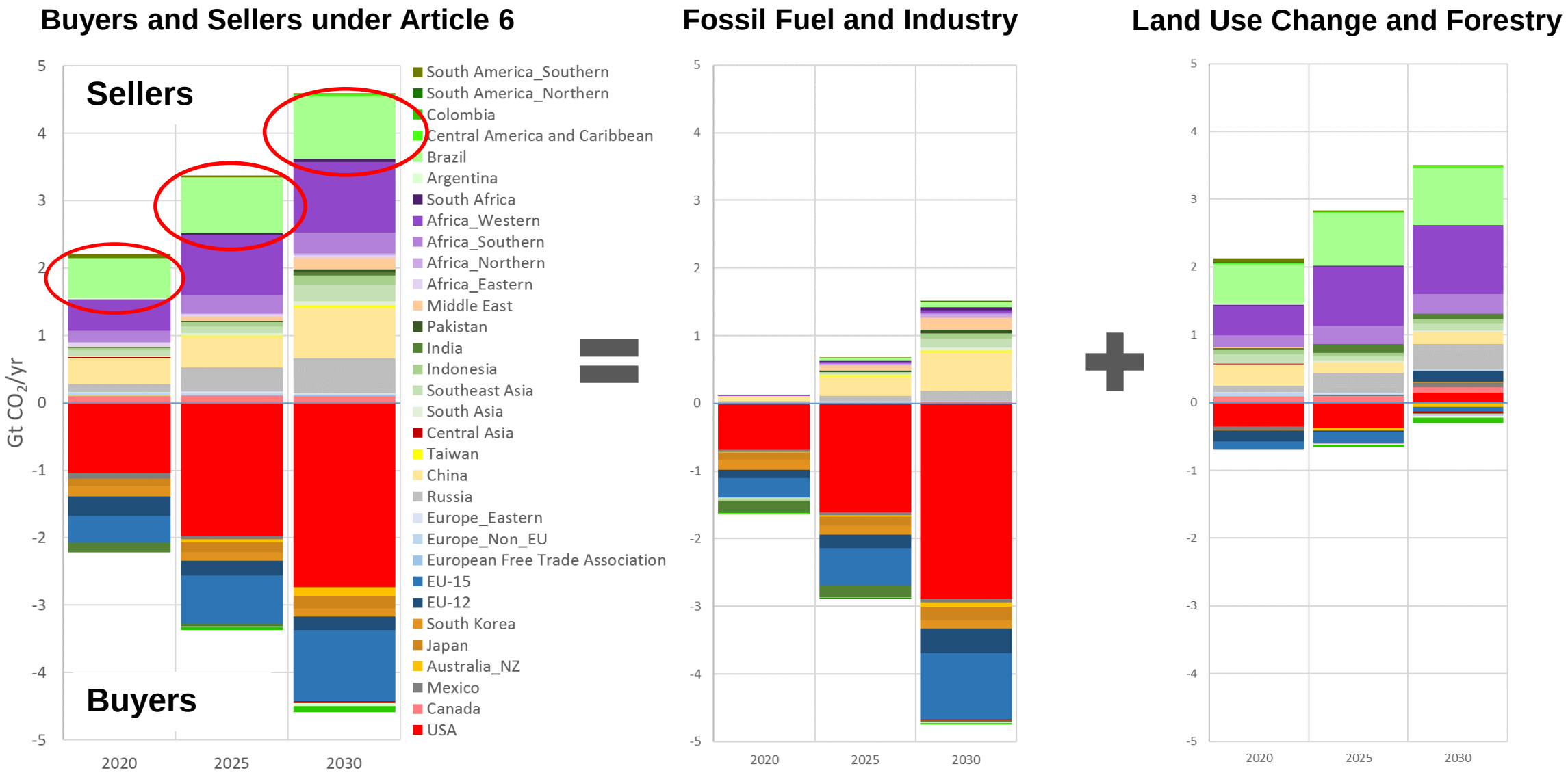
SOURCE: Forthcoming JGCRP & IETA Workshop on Value of Article 6 (2019) – DRAFT – SUBJECT TO CHANGE

How valuable is Article 6

* The economic potential available through Article 6 from extension to include land use change is significant.
* Utilizing the economic efficiency gains to enhance ambition offers additional potential benefits
* Realizing this potential is a major real-world challenge.

2030 Potential Article 6 Reduction in Cost (Billions 2015 USD/year)		
	Reduction in Cost	**Increased Ambition**
Fossil Fuels Only	~$250 billion	**5 $GtCO_2$ per year**
Land Use Only	~$70 billion	**4 $GtCO_2$ per year**
Combined	~$320 billion	**9 $GtCO_2$ per year**

Potential Changes in CO_2 Emissions



DRAFT PRESENTATION—RESULTS MAY CHANGE - COMMENTS WELCOME

Reality…

IETA
CLIMATE CHALLENGES
MARKET SOLUTIONS

Article 6 Key issues

- Accounting:
  - For transfers from inside/outside NDCs
  - Accounting for non-NDCs uses of ITMOs (eg CORSIA, IMO, etc)
  - Single year targets and operationalization of corresponding adjustments
  - Whether to make corresponding adjustments for units produced by the 6.4 mechanism
- KP Transition (CER units? Activities? Methodologies/infrastructure? AAUs?)
- Share of Proceeds and Overall Mitigation of Global Emissions
- And others…

IETA
CLIMATE CHALLENGES
MARKET SOLUTIONS

Article 6 pilots

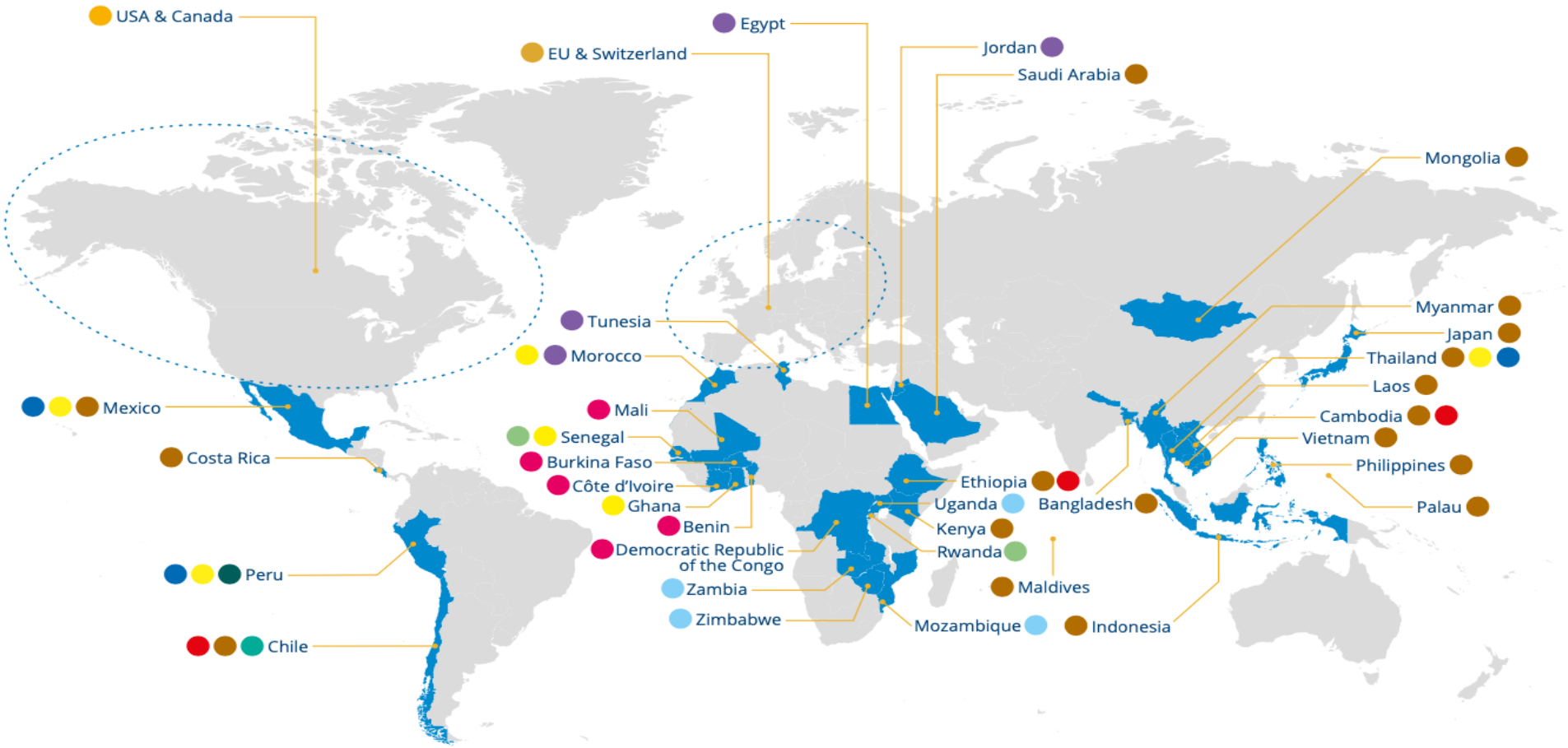


Figure 5: The global Article 6 piloting landscape

ABM · BMU · Chile-Canada Agreement · EBRD SEMED · NEFCO · ETS Linking · JCM · KliK Foundation · CCF · SEA · SCF

Way forward and COP26

- Important milestone after COP21 and COP24
  - Start of the 'Paris era'
  - Completion of operationalisation work
  - Increased ambition
  - Will require huge diplomatic effort and a lot of preparatory work
- Key issues on the table
  - New NDCs
  - Submission of Long-Term Strategies
  - Rules on Market Mechanisms (Article 6)
  - Adoption of the detailed reporting formats for transparency of action and support
  - Start of discussions on the post-2025 financing goal

IETA
CLIMATE CHALLENGES
MARKET SOLUTIONS

Thank you!

IETA
CLIMATE CHALLENGES
MARKET SOLUTIONS