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THE CARBON MARKETS CONUNDRUM AT COP26

Relevant for: Environment | Topic: Environmental Degradation - GHGs, Ozone Depletion and Climate Change

If climate negotiations are compared to a game of diplomatic chess, Article 6 of the Paris Agreement would be the king to be checkmated and captured for concluding the Paris Agreement Work Programme (PAWP) at the 26th Conference of the Parties (COP26) to the United Nations Framework Convention on Climate Change (UNFCCC). Article 6 of the Paris Agreement introduces provisions for using international carbon markets to facilitate fulfilment of Nationally Determined Contributions (NDCs) by countries. The success of COP26 at Glasgow hinges, to a great extent, on the conclusion of carbon markets discussions. Despite several rounds of high-level meetings, it remains one of the most technical and highly contentious unresolved issues of the PAWP.

Developing countries, particularly India, China and Brazil, gained significantly from the carbon market under the Clean Development Mechanism (CDM) of the Kyoto Protocol. India registered 1,703 projects under the CDM which is the second highest in the world. Total carbon credits known as Certified Emission Reductions (CERs) issued for these projects are around 255 million which corresponds to an overall anticipated inflow of approximately U.S.$2.55 billion in the country at a conservative price of U.S.$10 per CER. Therefore, logically, India has a lot to gain from a thriving carbon market. However, with the ratification of the Paris Agreement, the rules of the game have changed.

COP26 Warning: World's Listed Companies to Cause a Temperature Rise Of 3°C

Unlike the Kyoto Protocol, now even developing countries are required to have mitigation targets. Developing countries are faced with a dilemma of either selling their carbon credits in return for lucrative foreign investment flows or use these credits to achieve their own mitigation targets. This has made Article 6 a highly sensitive issue that requires careful balancing of interests and expectations.

For developing countries, the new market mechanism is much more than a tool for achieving mitigation targets under the NDCs. Much like its predecessor, it should help promote sustainable development and assist climate change adaptation in the developing countries. It should encourage private sector participation and attract foreign investments to support low carbon development. While over 50% of the countries have communicated their intention of using market mechanisms to achieve NDC targets, India is not one of them as it aims to rely on domestic mitigation efforts to meet its NDC goals. It is the developed countries that would rely more on market mechanisms for achieving their climate targets as they would be comparatively low-cost options.

The three critical issues that would be hotly debated in Article 6 negotiating rooms are CDM Transition, Accounting rules and Share of Proceeds to the Adaptation Fund. Let us examine them one by one.

India must commit to net zero emissions

CDM transition: The CDM projects have gone through due diligence and credits have been issued under UNFCCC oversight. Therefore, the Article 6 mechanism should honour the previous decisions and allow for a smooth transition of these projects and credits to ensure not only the viability of these projects but also inspire trust among the private investors in the UNFCCC decision-making process.

However, some countries have cast doubts on the environmental integrity of these credits and while there is greater acceptance for transition of projects/activities, the same is not the case for transition of credits. If the decision regarding transition of CDM is not favourable, it could lead to a loss of billions of dollars worth of potential revenue to India alone. A possible landing zone can be that the new supervisory body to be formed under the Paris Agreement can re-examine the validity and rigour of such credits.

India can do more, hints climate official

Accounting rules: Article 6.4 mechanism is meant to incentivise the private sector and public entities to undertake mitigation activities for sustainable development. Under this mechanism, a country can purchase emission reductions from public and private entities of the host country and use it to meet its NDC targets. However, this does not automatically imply that emission reductions transferred from a host country be adjusted against its NDC targets. It must be appreciated that these reductions represent additional efforts of the private sector or public entities to mitigate greenhouse gas emissions, and in fact raise global climate ambition. This is also in line with the provision of Article 6.5 of the Paris Agreement wherein the host country is not required to undertake corresponding adjustment for the projects outside its NDC.

Being a developing country, India does not need to undertake economy-wide emission reduction targets at this stage of its development. This means, not all mitigation actions fall within the purview of its NDC. Therefore, it can significantly gain from the market mechanism under Article 6.4 by selling emission reductions that lie outside its NDC. The counter view of developed countries, that this will deter raising ambition levels, is flawed as such efforts will in fact be additional to what have been committed in the NDC. Robust accounting will ensure that there will be no double-counting of emission reductions.

Share of Proceeds (SOP) to the Adaptation Fund: For developing countries, adaptation is a necessity. However, it remains severely underfunded compared to financing for mitigation activities. While developing countries emphasise that the SOP must be uniformly applied to Articles 6.2 and 6.4 to fund adaptation, developed countries want to restrict its application to Article 6.4. This would disincentivise the Article 6.4 mechanism and limit voluntary cooperation to the cooperative approaches under Article 6.2 favoured by developed countries.

India, U.S. to collaborate on reaching green energy targets

In a way, carbon markets allow developed countries to keep emitting greenhouse gases while developing countries benefit from the revenue generated from the sale of their carbon credits. Central to the discussions on Article 6 is equitable sharing of carbon and developmental space. Climate justice demands that developing countries get access to their fair share of global carbon space. As developing countries are nudged to take greater mitigation responsibilities, a facilitative carbon market mechanism that respects the principles enshrined in UNFCCC would greatly help accelerate their transition to low carbon development and would be a win-win solution for all countries.

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The views expressed are personal

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