

Expectations related to the role of carbon markets in the Paris Agreement

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Summary

Going into Bonn, the Paris draft treaty text has been successfully shortened down to 20 pages, including the draft agreement and accompanying draft decisions. While this reduction in size is a positive step towards approaching the future climate treaty, some important elements went missing, and this session offers Parties the chance to repair such oversights. Some of the lost elements include:

- Environmental integrity standards for possible use of carbon markets post-2020
- Rules to avoid double counting of internationally traded units
- Rules to avoid the build-up of hot air in the 2015 Paris agreement
- Promoting early action while upholding environmental integrity
- Ensuring international aviation does its fair share towards the 1.5C goal
- Robust language on Human Rights in the operative part of the core agreement

A possible role of carbon markets post-2020 while ensuring environmental integrity

Only a few countries have outlined in their INDCs that they will use international emissions trading to count towards their climate goals. It is in many ways positive that countries like the EU and US are focusing on domestic emission reductions. To reach the needed goal of near-complete decarbonization by 2050, the focus must not just be on international carbon trading but in effecting structural changes towards zero carbon infrastructure, progressing efficiency gains and achieving 100% renewable energy. The complementarity principle is an important one to ensure that decarbonization is indeed being achieved.

Despite the limited role of markets expressed in INDCs, the political reality regarding domestic carbon pricing schemes looks different: jurisdictions responsible for 40% of the global economy have already implemented carbon pricing mechanisms and recently China announced that it will roll out a national carbon market from 2017 onwards. More and more countries implement carbon pricing mechanisms as a way to reduce their greenhouse gas emissions and make the polluter pay. Whether domestic markets have plans to link up to enable international trading in the future is still uncertain but already being discussed.

The draft Article 9 (transparency) para 6 hints on a possible use of markets by stating that the CMA shall at its first session, building on lessons learned and elaborating on the provisions above, adopt modalities, procedures and guidelines, as appropriate, for promoting environmental integrity, *“taking into account the need for flexibility in the light of capability.”*

To ensure environmental integrity, Parties have already agreed in Durban (decision 2/CP.17, paragraph 79) and Doha (1/CP.18 paragraph 42) on a set of core principles that must govern the use of markets under a 2015 agreement, namely that the promotion of environmental integrity shall include the recognition that any standards must deliver “real, permanent, additional and verified mitigation outcomes, avoid double counting of effort, and achieve a net decrease and/or avoidance of greenhouse gas emissions”. This language needs to be moved from the draft decision section of the current co-chairs’ text and placed in the treaty text, so that these principles remain durable throughout the lifetime of the agreement. As well as these, it is important that any use of markets contribute towards sustainable development in the host country.

Recommendation:



Principles for any use of markets need to be an integral part of the Paris treaty, and be moved from the draft decision text. All standards introduced must deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort, and achieve a net decrease and/or avoidance of greenhouse gas emissions, while contributing to sustainable development

Avoiding double counting, and the role of the CDM post-2020

The Clean Development Mechanism (CDM) is often praised for having mobilized billions of dollars of investment and for continuing to leverage private sector investment ten times greater than the public funds allocated. However, ever more diminishing demand of carbon credits in the past and the fact that hardly any countries have pledged demand for offset credits under the future Paris agreement leaves the future of the CDM uncertain. In the post-2020 regime, potential demand for CDM offset credits can come from parties that do not have comprehensive targets under the Paris agreement.

Richer countries need to ensure that adequate climate finance is made available to those developing countries, such as Ethiopia, Rwanda, Haiti and Cambodia, whose INDCs are largely predicated on being able to sell offsets. This could still come from the UN’s Clean Development Mechanism if money spent is counted towards climate finance obligations and reductions achieved towards the host countries’ conditional targets. This option would avoid the risk of mitigation double counting - as a credit and then towards the donor country’s INDC - although it would not preclude a host country selling offsets, as long as these were cancelled from its own national emissions registry. There are currently no rules in the draft negotiating text that would prevent such double counting and it is imperative that there be provisions in the text for this, to avoid a whole new hot air problem post 2020. To continue to be used, however, the CDM would need some fundamental reform, including technology eligibility assessments, and sustainable development indicators.

Many multilateral development banks and institutions, as well as the Green Climate Fund (GCF), apply safeguards and performance standards to help ensure that climate finance does not cause environmental and social harms, including human rights impacts. Yet, the CDM has not adopted safeguards or other mechanisms to prevent social and environmental impacts and human rights violations - this will make it hard for the CDM to be competitive with other mechanisms.

Recommendation:



The CDM could become an instrument for climate finance post-2020, but needs to adopt safeguards or other mechanisms to prevent social and environmental impacts and human rights violations. It would also need some fundamental reform, including technology eligibility assessments, and sustainable development indicators. The text also needs to include provisions to avoid double counting.

Avoiding hot air in the 2015 Paris agreement

A key consideration for the Paris treaty is how to incentivize real additional climate action while avoiding “hot air” credits. The lack of environmental integrity of market mechanisms under the Kyoto Protocol have so far created an 11 gigatonne “hot air” loophole undermining the viability of the first international climate treaty. This can be avoided in the future by enforcing strict rules to ensure that only Parties with ambitious mitigation targets, in line with a fair contributions towards the 1.5°C goal, are allowed to use market mechanisms. These Parties’ commitments would need to be in the form of a quantified absolute emissions reduction target, based on historical reference levels, and be expressed a multi-year CO2 budgets. Economy wide MRV and accounting are also important as an assurance towards the environmental integrity of the market.

Moreover, we need to strictly avoid any carry-over of internationally traded units or emissions reductions from pre-2020 to count towards compliance with the Paris agreement.

Recommendation:

Only Parties with strong domestic, economy wide targets, based on historical baselines, should be allowed to trade to ensure new hot air is not created. Strong MRV provisions will also help to give confidence in the credits representing real emissions reductions



Promoting early action while upholding environmental integrity

It will be key to ensure that any possible credits for early action only count towards commitments up to 2020 and not be used for compliance for the new global climate agreement. Allowing early action credits to count towards the post-2020 targets will not serve to contribute to the needed rapid action to reduce emissions and will undermine the goals that climate science indicates are necessary. It is not only the 2020 climate targets, but also the post-2020 commitments submitted for the new global climate agreement, that fall short of what is needed to stay below 1.5°/ 2°C warming. Allowing early action credits to count towards the post-2020 commitments will therefore at best only delay the problem of insufficient targets not driving the required deep mitigation actions.

Similarly, while early action should be promoted as it can help close the pre-2020 ambition gap, it is extremely difficult to ascertain if early action credits amount to more than hot air. Early action should instead be supported through the mobilization of new and additional climate finance for pre-2020 mitigation measures in developing countries and through increasing the 2020 targets of developed countries.

Recommendation:

Early action is needed, but should not count towards post-2020 targets. Early action should instead be supported through the mobilization of new and additional climate finance for pre-2020 mitigation measures in developing countries and through increasing the 2020 targets of developed countries.



International aviation

The International Civil Aviation Organization (ICAO) currently aims to increase emissions from the sector to 2020, then flatline them by offsetting the rapid growth in the sector with emissions credits. With seemingly little appetite for any real quality constraints on eligible credits, and a refusal to draw on the lessons of existing carbon markets, ICAO risks not achieving even its own very modest target.

The UNFCCC needs to call upon ICAO, and its international maritime counterpart, the IMO, to reduce emissions in line with their fair share of effort towards the 1.5C goal, and to create levies on their measures to generate adaptation funding for the impacts they have contributed to. While the 'climate neutral growth' target may be a politically realistic starting point, for the climate it is clear the sector will need to do more, and ICAO will need to ratchet its ambition considerably through time.

Recommendation:

The UNFCCC needs to call upon ICAO, and its international maritime counterpart, the IMO, to reduce emissions in line with their fair share of effort towards the 1.5C goal and to create levies on their measures to generate adaptation funding for the impacts they have contributed to.



Human Rights & Climate Change

The current Co-Chairs text provides a reference to human rights only in the draft COP decision in the preamble, despite the fact that a number of parties expressed their support for the inclusion of a human rights reference in the operative part of the core agreement at the last ADP session held in September.

A human rights based approach is generally considered as a recognition of existing obligations, including with regard to i) safeguards and accountability ii) full and effective public participation in design and implementation of measures to address climate change, and iii) support for poorer countries whose capacities to protect their citizens' human rights are strained by climate change impacts. To ensure that Paris will also deliver for the most marginalized and vulnerable people, it is crucial to include human rights in Article 2 of the core agreement.

Last but not least, Paris will see an opportunity to address the social dimension of climate mitigation mechanisms. Several parallel processes on safeguards are currently under way and need to be urgently streamlined. These processes relate especially to establishing a grievance mechanism under the CDM, the implementation of the REDD+ safeguards information system (SIS) and the eligibility criteria for programmes to access climate finance through the Green Climate Fund.

A closer look at instruments established under the United Nations Framework Convention on Climate Change (UNFCCC) to address climate change reveals that so far the Cancun mandate has hardly been operationalised and enforced. In addition, a lack of harmonised guidance has resulted in a fragmentation of criteria and standards across mechanisms with current mechanisms applying very heterogeneous approaches to the promotion of sustainable development, the consultation of local communities and access to redress mechanisms.

To hamper this fragmentation an institutional social and environmental safeguards system should be established that is applicable to all UNFCCC mechanisms and funds, including best practice guidance on stakeholder consultations and human rights impact assessments. This provision can be included in the mitigation section of the COP decision.

The Paris treaty should read as follows:

"All Parties shall, in all climate change related actions, respect, protect, promote, and fulfil human rights for all, including the rights of indigenous peoples; ensuring gender equality and the full and equal participation of women; ensuring intergenerational equity; ensuring a just transition of the workforce that creates decent work and quality jobs; ensuring food security; and ensuring the integrity and resilience of natural ecosystems."



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