UN market negotiations: Will we learn from the past?

The divide between countries on key elements of the new UN carbon markets became apparent at the last UNFCCC session which closed last week in Bangkok. Open questions around the transition of old markets and how to ensure that carbon offsets do not water down climate ambition are set to continue during COP24, when major rules of the Paris Rulebook are expected to be finalised in December in Katowice, Poland.

It was an intense week for UN climate negotiators in the Thai capital, where countries met to flesh out the rules of the Paris Agreement. Discussions around the next generation of carbon markets have been no exception to the general sense of momentum surrounding these talks, as multiple contentious issues have also emerged on topics related to finance, adaptation and ambition.

Three years after the adoption of the Paris Agreement, we are again at the door of a historic climate deal. The decision to come out of Katowice will set the course of international climate action for decades to come, which makes this upcoming conference just as significant as the 2015 climate accord, if not more. Carbon markets have an important role to play in this as they can be both a source of greater ambition, and a cause of failed action, depending on how regulated they are. At this stage, many options are still on the table, ranging from a robust set of rules which would provide a good basis for ambitious climate action, to a watered down set of meaningless jargon which would endanger all adopted pledges.

Key issues under discussion include the transition of old market mechanisms to the new system, how to ensure that the aviation sector’s offsetting mechanism contributes to climate action, and does not undermine it, and how to learn from the past to better protect local stakeholders from potential negative impacts of projects funded through carbon markets.

The future of the CDM

At the heart of this political showdown will be the future of the Clean Development Mechanism (CDM), a controversial carbon market which has not lived up to initial expectations due to issues regarding the environmental integrity of projects and the lack of social safeguards. Numerous organisations have been calling for the end of the mechanism, and a recent promotion of the system by the UNFCCC secretariat, mocking real climate action in favour of carbon offsets, has rightly received heavy criticism. Some countries with large vested interests in the continuation of the mechanism, such as Brazil, have voiced their support for it, arguing that the mechanism has greatly reduced emissions and supported countries in raising their level of ambition. However, other countries, such as the EU, have started to agree with the many calls to end the CDM and instead take the necessary steps to ensure that the new markets generate new emissions reductions.

How to deal with the aviation mechanism CORSIA

Another key issue to settle will be the need to avoid double counting of carbon credits by countries and airlines, as both groups will work towards achieving their climate targets after 2020. While options for good accounting rules are currently included on the table, so are proposals which would provide a free-for-all supply of worthless credits. Some countries will have to stand their ground to defend climate ambition.

New markets must include new safeguards

Markets are not just balance sheets and trades. Underneath these credits are real projects happening on the ground, with very real impacts on people and the environment. Although social safeguards did not receive the attention they deserved during the latest round of negotiations, the
issue is expected to be discussed this year, and lessons from the CDM will have to be drawn. These have taught us that without proper safeguards, emissions reductions projects can severely damage the environment and the livelihoods of local communities. In some instances, they even result in infringements on Human Rights. This is unacceptable for any market, but even less so for a system set up by the international community to improve the living conditions of people through the reduction of harmful greenhouse gas emissions. Therefore, Article 6 must include strong rules on local stakeholder consultations, and set up a transparent and inclusive mechanism to address grievances.

It matters more than you think

At COP24, countries will have less than a week to find an agreement on these technical issues; along with many other yet unresolved questions. This task will be herculean and the stakes are high. Without good rules, the next generation of markets could provide a virtually endless supply of worthless credits to artificially meet post-2020 climate pledges, which would undermine the global transition towards a more sustainable future. On the other hand, good rules have the potential to spur new projects which reduce emissions and benefit communities. Discussions at COP24 are likely to be tense, but they will be crucial in shaping the future of our shared planet.