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What does the current standstill in carbon market talks mean for the future?

It's been a month since the closing gavel fell on COP24 in Katowice, Poland. Negotiations on the rules that will govern international climate policy over the coming decades -commonly known as the "Paris rulebook" were supposed to be agreed in full during this session. However as the talks ran into overtime and countries could not reach agreement on market mechanisms provisions,the decision was taken to leave these issues out and reopen them again at the next intersession and COP25.

Talking about carbon markets

Before the last minute stalemate at the UNFCCC, market discussions where moving in various directions. A grievance mechanism, for instance, seemed to have been agreed upon, while others like Overall Mitigation in Global Emissions (OMGE, i.e. going beyond the zero-sum game of offsetting) remained voluntary for countries who could simply claim that participation in the market itself met the OMGE requirement. By far, the two thorniest issues, –**avoidance of double counting** and the **carry over of aging junk credits** from the Kyoto Protocol, proved impossible to resolve.

In parallel market negotiations under the International Civil Aviation Organisation (ICAO), also failed to meet its own 2018 deadline for agreeing the types of offsets eligible for use by airlines, starting in 2021. While many stakeholders, including Carbon Market Watch, have repeatedly warned of the risks of double counting of emission reductions and relying on junk credits to meet climate pledges, it is important to take a step back and look at what the absence of guidelines means for the current and future state of carbon markets.

License to pollute?

The fact that market mechanisms are the only item for which no agreement could be found is symptomatic of the wider conflict of ideologies among observers, stakeholders, and the public at large. While some see carbon markets as a cost-effective way to reduce emissions (which in turn allows an increase in ambition) others conceive such markets as nothing more than a greenwashing stunt. As is often the case, the reality probably lies somewhere in between. While markets are far from the perfect theoretical example of cost containment, they can, if conducted correctly, play a role to incentivise emission reductions through activities which would otherwise not have happened.

Markets should not be used to justify growth, or even stagnation, in emissions. The aviation sector's carbon market, CORSIA (expected to launch in 2021) is a prime example of this, as it allows endless growth in aviation emissions as long as its compensated for. Should this growth in emissions be 'offset' with junk credits, such as those from the Clean Development Mechanism (CDM), then CORSIA will indeed be little more than a license to pollute for the aviation sector.

Deep uncertainty

Failure to agree on essential accounting provisions does not prevent trading of carbon credits from 2020. Both ICAO and UNFCCC's carbon markets are likely to be functional, even in the absence of specific guidance on accounting or other safeguards. The consequence of trading carbon credits with no further guidance could however be catastrophic. Not only could it fail to deliver any real emission reductions, but it could actually increase emissions significantly, harm communities and destroy the environment.

Some countries have already decided to push ahead with initial pilot projects. For example, Switzerland -which is planning to meet nearly half of its 2030 CO2 reduction objective through the use of carbon offsets- is planning to call for tenders from project developers in March, while ensuring project safety, in the absence of global rules. In South Korea (another expected buyer of units) private companies are continuing to register CDM projects to claim units inside their domestic ETS. Carbon trading will therefore not halt due to lack of international rules, it simply means the lines become much more blurred.

Turbulent times ahead

The standstill at the UNFCCC level could have a negative impact on the negotiations of the aviation sector's carbon market. Despite a deadline of 2018, there is still no agreement on which types of offsets will be available to aviation to compensate their emissions growth post-2020. While this *can* still be resolved in time for ICAO's mechanism to start, allowing airlines to buy carbon offsets in the absence of accounting rules at UNFCCC level would be a dangerous mistake, as it leaves the door open to accounting tricks by offset providers.

2019 will therefore be a crucial year for the future of carbon markets. Negotiations at UNFCCC level will have to advance much further than now, and lead to strong rules which avoid double counting, prevent the use of old carbon credits and protect local communities and the environment. In parallel, countries active in ICAO will also have to decide which types of offsets should be eligible for CORSIA, and how accounting rules can be harmonized between UNFCCC and aviation. How countries deal with these issues over the coming year will greatly determine the usefulness of emissions trading for decades to come.

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