DATE 04/06/2021

Time to make Article 6 work for the climate

Going beyond zero-sum game offsetting to deliver real benefits

The Paris Agreement Article 6 must go beyond the zero-sum logic of offsetting and actually deliver an overall mitigation in global emissions (OMGE). This topic will be discussed this week by countries as part of the ongoing UNFCCC negotiations. Until now, countries have not agreed on this most basic element. Delivering OMGE in Article 6 requires that the system generates actual reductions which are not used to compensate emissions. These reductions should not be counted by anyone, and should be a net benefit for the atmosphere. A new paper by the think tanks Climate Analytics, NewClimate Institute and Oeko-Institut yet again confirms the multiple benefits of delivering an overall reduction.

For Carbon Market Watch's overall perspective on Article 6, see here. CMW has also been publishing a series of technical submissions, responding to a call for input from the UNFCCC: April, May, June.

Article 6 of the Paris Agreement lays the groundwork to establish a market mechanism for climate action, mandating that it "shall aim to deliver an overall mitigation in global emissions". This means that simple 1-1 carbon offsetting won't do any more.

Zero-sum offsetting is problematic for several reasons: 1) it encourages polluters to displace their emissions elsewhere and carry on as usual; 2) it only reduces emissions if one assumes the buyer of the offset would have otherwise done nothing -- doing nothing is simply unacceptable and even increasingly legally untenable (looking at you Shell...); 3) it can even directly increase emissions overall, if the carbon credits don't represent real emission reductions.

As it turns out, these problems were rife under the Kyoto Protocol, which is precisely what Article 6 seeks to correct by mandating an overall mitigation in global emissions (OMGE).

While it's clear that the Paris Agreement's market mechanisms vitally need to deliver OMGE, some of the options proposed by countries on how to do so will not work. Below we explain why.

DATE 04/06/2021

Option #1 - "the market delivers OMGE on its own" [definitely not!]: this presupposes that no specific rules are needed to deliver OMGE, which relies on some shaky assumptions. Specifically, this option assumes that:

1) Buyers have a fixed budget to spend on climate. This is not a given.
2) Carbon credits consistently represent real emission reductions. In reality, many credits often historically had, and continue to have, low environmental integrity.
3) The cost savings from buying credits compared to reducing one's own emissions are reinvested into buying more credits. There is no assurance this will occur.

Thinking that the mere existence of a market will boost mitigation is not only illusory, it also contradicts direct experience from the past, e.g. under the Kyoto Protocol.

Option #2 - "setting overly conservative baselines" [better but it's not enough]: typically, baselines are set to predict an expected business-as-usual scenario for emissions, but under this option they would purposefully be set below business-as-usual so that not all achieved emission reductions lead to the creation of credits. However, the reductions are still counted by the host country. Instead of generating "extra" reductions which no entity claims, this method rather serves as a "benefit sharing" mechanism, i.e. some of the reductions paid for by the buyer are counted by the host country (and not by the buyer). This is not the same as requiring the buyer to pay for extra reductions which will not be counted by anyone. Conservative baselines indeed serve as an important prerequisite for carbon markets to work well, but on their own they cannot deliver OMGE.

Option #3 - "automatic partial cancellation of credits" [finally!]: with this option, when credits are first issued or transferred, a fixed share would be automatically cancelled such that it is not counted by anyone. The host country would not count the reduction (i.e. it applies a corresponding adjustment for all reductions achieved through the project), and the buyer only counts the credits it receives. The cancelled credits are thus a net gain for the atmosphere.

An automatic partial cancellation can deliver numerous benefits, first and foremost to the climate but also to project developers. Schneider et al. (2018) found that applying a cancellation rate would increase countries' overall mitigation and lead to higher carbon market prices -- the costs of supplying credits would increase, but this would be outweighed by more revenue from higher credit prices. These findings stand in contrast to claims that a cancellation of credits would negatively impact project developers and host countries by reducing demand. Recently, 3 leading think tanks also found that the higher cancellation rates are, the greater overall mitigation is and the more credit prices, market revenues, and project owner profits also

increase. The paper, which is worth a full read, also highlights the (largely positive) interaction between credit cancellation and share of proceeds for adaptation.

Applying an automatic partial cancellation of credits to the framework of the Paris Agreement should be a no-brainer. Doing so is essential to ensure that emissions are reduced overall through the use of market mechanisms, rather than simply displaced elsewhere. Of course, it is not the only guarantee to deliver OMGE through carbon markets -- and the rate at which it is set is highly important -- but it would at least be a vital starting point.