Article as a Window for Climate Finance for developing countries

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Article 6

Article 6 doesn't mention about "market" itself,

But…

- Indicate the importance of carbon pricing…
- Emphasizes voluntary cooperation in order to implement NDCs..
- Presumes using market principles through Article 6.2 and 6.4

What does this mean?

Why Article 6 is important?

- A basis to promote inter-state cooperation to achieve the goal of the Paris Agreement
- An window for climate financing
- An important way of ensuring transparency and sustainable development

Article 6

1. Parties recognize that some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contributions to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity.

2. Parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred mitigation outcomes towards nationally determined contributions, promote sustainable development and ensure environmental integrity and transparency, including in governance, and shall apply robust accounting to ensure, inter alia, the avoidance of double counting, consistent with guidance adopted by the Conference of the Parties serving as the meeting of the Parties to this Agreement.

3. The use of internationally transferred mitigation outcomes to achieve nationally determined contributions under this Agreement shall be voluntary and authorized by participating Parties.

4. A mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development is hereby established under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to this Agreement for use by Parties on a voluntary basis. It shall be supervised by a body designated by the Conference of the Parties serving as the meeting of the Parties to this Agreement, and shall aim:

(a) To promote the mitigation of greenhouse gas emissions while fostering sustainable development;

(b) To incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party;

(c) To contribute to the reduction of emission levels in the host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfil its nationally determined contribution; and

(d) To deliver an overall mitigation in global emissions.

5. Emission reductions resulting from the mechanism referred to in paragraph 4 of this Article shall not be used to demonstrate achievement of the host Party's nationally determined contribution if used by another Party to demonstrate achievement of its nationally determined contribution.

6. The Conference of the Parties serving as the meeting of the Parties to this Agreement shall ensure that a share of the proceeds from activities under the mechanism referred to in paragraph 4 of this Article is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

7. The Conference of the Parties serving as the meeting of the Parties to this Agreement shall adopt rules, modalities and procedures for the mechanism referred to in paragraph 4 of this Article at its first session.

8. Parties recognize the importance of integrated, holistic and balanced non-market approaches being available to Parties to assist in the implementation of their nationally determined contributions, in the context of sustainable development and poverty eradication, in a coordinated and effective manner, including through, inter alia, mitigation, adaptation, finance, technology transfer and capacity-building, as appropriate. These approaches shall aim to:

(a) Promote mitigation and adaptation ambition;

(b) Enhance public and private sector participation in the implementation of nationally determined contributions; and

(c) Enable opportunities for coordination across instruments and relevant institutional arrangements.

9. A framework for non-market approaches to sustainable development is hereby defined to promote the non-market approaches referred to in paragraph 8 of this Article.

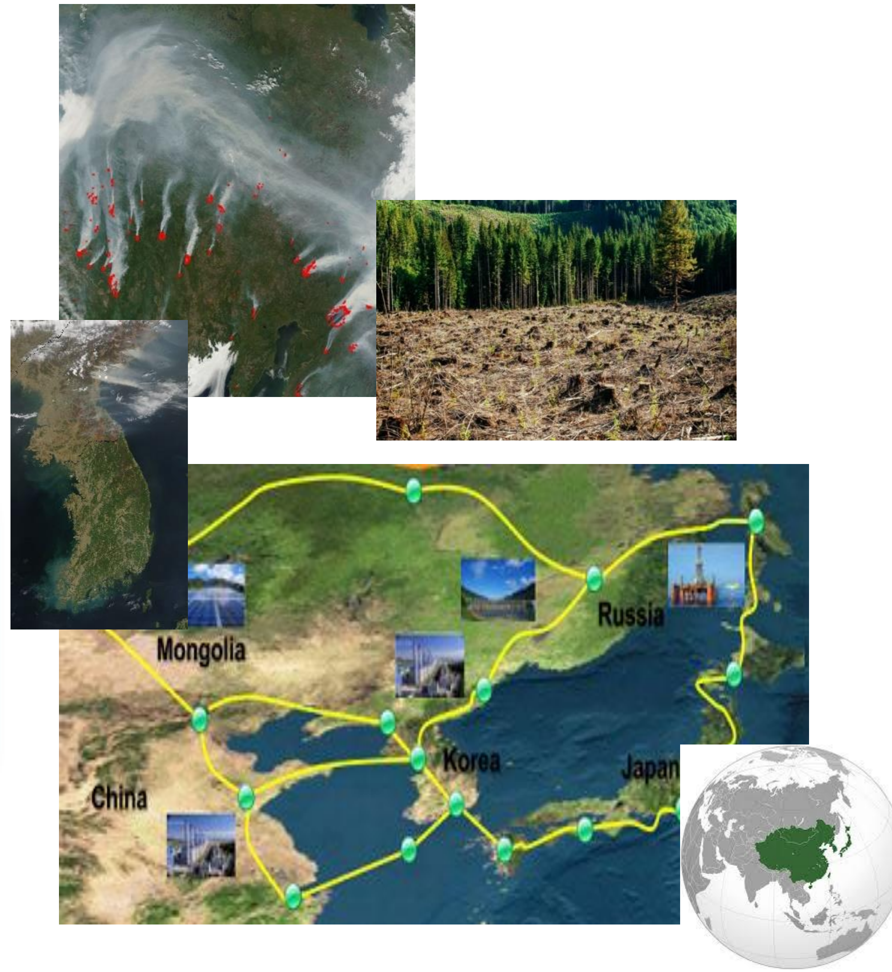
Why Article 6 is important?

Building political momentum

Creating shared interests (e.g. supergrid, forestry)

Securing broad participations (e.g Mongolia, North Korea, Russia)

Ensuring compatibility with PA (voluntary cooperative approaches measures, Art 6.4 Mechanism)



Roles of Carbon Market

Fundamental of Carbon Markets

- Markets mechanisms provide flexible and cost-effective means of abating emissions.
- Through trading, emitters/compliance entities can access lowest-cost mitigation opportunities.
- By expanding the range of mitigation opportunities and allowing mitigation to be achieved at the lowest cost, market mechanisms can enable Parties to be more ambitious.
- The scale and the cost-effectiveness of mitigation action through carbon markets are very dependent on smooth functioning of such markets: environmentally robust , linked and liquid carbon markets provide the best conditions.

Role of Market Mechanism

Kyoto Protocol

Flexible and cost effective GHGs reduction by Annex I countries

Paris Agreement

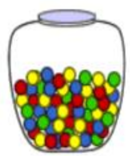
- Important tool for NDC implementation (applicable to all)
- Low carbon technology development and transfer
- Sustainable Development

Article 6 concerns
only **transboundary** cooperation

Why cooperation

Cost saving: World Bank report finds that collective / flexible achievement of mitigation could cut cost by up to 33% by 2030 (and 50% by 2050)

- Savings by accessing lower cost mitigation options
- Savings by sharing instruments



Flexibility: more mitigation options if the abatement potential is pooled

- Countries with limited/costly mitigation potential: can find abundant and lower cost mitigation options
- Countries with large and low cost mitigation potential: benefits from green investments

Win-Win

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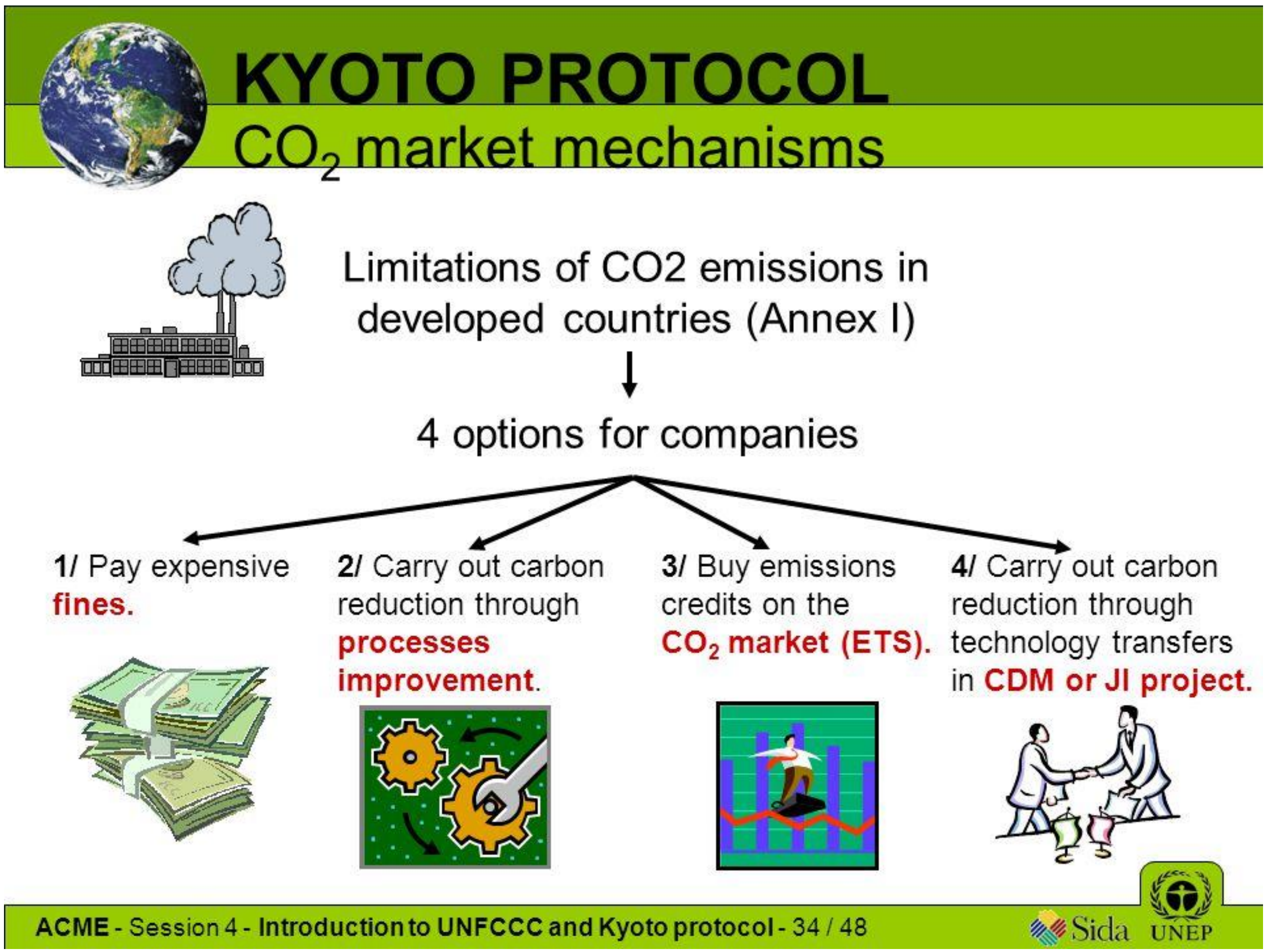
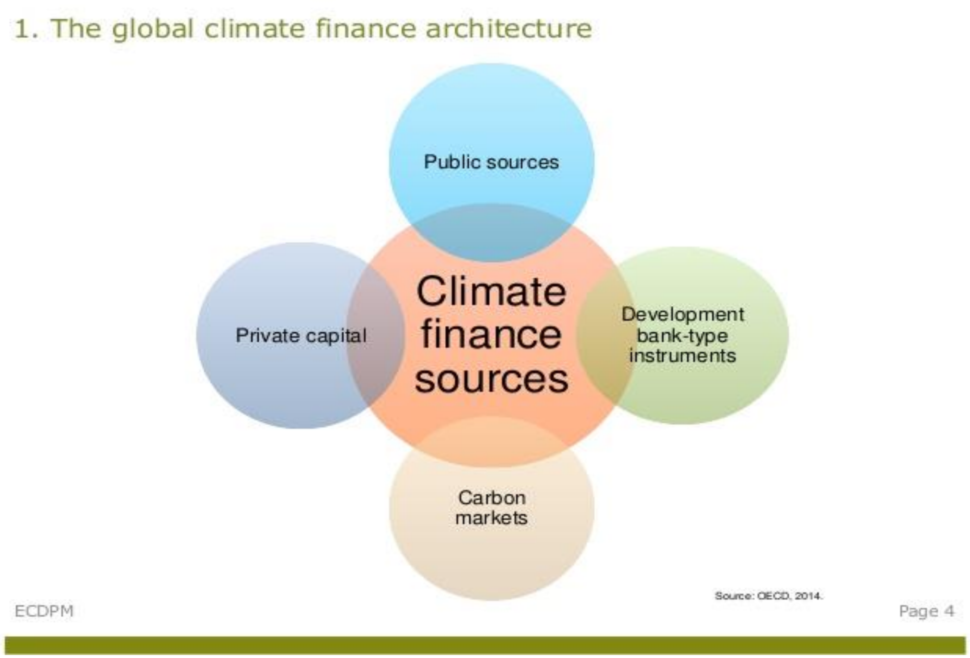
Pre-Paris Agreement

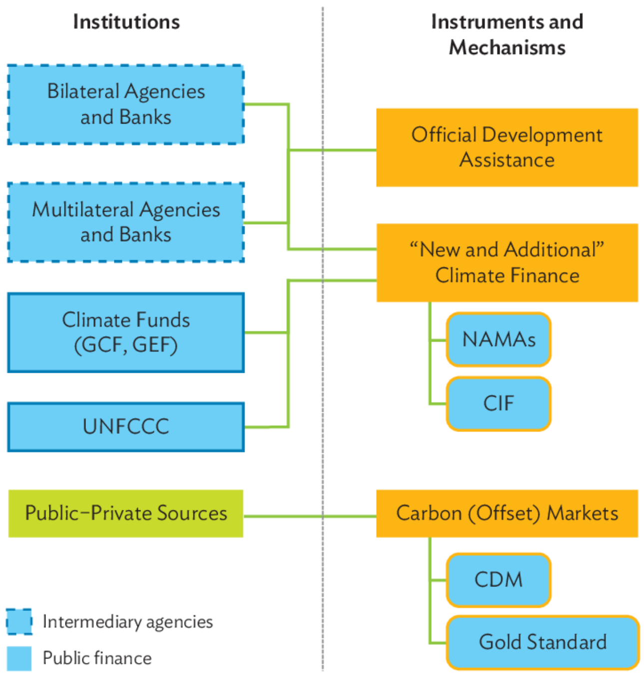


Article 6
as a window for Climate Finance



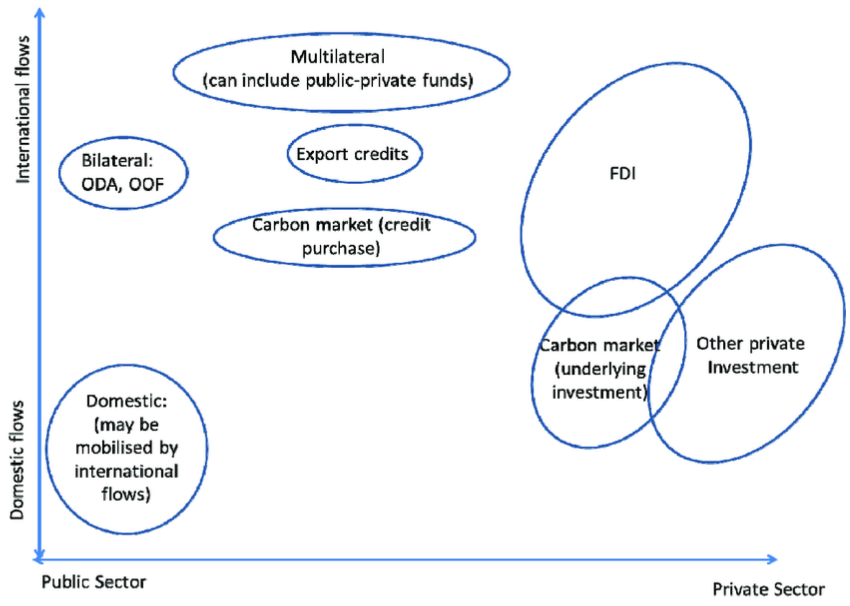
Carbon market OR Climate Finance

Carbon Market AND Climate Finance



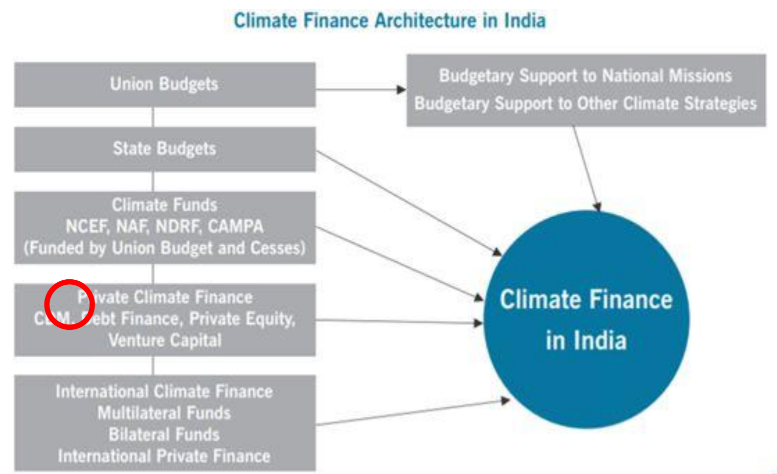
CDM = clean development mechanism, CIF = climate investment funds, GCF = green climate fund, GEF = Global Environment Facility, NAMA = nationally appropriate mitigation action, UNFCCC = United Nations Framework Convention on Climate Change.

Source: Authors.

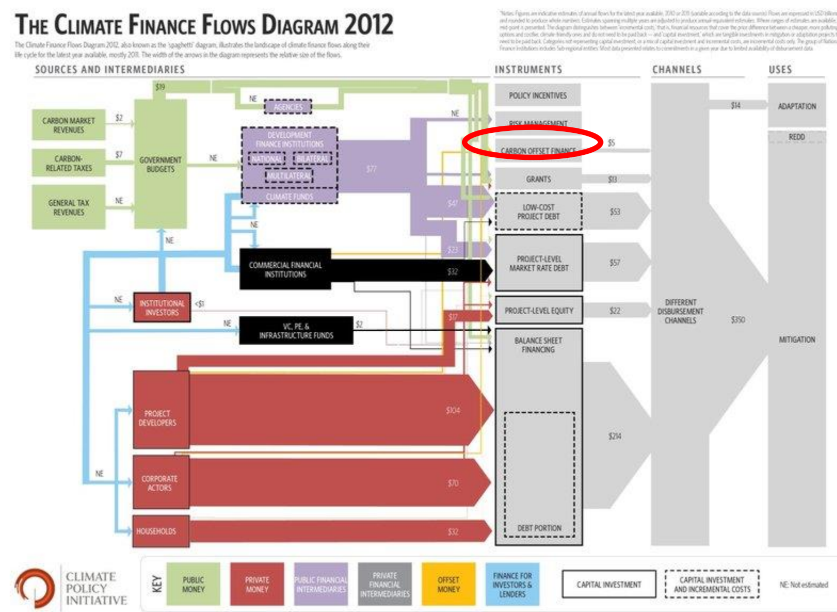


Carbon Market as a window for Climate Finance

India



Global



Article 6

Article 6.2-6.3:

Cooperative Approaches (Guideline),
Government to Government

- Voluntary participation
- Bottom-up
- ITMOs
- Party focused
- Sustainable Development
- Environment Integrity and Transparency
- Double counting
- Towards Nationally Determined Contributions

Article 6.4-6.7

Mechanism (Rules, Modalities & Procedures)
More role of Private Sector

- CMA supervision
- Top-down
- Mechanism to contribute to the mitigation of GHG emissions and to support SD
- Participation by public and private entities
- Overall mitigation in global emission
- Double counting

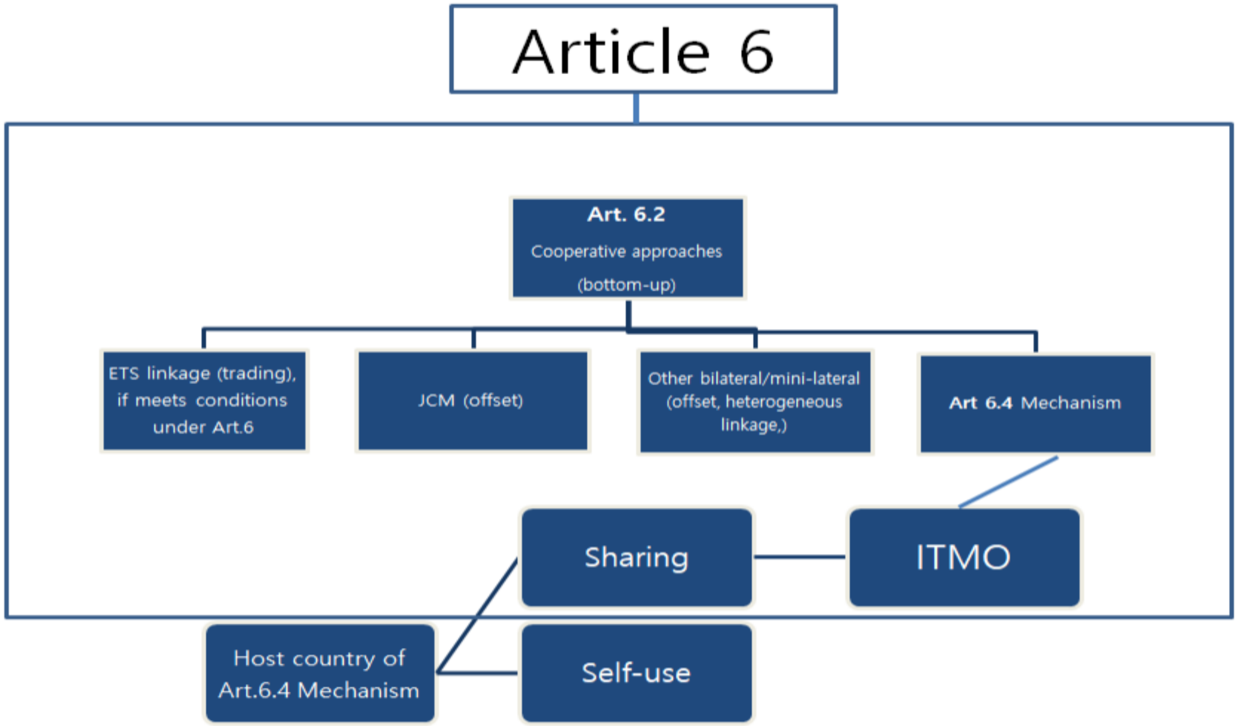
Article 6.8-6.9

Non-market Mechanism

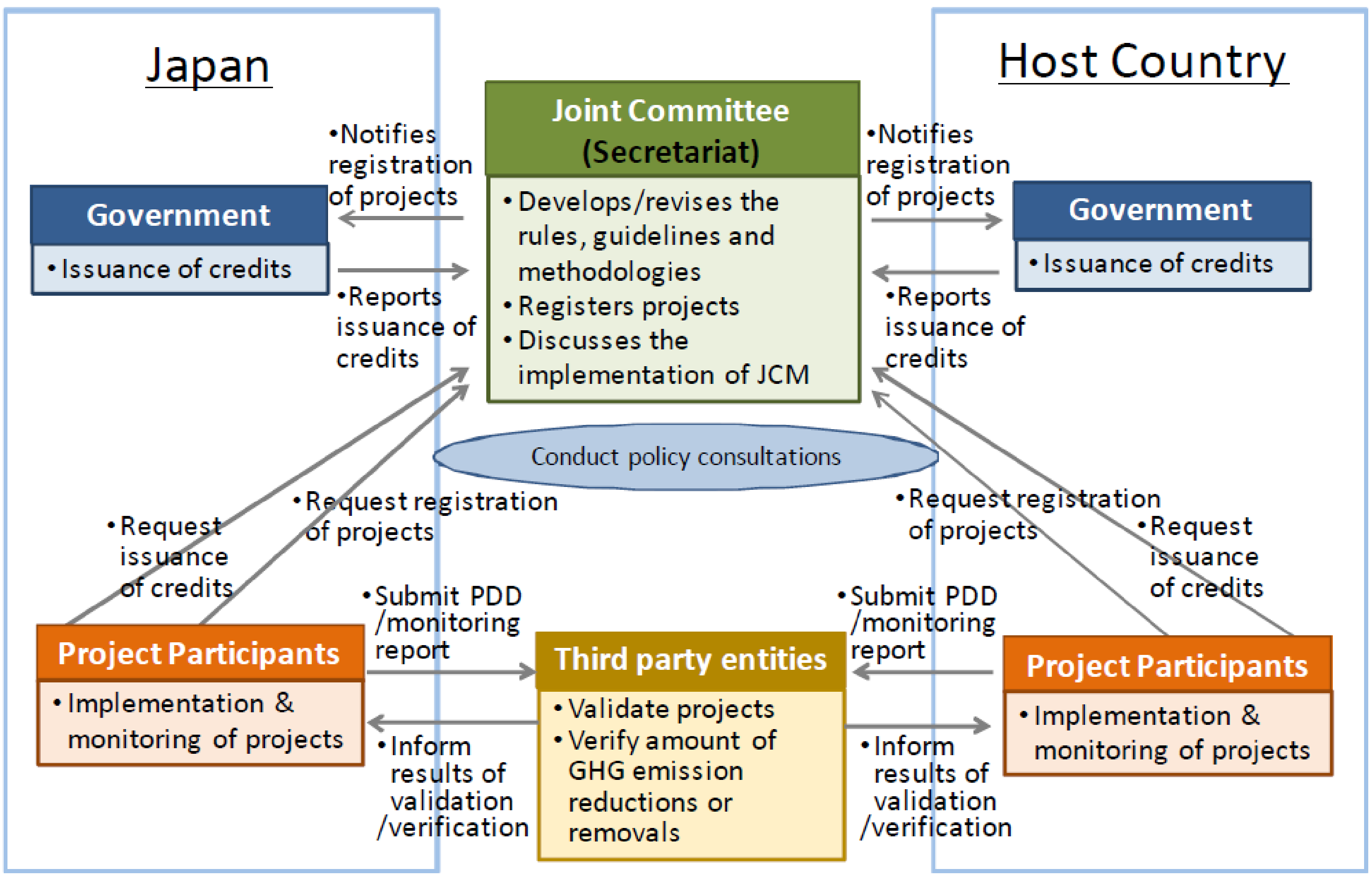
(Work Program)

- Importance of integrated, holistic and balanced non-market approaches
- Mitigation, adaptation, finance, technology transfer and capacity-building
- Framework for non-market approaches

Structure of Article 6

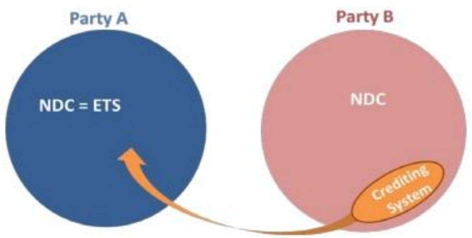


Joint Crediting Mechanism

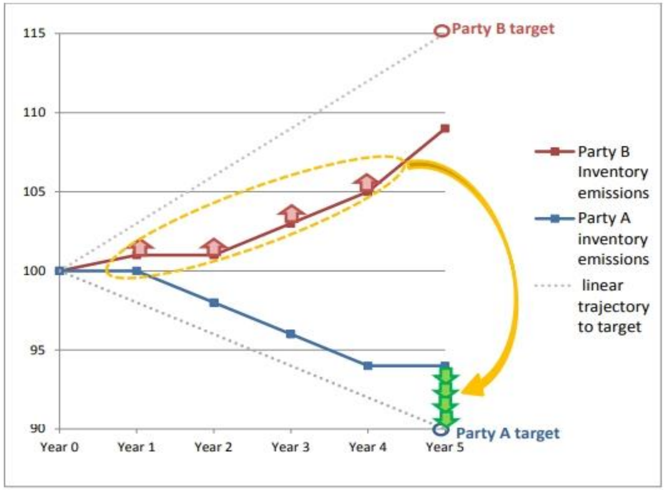


Example C

Party A has an emission trading system (ETS) covering its whole economy. Units from Party B's crediting system are purchased by companies in Party A's ETS.

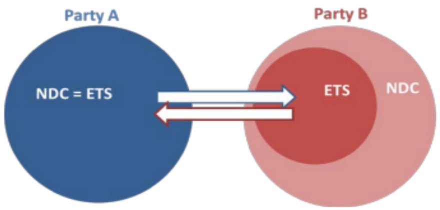


Party B transfers 1Mt each year from its crediting system to Party A companies from Year 1 to Year 4. There are no transfers in Year 5. Party A companies use all the 4Mt of units in Year 5.



Example D

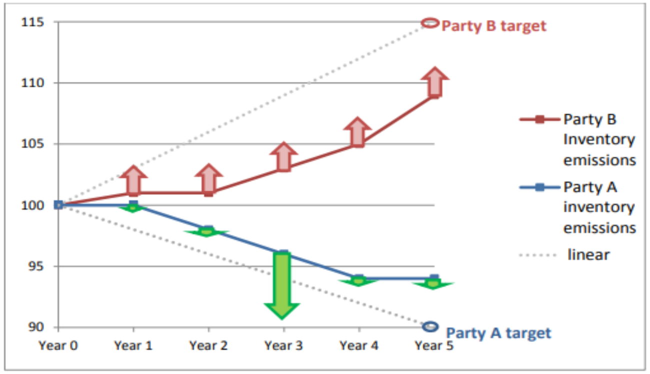
Party A and Party B have linked ETS systems, trading allowances that are used for compliance across both ETSs.



- Party B's ETS covers around half of its emissions, and has annual compliance obligations.
- Party A's ETS covers its whole economy, and has 3-year compliance cycles. Party A companies are only required to retire allowances for a portion of their emissions in the first two years of each compliance period, then must submit remaining allowances in the 3rd year. In this example Year 3 is an ETS compliance year (Year 6 would be the next one).

There is a net transfer of 2Mt each year from Party B's ETS to Party A's ETS (shown in red).

After the adjustment shown in Year 5, Party A's ITMO-adjusted emissions are above its target level. This is because Year 5 is not an ETS compliance year (and therefore fewer units are used). If Year 5 of the NDC cycle did fall on an ETS compliance year, Party A would instead appear to overachieve its NDC due to the additional units retired in that year.



Future of CDM under the PA

Closing CDM with complete replacement with other mechanism under Article 6

Independent development of Article 6.4 mechanism with phasing out CDM

Co-existence of CDM and Art.6 Mechanism

Incorporation into Article 6

For Example, SB 46 side event (UNFCCC)


파리 협정 제6조와 동북아 탄소시장
International Conference on Article 6 of Paris Agreement and Northeast Asian Carbon Market


Work in progress

Thank you!

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