

FNCI Meeting: COP25 Highlights & Article 6

Overview & Outlooks

18 December 2019

Vancouver, Canada



IETA
CLIMATE CHALLENGES
MARKET SOLUTIONS

IETA Members Worldwide



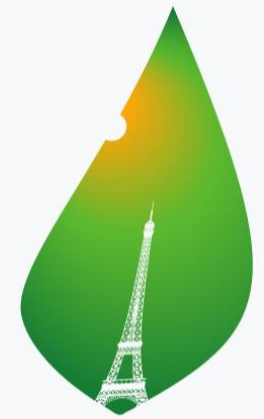
Overview

- **Madrid High-Level Outcomes**
- **Journey Through COP25 & Era of Enhanced Ambition**
- **Why International Cooperation & Markets Matter?**
- **Article 6 – What Is It?**
- **Article 6 – Now What? Outlooks Through COP26 (Glasgow)**
- **Key Take-Aways for BC/Canadian Engagement**

COP25 High-Level Outcomes

- **Chile-Madrid Time for Action: soft language around ambition**
 - **Long-Term Goal: agreed to scope of second review (mid-2020 to 2022)**
 - **Loss & Damage: limited progress in the review of WIM**
 - **CDM Guidance: procedural outcome**
 - **Common NDC timeframes and Transparency Framework: no outcome**
 - **Markets: No outcome on Article 6...again!**
-
- **Santiago Call for Action on Forests**
 - **Santiago Action Plan on Finance**
 - **Adaptation Finance Commitments**
 - **High Ambition Alliance (Grows)**
 - **San Jose Principles on Carbon Market**
 - **Katowice Declaration on Sound Accounting**





PARIS2015
UN CLIMATE CHANGE CONFERENCE
COP21·CMP11

ENVIRONMENTAL DEFENSE FUND

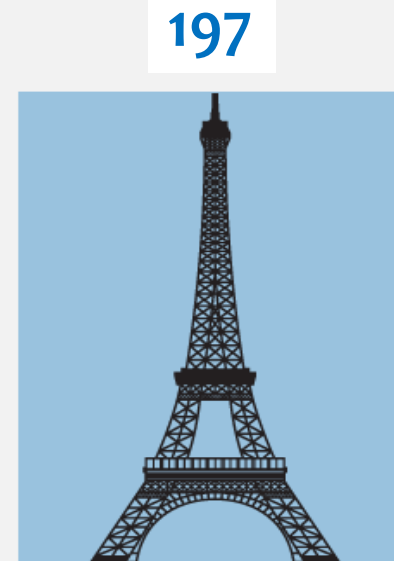
Number of countries pledging to cut climate pollution



KYOTO, 1997

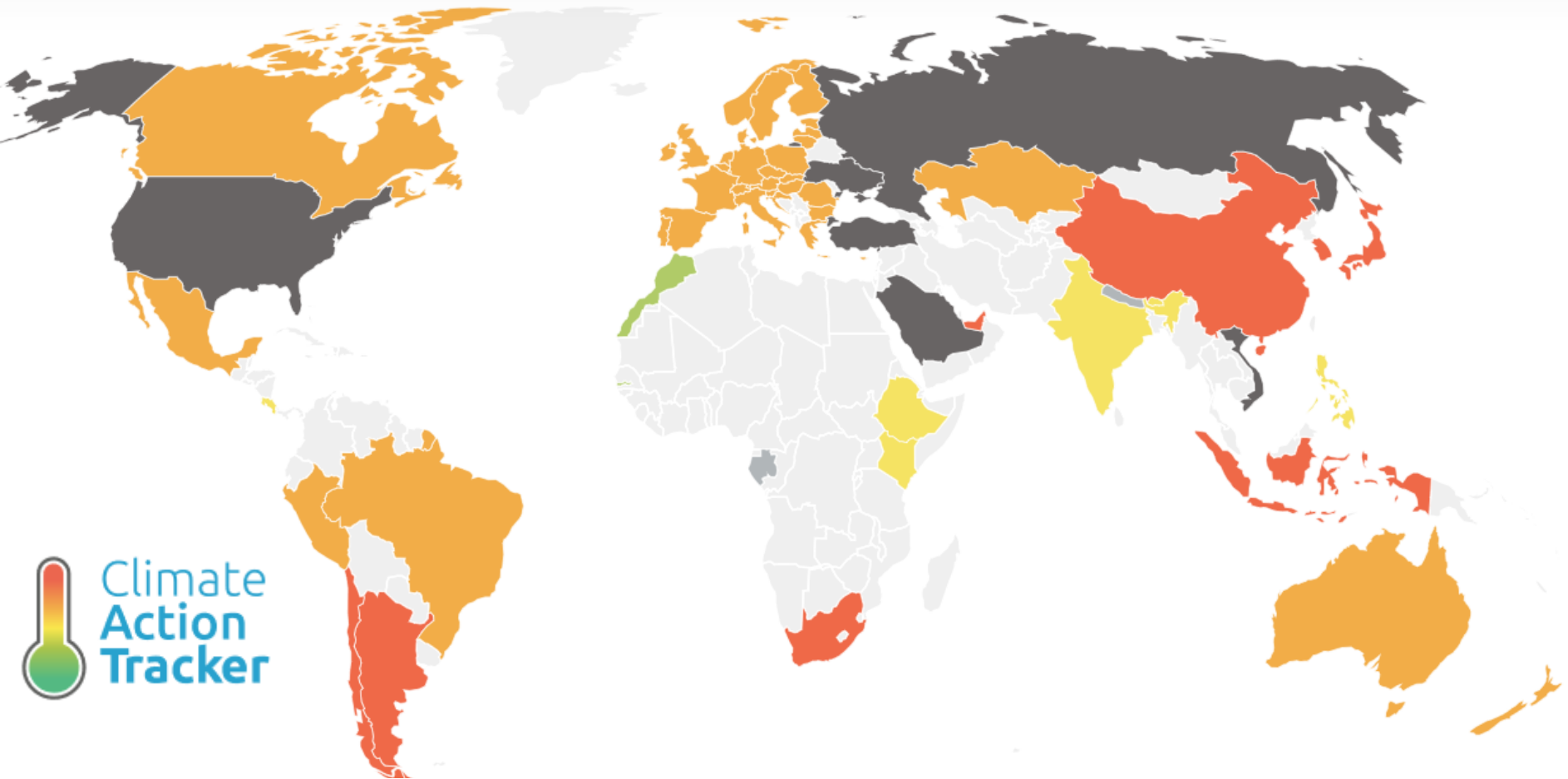


COPENHAGEN, 2009



PARIS, 2015

Tracking National Climate Action & Progress



CRITICALLY INSUFFICIENT

HIGHLY INSUFFICIENT

INSUFFICIENT

2°C COMPATIBLE

1.5°C PARIS AGREEMENT
COMPATIBLE

ROLE MODEL

CLIMATE ACTION

SUMMIT
2019



Energy
Transition



Industry
Transition



Nature-based
Solutions



Cities and
Local Action



Resilience



Climate Finance
and Carbon Pricing



Nature-Based Solutions Track

**Sustainable
Forest
Management**

**Smart
Agriculture**

**Mobilize
Investment in
Nature-Based
Solutions**

**Sustainable
Crops &
Livestock**

**Nature-based
Solutions**



**Food
Systems &
Supply
Chains**

**Carbon
Storage**

**International
Cooperation
(e.g. REDD+)**

Climate Finance-Carbon Pricing Track

Public-Private Partnerships
(Align with Paris Goals)

**POWER OF
MARKETS &
INTERNATIONAL
COOPERATION**

**Mobilize Private
Equity Funds**
(Paris Compatible Portfolios)

Green Bonds

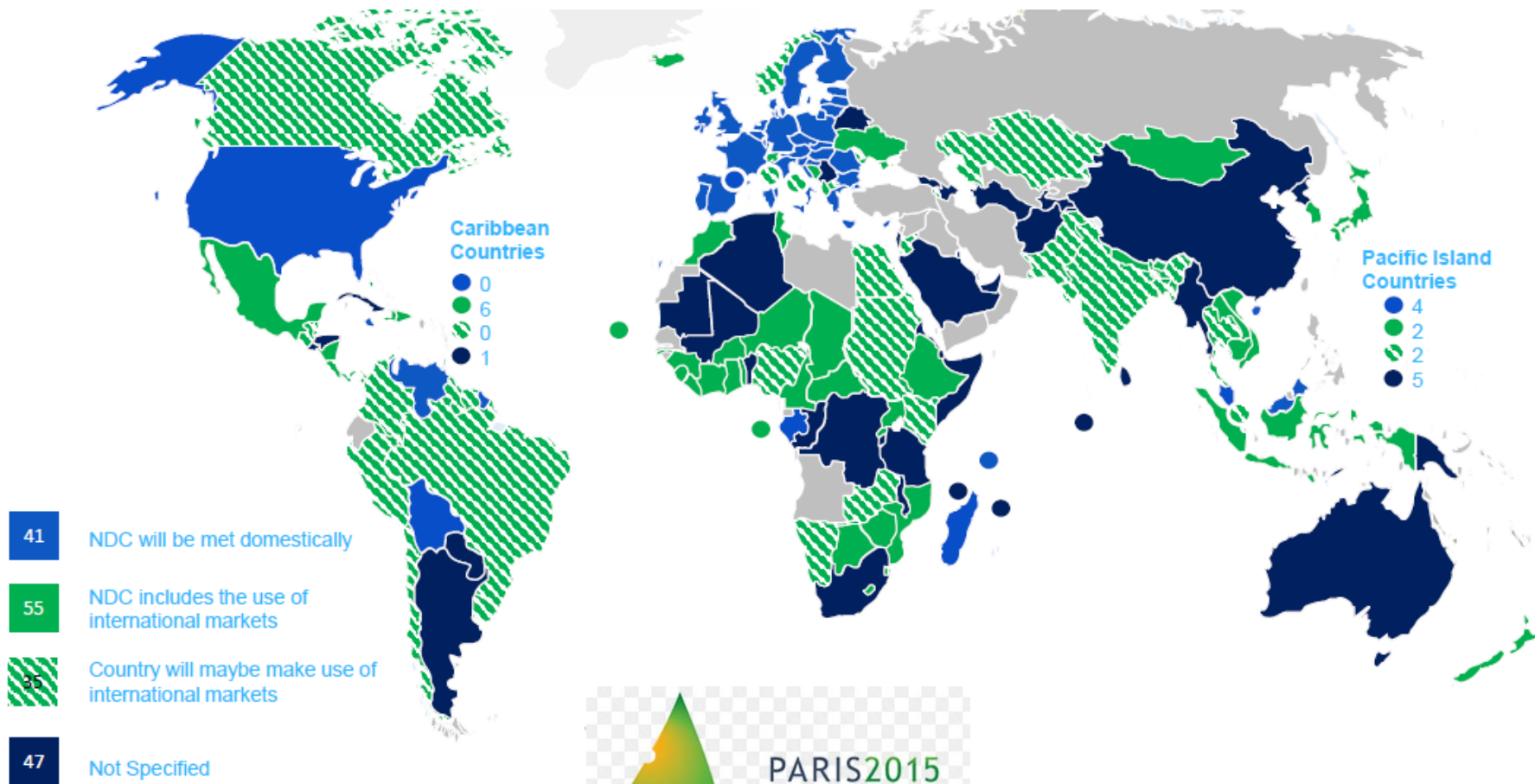
**Climate Finance
and Carbon Pricing**

**Scale Policies
and Redirect
Finance
(ETS)**

**Green Banks
& Facilities**

**Disclosure and
TCFD-
Institutional
Investors**

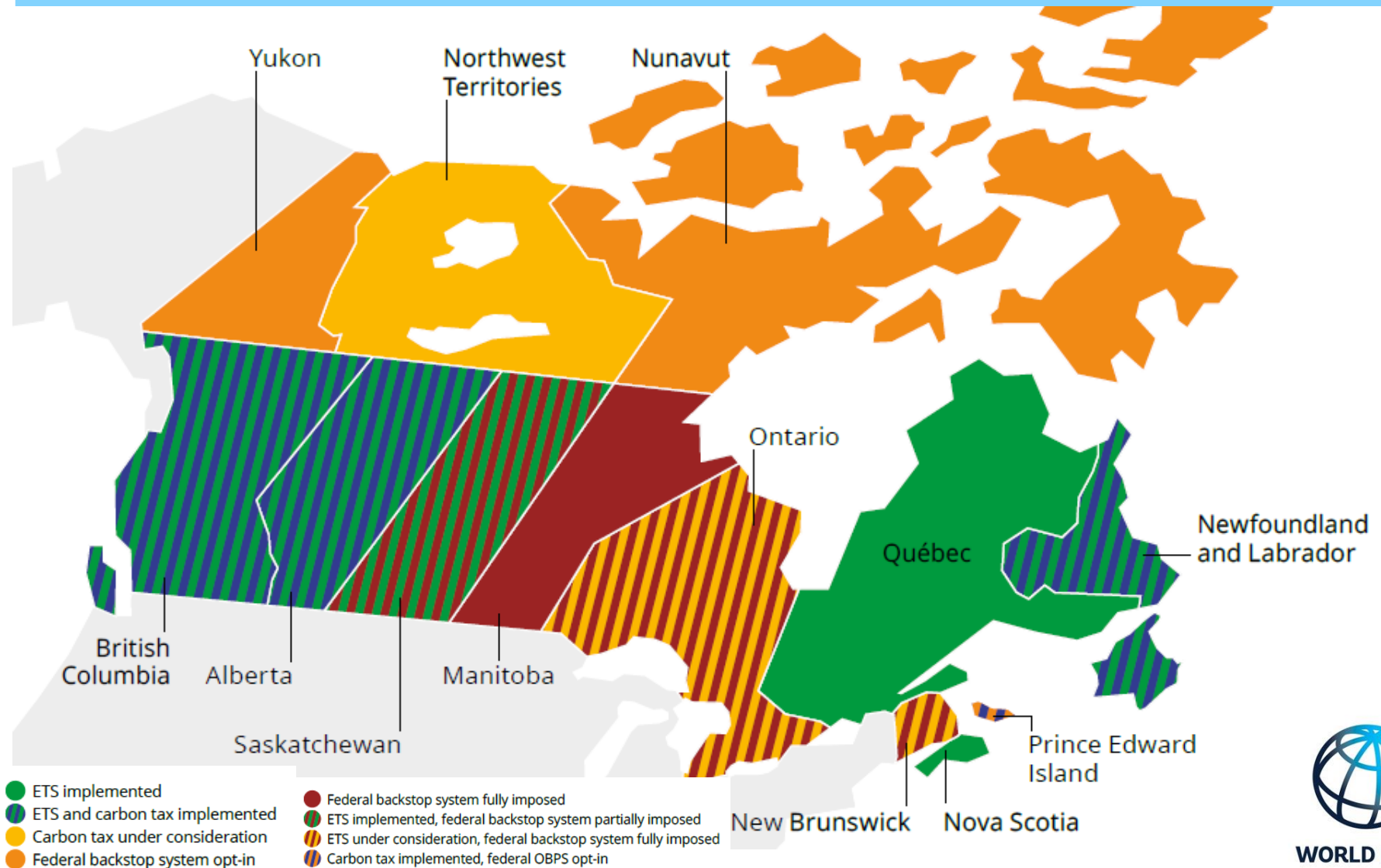
100+ Market-Friendly Country Climate Targets



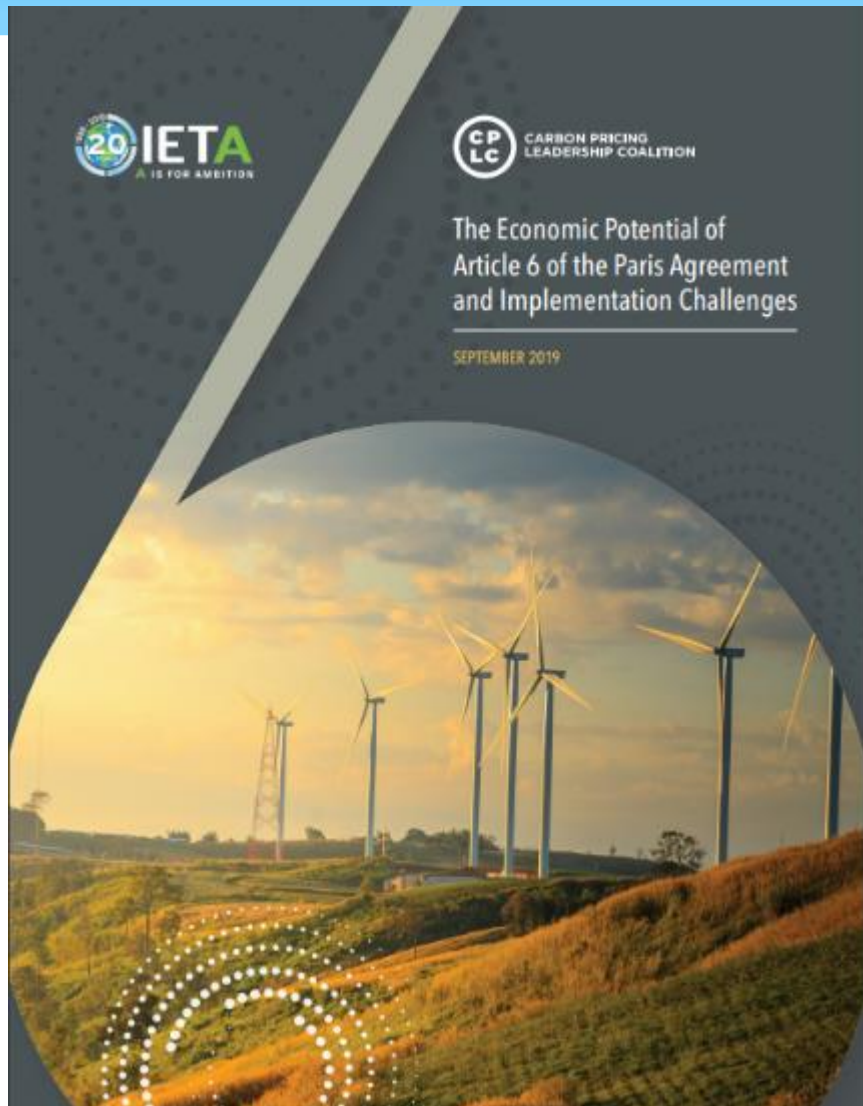
Global Carbon MARKETS 2019



Canada's Carbon Pricing Landscape



IETA A6 Modeling Report (Sep 2019)



SUMMARY REPORT SEPTEMBER 2019

The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges

Ahead of the 2019 United Nations Framework Convention on Climate Change (COP 25) in Chile in December 2019, where decisions on how to implement Article 6 of the Paris Agreement are expected to be made, IETA and the University of Maryland, with co-funding from the Carbon Pricing Leadership Coalition, undertook an assessment of the economic potential of Article 6, and the possible implications of the various design options being negotiated. The results of this assessment are summarized here.

Key messages

- Article 6 has the potential to improve the economic efficiency of implementing Nationally Determined Contributions (NDCs).
- These efficiencies could halve the cost of implementing NDCs, to \$250 billion a year (in 2030) or, if the cost remains constant, increase the amount of emissions removed by 5 gigatons of carbon dioxide (GtCO₂) a year.
- Achieving these benefits requires careful consideration of the framework design and implementation.
- Poorly designed rules could have the opposite effect.
- Additional research is needed before COP 25 in Chile.

CPLC CARBON PRICING LEADERSHIP COALITION **20 IETA** A IS FOR AMBITION

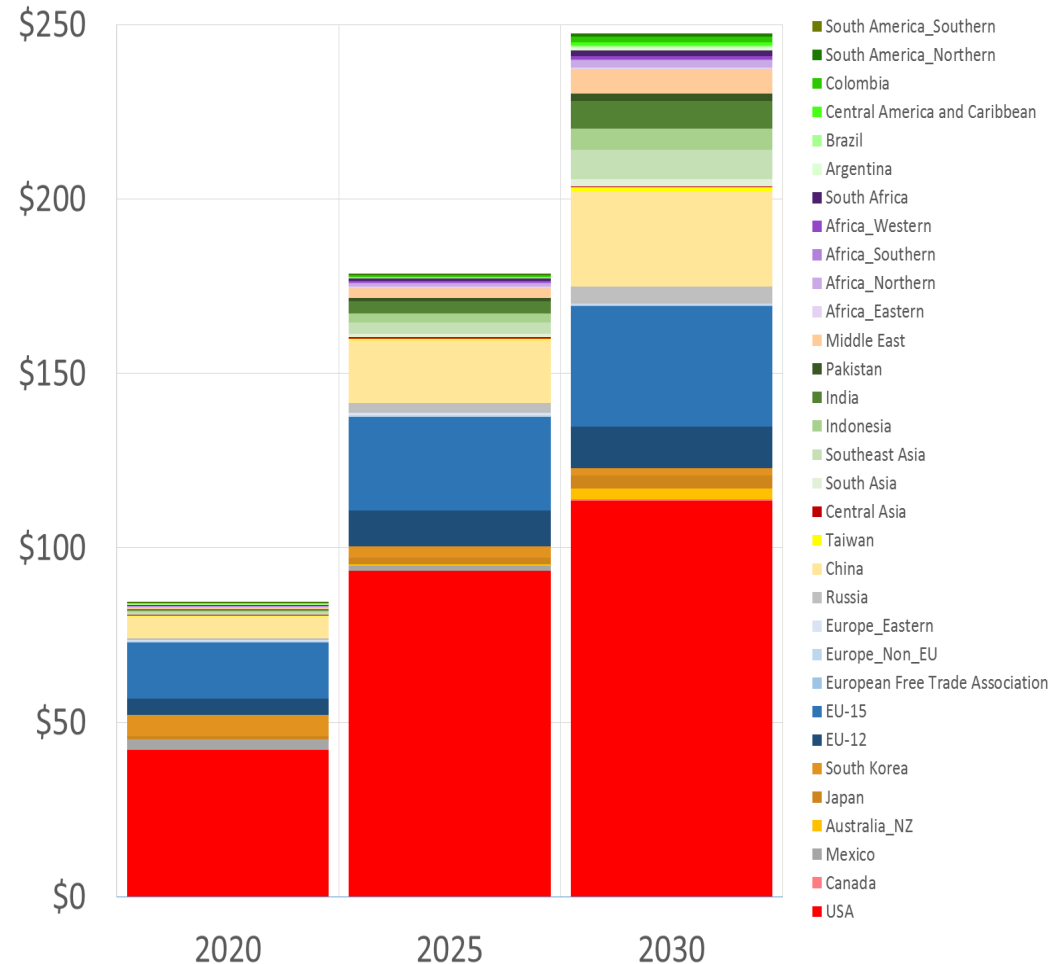
How Valuable is Article 6? (Cost Savings)

Article 6 holds significant potential to reduce cost and enhance ambition

■ **2030: \$250 billion (2015)**

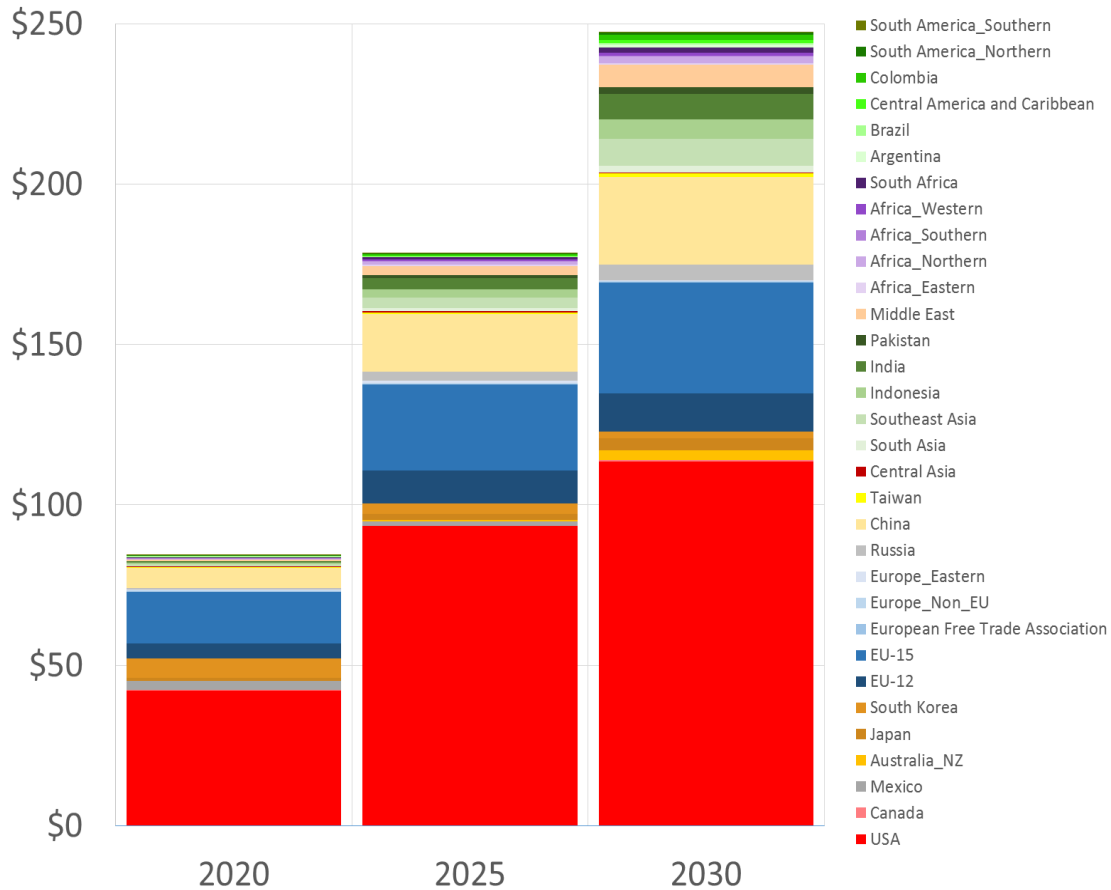
Some countries would benefit more, but everyone would be better off through collaboration

Net Annual GDP Change (J-NDC less I-NDC) (billion 2015\$)

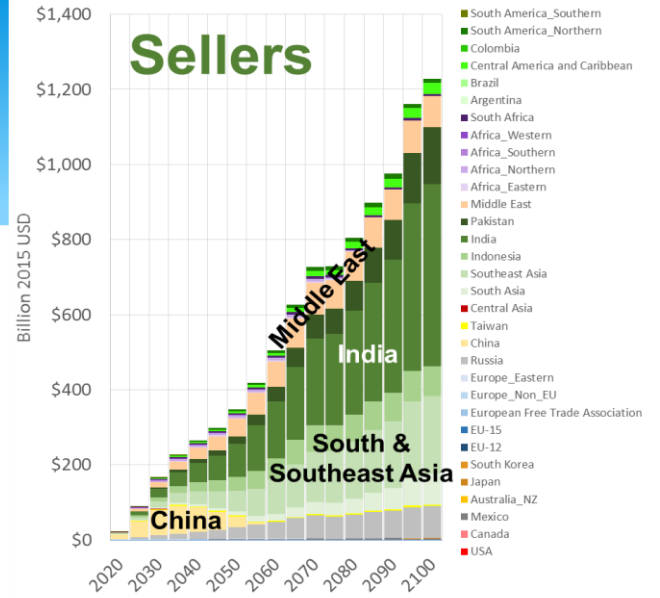


Who are the Buyers & Sellers

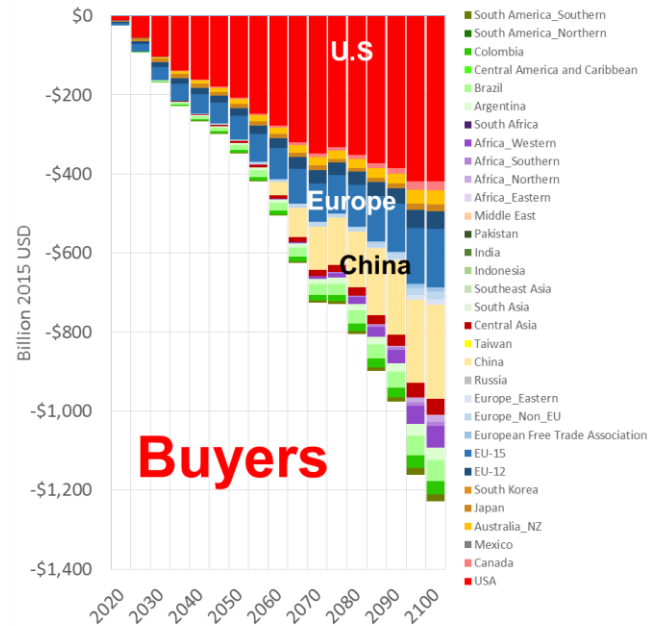
Net Annual GDP Change (J-NDC less I-NDC) (billion 2015\$)



Emissions Trading Market Size



Emissions Trading Market Size



Article 6: What Is It?

6.1 Frames cooperation in implementing NDCs: *to allow higher ambition, to promote environmental integrity and to promote sustainable development*

6.2-6.3

Approaches using Internationally Transferred Mitigation Outcomes (ITMOs) towards NDCs - **guidance for robust accounting**. Countries ensure transparency, environmental integrity and promote sustainable development.

6.4-6.7

Establishes a **centralized mechanism** under the authority of the UNFCCC, to reduce GHGs and support sustainable development.
(successor to JI/CDM?)

6.8-6.9

Framework for **non-market** approaches

Article 6: Katowice Legacy

Some Unresolved Issues...

- Katowice saw Paris Rule Book Adopted (minus Article 6)
- Madrid Failed to Adopt Rule Set – Article 6 Core Sticking Issues:
- **Accounting**
 - How to define and make Corresponding Adjustments in national balances for ITMO transfers?
 - How to treat transfers from outside scope of NDC?
 - Accounting for non-NDC use of ITMOs (CORSA, IMO etc.)
 - Whether to make CAs for units produced by 6.4 mechanism
- **Kyoto Protocol (KP) Post-2020 Transition**
 - Full CDM Transition, AAU transition, No Transition?
- **Share of Proceeds (SOPs)**
 - Share of 6.2 transfers to provide more funds for Adaptation?
- **Operationalize Overall Mitigation of Global Emissions (OMGE)**
 - Cancellation, Discounting – Voluntary? Mandatory?

Article 6: Where Are We?

6.1 Frames cooperation in implementing NDCs: *to allow higher ambition, to promote environmental integrity and to promote sustainable development*

6.2-6.3

Approaches using Internationally Transferred Mitigation Outcomes towards NDCs - **guidance for robust accounting**. Countries ensure environmental integrity and promote sustainable development

6.2 - Good Progress and Foundation for COP26

6.4 – Poor Progress and Challenge for COP26

6.4-6.7

Centralized mechanism under the authority of the UNFCCC, to facilitate GHGs and support sustainable development. (successor to JI/CDM?)

6.8 - Good Progress and Foundation for COP26

6.8-6.9

Framework for **non-market** approaches

The Way Forward

- **Work continues through 2020 – rules to be adopted at COP26**
- **All 3 iterations of Presidency texts basis of work going forward**
- **This will not stop Article 6 pilots and international market cooperation in the “real world” from proceeding**
- **Some Parties to use draft Article 6.2 text as guidance for pilots**
- **Big role for bilateral cooperation, clubs and independent standards.**
- **Biggest missed opportunity and “loser” in Madrid – and potentially Glasgow – is the new 6.4 Mechanism**

Emerging Carbon Clubs & Pilots

ADB
Article 6 Support Facility

AfDB
The Adaptation Benefit Mechanism

Canada – Chile
Program to reduce emissions in the waste sector

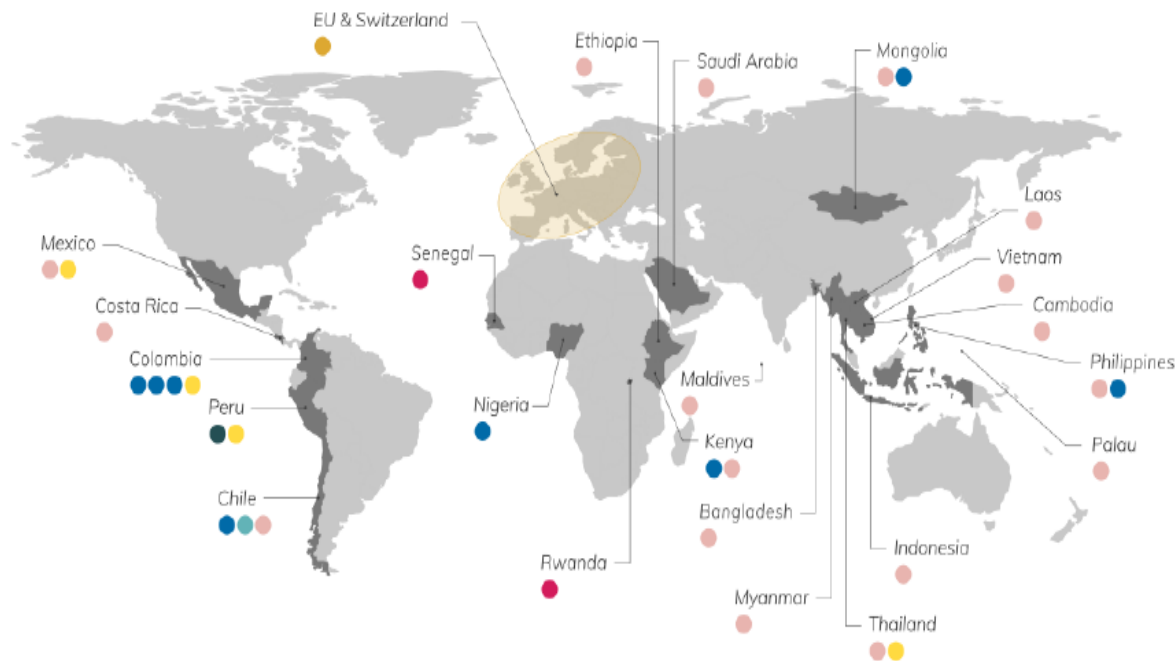
Japan
The Joint Crediting Mechanism

NEFCO – Peru:
Cooperative arrangement pilot in the solid waste sector

SEA
A virtual pilot study in Nigeria

Switzerland
Pilot activities of the Climate Cent Foundation / ITMO purchase program of the Klik Foundation

World Bank
The Standardized Crediting Framework / The Transformative Carbon Asset Facility / The Warehouse Facility



Selection of Article 6 Pilot Initiatives



Based on a study commissioned by the Nordic Initiative for Cooperative Approaches (NICA) on Article 6 Landscapes (prepared by Climate Focus)



Seizing the International Markets' Opportunity

- **Environmental Integrity is Critical**
 - Business won't play ball, if there are questions about environmental integrity and "acceptance" of reductions-removals
- **The Business Case MUST exist**
 - What's the clear and stable compliance or financial value?
- **"Window of Opportunity" is Open, but Fleeting...**
 - Canada – including BC – is extremely well-positioned
 - Support market "building blocks" and signals to unlock private capital
 - Carbon Clubs and Pilots with integrity move forward
- **Meaningful Partnerships and Coordination are Vital**
 - Government, Business, First Nations, NGO-Civil Society

Canada and ITMO Opportunities – Final Thoughts

- **Clear Link to Canadian Clean Exports & Products**
 - Various policy/financial options worth exploring
 - Article 6 and beyond options...
- **Diversification**
 - Buffet of Canadian clean export innovations that require support
 - Some will be better positioned than others to leverage A6
 - Nature-based solutions, waste tech, CCUS, methane etc.
- **Prioritize Bilateral Bottom-Up Opportunities**
 - Identify key trade partners and competitors moving forward with ETS
 - Most likely to collaborate on market cooperation?
 - Most likely to ensure environmental integrity through transfers?
 - Look at Joint Crediting Mechanism (JCM) and other innovative models



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