

# CARBON MARKETS AT THE UNFCCC – COP26 AND ARTICLE 6



**Friends of  
the Earth  
International**

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### **THE CONTEXT**

Instead of actual direct action to reduce emissions, carbon markets defer decisions to an invisible hand in an invisible market to govern an invisible gas. What better way to hide inaction? That's why it is no surprise that carbon markets have been a favourite mechanism of climate inaction with many corporates and governments for several decades.

For a long time, we have seen energy and mining companies and other energy-intensive industries lobby hard for the expansion of carbon markets on the world stage. Big fossil fuel companies, such as Shell, have included offsetting their greenhouse gas emissions as a major part of their strategy. This allows them to continue expanding the fossil fuel-based energy model indefinitely, conveniently ignoring the fact that offsets don't actually stop emissions or climate change.<sup>1</sup> Likewise Northern governments see carbon markets as a way to prolong their reliance on a fossil fuel economy.

The Paris Agreement contains several provisions related to markets in its Article 6. The Article is supposed to be broadly about cooperative approaches between countries to climate action, but in reality, the bulk of the Article serves as a framework for negotiations on international carbon market rules. The Article also includes two paragraphs on non-market mechanisms, added by Bolivia during the negotiation of the Paris Agreement. Rules to implement three different elements of Article 6 on both market and non-market approaches are still under negotiation, six years after the Agreement was concluded and five years after entering into force. The time it has taken to agree on these rules is a very clear indication of how contentious they still are.

The three elements under negotiation are found in paragraphs 2, 4, and 8 of Article 6, so the negotiation topics are often referred to by paragraph numbers: Article 6.2, 6.4, and 6.8.

For easy reference the text is reproduced here:

Article 6.2:

2. Parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred mitigation outcomes toward 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



*Indigenous leader from the US, Casey Camp, joins a demonstration against carbon markets at the COP25 in Madrid, Spain, in 2019.*

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avoidance of double counting, consistent with guidance adopted by the Conference of the Parties serving as the meeting of the Parties to this Agreement.

#### Article 6.4:

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 incentivise 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.

#### Article 6.8:

8. Parties recognize the importance of integrated, holistic and balanced non-market approaches (NMAs) 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.

## WHAT ARE THE MAIN ISSUES UNDER NEGOTIATION?

### Problems with Article 6.2.

Article 6.2 sets out the overarching architecture for cooperative approaches under the UNFCCC.<sup>2</sup> Under Article 6.2, Parties are attempting to define rules in the trading of a new commodity, an internationally transferred mitigation outcome – also known as ITMO. This trading regime is in some ways similar to a compliance trading market, where permits are issued and excess permits are traded, with the idea that by trading in the most “economically efficient” manner, solutions to climate action might be found. But this trading regime is also not at all similar to a compliance trading market. Most importantly, there are no targets that have been set under the Paris Agreement that governments need to comply with. There is nothing legally binding, and therefore no way to establish supply and demand, or price. In other words, there is no real reason for a market.

That very important regulatory hole leads many vulnerable countries, particularly those in African and small island states – whose very existence is threatened by temperature rise and rising sea levels, among other threats – and civil society<sup>3</sup> to worry about the environmental integrity of both the credits traded and the market that is being created. If the trading of ITMOs creates profit for some, but worsens climate outcomes for the world, what is the point of sanctioning this effort under the UNFCCC?

The more technical topics that remain very contested include:

- Ways to ensure environmental integrity, including the avoidance of the same credits being used multiple times in different jurisdictions (called double counting). Double counting would create discrepancies between the emission level that the governments report and what the atmosphere actually sees.

- Rules on adjustments that would need to be made in source and recipient country emissions accounts to reflect the transfer of “mitigation outcomes” (called corresponding adjustments). Allowing these rules to be suspended or partly opted out of would lead to emission increases beyond the levels pledged by governments within their Nationally Determined Contributions (NDCs).
- Whether there would be a sharing with developing countries of a portion of the proceeds from the buying and selling of credits through an obligatory contribution to the Adaptation Fund (in the technical language of Article 6, this is called “share of proceeds”).
- Ways to ensure that transactions contribute to the overall mitigation of global emissions (otherwise known by the acronym, OMGE).
- How to address the result of activities that cannot be measured directly in an amount of carbon dioxide, such as from new renewable energy installations, adaptation activities, or possibly even geo-engineering techniques such as solar radiation management.
- Governance to ensure a set of common definitions for what would be tradeable (ITMOs), recording and tracking them, and various safeguards, set under the UNFCCC, or whether these would be left to governments (and businesses) that run their own international schemes to decide.

### Problems with Article 6.4

Under Article 6.4, Parties are discussing a possible successor mechanism to the Clean Development Mechanism (CDM) of the Kyoto Protocol, which some governments are calling a **sustainable development mechanism**. However there is as of yet no consensus on what that is, who can participate in it and how, and what its relationship might be with the CDM.<sup>4</sup> Reaching a compromise here might actually lead to emissions in excess of what countries are planning in their existing NDCs.

The voluntary nature of the Paris Agreement creates a structural impediment similar to that found in Article 6.2. If there are no emission reduction obligations on developed country Parties, as in the Kyoto Protocol, there is no reason for developed countries to carry out projects in the global South as a means to compensate for some of their emission reductions. If there are no obligations on any Party to reduce their emissions, what incentive is there for a Party to pay for emission reductions in another Party?

Markets rely on supply and demand to generate prices. If there is no demand for the commodity being created in Article 6.2, the ITMO, or that from Article 6.4 (which still lacks a name), what good are rules for a non-existent market?

Developed countries have held back on providing the finance for developing countries to contend with the climate crisis.<sup>5</sup> Market-based approaches, such as those in Articles 6.2 and 6.4, are their attempted escape route. But neither of these approaches will be able to generate the finance needed.

### Problems with Article 6.8

Almost all approaches to enabling climate action right now, cooperative or otherwise, happen outside of a market. Any sort of collaborative project across borders could be considered a cooperative approach to climate.

The support and financing of climate action cannot be tied to whether tons of carbon can be measured, bought or sold. Holistic approaches are needed which can integrate adaptation and mitigation and focus on the priorities of sustainable development and poverty eradication. But these will not be prioritised or delivered by a market-based approach.

Article 6.9 “defined” a framework to promote non-market approaches but provided no specifics on what that framework might look like or how it might operate.<sup>6</sup> The Parties in Glasgow will continue negotiations on what that framework would include.

## WHAT IS AT STAKE?

On the face of it, the Article 6 negotiations in Glasgow at COP26 look like very technical negotiations on rules, using an alphabet soup of acronyms (OMGE, ITMO, SDM, SOP, and on and on).

Meanwhile there looks set to be a much bigger fight over the role that markets are called upon to play in climate action. But markets cannot fix the climate.

Carbon markets are incompatible with keeping global temperature rise to 1.5 degrees Celsius and contradict the need for developed countries to do their fair share of the global mitigation effort.<sup>7</sup> There is ample evidence of this from the past two decades of tinkering with markets in Europe, the US, and elsewhere.<sup>8</sup> Carbon markets delay the concrete actions that are needed immediately to reduce emissions and distract from the tremendous public finance quantities necessary to flow from global North to South for mitigation actions.

Indigenous Peoples and local communities have long resisted carbon market schemes as they have led to conflict, corporate abuse, environmental degradation, forced relocation and threats of cultural genocide – particularly for Indigenous Peoples, smallholder farmers, forest dwellers, young people, women and people of colour.

Parties thus far have not been able to come to agreement on Article 6.2 and 6.4. Friends of the Earth International urges Parties not to agree to Articles 6.2 and 6.4.

Many vulnerable developing countries see that they have little to lose from blocking an agreement that does not protect them from the impacts of climate change and may allow more

global emissions than the level pledged by governments in their NDCs. Multiple developing country groups are fighting for stringent rules and safeguards and against loopholes (including against forest and lands coming under Article 6). Other developing countries are viewing Article 6 as a way that they might receive financial support for their climate action, as developed countries continue to evade their obligations to provide climate finance (public finance).

Developed countries are aligned on establishing markets but differ in the amount of flexibility around the rules. The EU appears to be for strong rules to protect environmental integrity and avoid double counting, to make Article 6.4 compatible to the EU's own emissions trading scheme. However, their overall disdain for developing country needs is revealed by their rejection of the proposals for mandatory overall emission reductions (OMGE) under Article 6 and a share of proceeds on transactions under Article 6.2. The rest of developed countries, led by the US, are interested in greater rule flexibility. Their lack of concern for corresponding adjustments from the voluntary carbon market demonstrates that they are more concerned about profit than protecting people and climate.

While continuing to block these market-based approaches, there is a great opportunity at COP26 to instead elevate the role of non-market approaches and highlight the real solutions to climate change that could be supported via finance, technology, and increased capacity. But developed countries however have been blocking swift implementation of Article 6.8 provisions as it will require scaling up their support to developing countries.

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## REFERENCES

**1** Carbon markets at COP25, Madrid: A threat to people, politics, and planet, <https://www.foei.org/wp-content/uploads/2019/11/English-carbon-markets-briefing-OK-LOW.pdf>.

**2** Article 6.4 and other 6.2 mechanisms being set up by governments and business are subsumed under the overarching framework.

**3** There are several international NGOs that are very supportive of carbon markets who are actively engaged in the buying and selling of carbon credits themselves.

## WHAT ARE FRIENDS OF THE EARTH INTERNATIONAL'S DEMANDS?

- The market can't solve climate change. Never could, never will. All governments – North and South – should reject carbon markets.
- Northern governments should focus on reducing emissions rapidly at source. They should strengthen their NDCs to be equal to their fair share of the global mitigation effort, without any kind of market-based escape hatch. They must urgently phase out fossil fuels, methane-spewing agribusiness, biomass power stations, and other sources of emissions. They should also not finance fossil fuel destruction in the global South.
- Northern governments must meet their climate finance obligations to global South countries with public, grant-based finance, additional to Overseas Development Assistance in line with their fair share of responsibility for the climate crisis and their capacity to act. Market-based revenue is not a substitute for climate finance, nor are other forms of private finance.
- Southern governments must oppose market mechanisms under Article 6. They should push for payment of public climate finance obligations by Northern countries for mitigation, adaptation and loss and damage.
- Southern governments should oppose carbon markets because of the likelihood of negative impacts on their own peoples. Amongst other methods of 'offsetting,' carbon markets tend to rely heavily on large monoculture tree plantations. But on whose land and in whose forests will this happen? There is a high risk of land grabbing, displacement, human rights abuses and food insecurity associated with markets.
- Southern governments should oppose carbon markets because they will undermine their own mitigation targets. Northern countries will claim the benefit of mitigation carried out in the global South via carbon credits. Even worse, these mitigation efforts may end up being double counted in both the location of action and location of payment.

### REFERENCES CONTINUED

**4** The CDM was established by the Kyoto Protocol to support emission reduction projects in the Global South by creating a mechanism for the sale of carbon credits generated by those projects to countries of the Global North. The CDM has been extensively criticised for, among other issues, fraudulent projects, harmful impacts on communities, and failure to deliver emission reductions. For a critical review of the effectiveness of the CDM see Cames et al, 2016. How additional is the Clean Development Mechanism? [https://www.atmosfair.de/wp-content/uploads/clean\\_dev\\_mechanism\\_en.pdf](https://www.atmosfair.de/wp-content/uploads/clean_dev_mechanism_en.pdf)

**5** <https://www.theguardian.com/environment/2021/apr/24/wealthy-nations-failing-to-help-developing-world-tackle-climate-crisis>

**6** Article 6.9 states: "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."

**7** Civil Society Equity Review, 2018. After Paris: inequality, fair shares, and the climate emergency. <http://civilsocietyreview.org/report2018/>

**8** Green, J.F. 2021. Does carbon pricing reduce emissions? A review of ex-post analyses. <https://iopscience.iop.org/article/10.1088/1748-9326/abdae9/meta>

