

Inaugural National Carbon Market Strategy Roadmap Consultation Workshop

Climate Change Division, Office of the Prime Minister
Carbon Market Institute

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Session 2: Exploring carbon market options and strategic priorities

“Carbon Markets and the Paris Agreement”

Remotely presented by

Mr. Jens Radschinski, Senior Expert on Article 6 and
Carbon Pricing at the *UNFCCC/IGES Regional
Collaboration Centre for Asia and the Pacific*



IGES

Regional Collaboration Centre – Bangkok
Promoting Climate Action in Asia and the Pacific

Maps and Regions of the RCCs

- **RCC Bangkok** supports 40 countries from Asia and the Pacific (Hosted by IGES)
- **RCC Dubai** supports 22 Arab States and 8 South Asian countries (Hosted by WGEO)
- **RCC Kampala** supports 19 countries in Eastern and Southern Africa (Hosted by EADB)
- **RCC Lomé** supports 26 countries in 15 ECOWAS member states and 11 francophone countries (Hosted by BOAD)
- **RCC Panama** provides support to 17 Latin American countries (Hosted by UNEP)
- **RCC St. Georges** supports 16 countries in the Caribbean region (Hosted by WINDREF)



Paris Agreement

- Paris Agreement aims to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius.

PARIS CLIMATE AGREEMENT



- Increase the ability of countries to deal with the impacts of climate change, and at making finance flows consistent with a low GHG emissions and climate-resilient pathway.
- Requires all Parties to put forward their best efforts through “**Nationally Determined Contributions**” (NDCs) and to strengthen these efforts in the years ahead



About carbon pricing and carbon markets

NDC achievement

Mandatory carbon pricing

Voluntary action

Party accounted
emissions

Carbon
taxes/fees

Emission
Trading
Systems (ETS)

Voluntary
offsetting (e.g.
by businesses
and individuals)

Specifically
designed activity
approach for
Article 6.2

Article 6.4

Out of the box
Project & programme-
based approaches (carbon
standards)



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Carbon Markets

Voluntary market

For compensating emissions as part of **net-zero or climate neutral targets**

Motivation = self-set targets

Buyers = corporates / individuals

Units: voluntary credits

Self-regulations – codes of best practice emerging

Compliance market

For achieving **NDCs domestically**

Motivation = compliance with mandated pricing instrument (carbon tax, ETS, etc.)

Buyers = compliance entities (corporates)

Units: emission allowances & offset credits

Domestic or sectoral regulations

Article 6 market

For achieving **NDCs cooperatively**

Motivation = to increase NDC ambition / achieve NDCs more flexibly

Buyers = Parties

Units: Internationally Transferred Mitigation Outcomes (ITMOs)

International oversight / rules

Carbon Markets

Voluntary market

For compensating emissions as part of **net-zero or climate neutral targets**

Motivation = self-set targets

Buyers = corporates / individuals

Units: voluntary credits

Self-regulations – codes of best practice emerging

Example

Company A has a target to become climate-neutral. After reducing its own emissions, it still emits 13500 tCO₂e in 2022

To compensate for these remaining emissions, it purchases and cancels carbon credits representing 13500 tCO₂e from emission reduction projects

Carbon Markets

Compliance market

For achieving **NDCs**
domestically

Motivation = compliance
with mandated pricing
instrument (carbon tax,
ETS, etc.)

Buyers = compliance entities
(corporates)

Units: emission allowances
& offset credits

Domestic or sectoral
regulations

Example

Company A participates in an ETS. It has emitted 5600 tCO₂e more than it currently has allowances. To ensure compliance, it will purchase 5600 units in allowances or offsets so that it can surrender 1 compliance unit for each tonne emitted to the regulator

Company B is liable to a carbon tax. It can offset up to 10% of its emissions to reduce its tax liability and chooses to buy and cancel emission credits accordingly

ARTICLE 6 OF THE PARIS AGREEMENT



Carbon Markets

Article 6 market

For achieving **NDCs cooperatively**

Motivation = to increase NDC ambition / achieve NDCs more flexibly

Buyers = Parties

Units: Internationally Transferred Mitigation Outcomes (ITMOs)

International oversight / rules

Example

Country A reduces its emissions beyond its NDC and generates X units of ITMOs. It sells and transfers the ITMOs to country B.

Country A applies a corresponding adjustment to its inventory, adding X tCO₂e to its domestic emissions.

Article 6: co-operation towards NDCs

Cooperative approaches

Articles 6.2 and 6.3 and decision 1/CP.21, paragraph 36

Bilateral/multilateral cooperation between interested countries, involving transfers of the mitigation outcomes produced through such cooperation

The mechanism

Articles 6.4 to 6.7 and decision 1/CP.21, paragraphs 37 and 38

To be **operated centrally** (UNFCCC secretariat), credits emission reductions by public and private sector actors, allows for international transfer of those credits

Framework for non-market approaches

Articles 6.8 and 6.9 and decision 1/CP.21, paragraphs 39 and 40

Facilitates climate action through international cooperation focused on sustainable development and poverty eradication (and **does not involve trading**)

Scope of the Article 6 activities

EMISSION REDUCTIONS

Can come from **all sectors**, including nature-based solutions, for example:



Transition to Renewable Energy



Reducing emissions from deforestation;
Reducing emissions from degradation;
Sustainable management of forests



Energy Efficiency



Transition to Electric Vehicles

REMOVALS

Can come from engineered solutions and from enhancing carbon sinks, for example:



Engineered Carbon Removal Technology:
Direct Air Capture & Storage



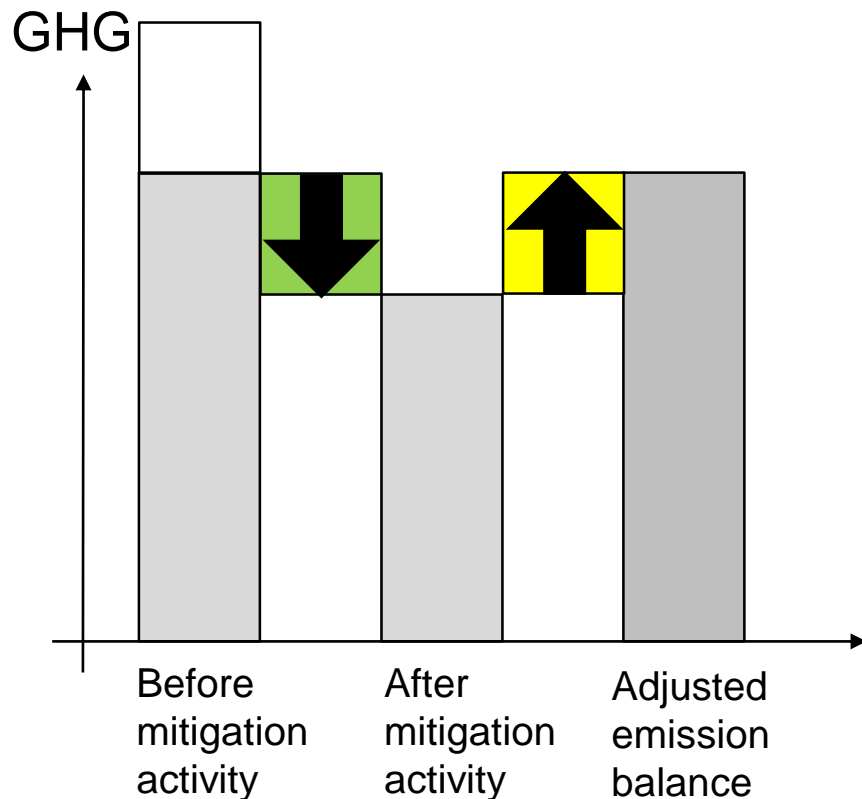
Enhancement of Forest Carbon Stock:
Afforestation
Reforestation

Adaptation, Mitigation and Mol – Without trading of emissions

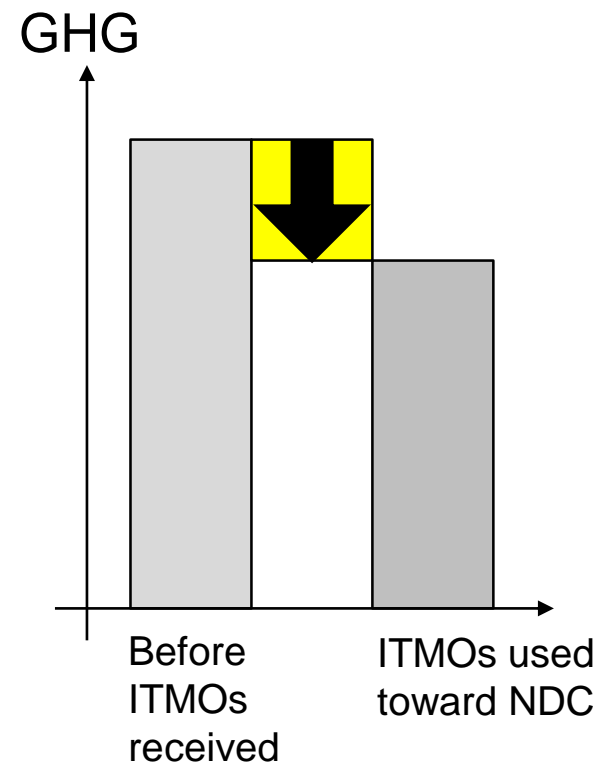
Can include all types of co-operation without transfer of mitigation outcomes

Corresponding adjustments

Transferring Party



Receiving Party



Adapted from UNDP/Learning from nature course "Operationalizing Article 6.2 of the Paris Agreement: Achieving ambitious climate action through cooperative approaches"

Mr. Jens Radschinski

Sustainable development priorities

Promoting sustainable development is a key objective of the Paris Agreement market mechanisms.

- Article 6.1 requires any international cooperation towards the implementation of NDCs ‘to promote sustainable development’.
- Articles 6.2 and 6.4 also reiterate this requirement.
- Decision 18/CMA.1 para. 77 d (iv) calls for countries engaging in cooperative approaches to **provide information** on how each cooperative approach promotes sustainable development’ (UNFCCC, 2018).
- The Agenda 2030 on Sustainable Development Goals (**SDGs**) provide a common, internationally agreed template for operationalising contributions to sustainable development and have the potential to serve as a major step forward in operationalising sustainable development under Article 6 and other future market mechanisms.



IGES

Sustainable development priorities

Art 6.2 Host parties need to describe how **each cooperative approach** will: ... be consistent with the sustainable development objectives of the Party, noting national prerogatives;

Art.6.4 activity Host Party shall, prior to participating in the mechanism, ensure that: It has indicated publicly to the Supervisory Body how its participation in the mechanism contributes to sustainable development, while acknowledging that the consideration of sustainable development is a national prerogative

For overseeing implementation of Article 6, **host country DNAs** could provide the following clarifications to project developers:

- 1) **Host countries' requirements** for establishing a project's contributions to SDGs
- 2) Clear articulation of **safeguards** against potential risks/negative impacts of market activities
- 3) Procedural requirements for **ex-ante assessment** of SDG contributions and safe guards



Bilateral International Carbon Agreements

Indo-Pacific Carbon Offsets Scheme

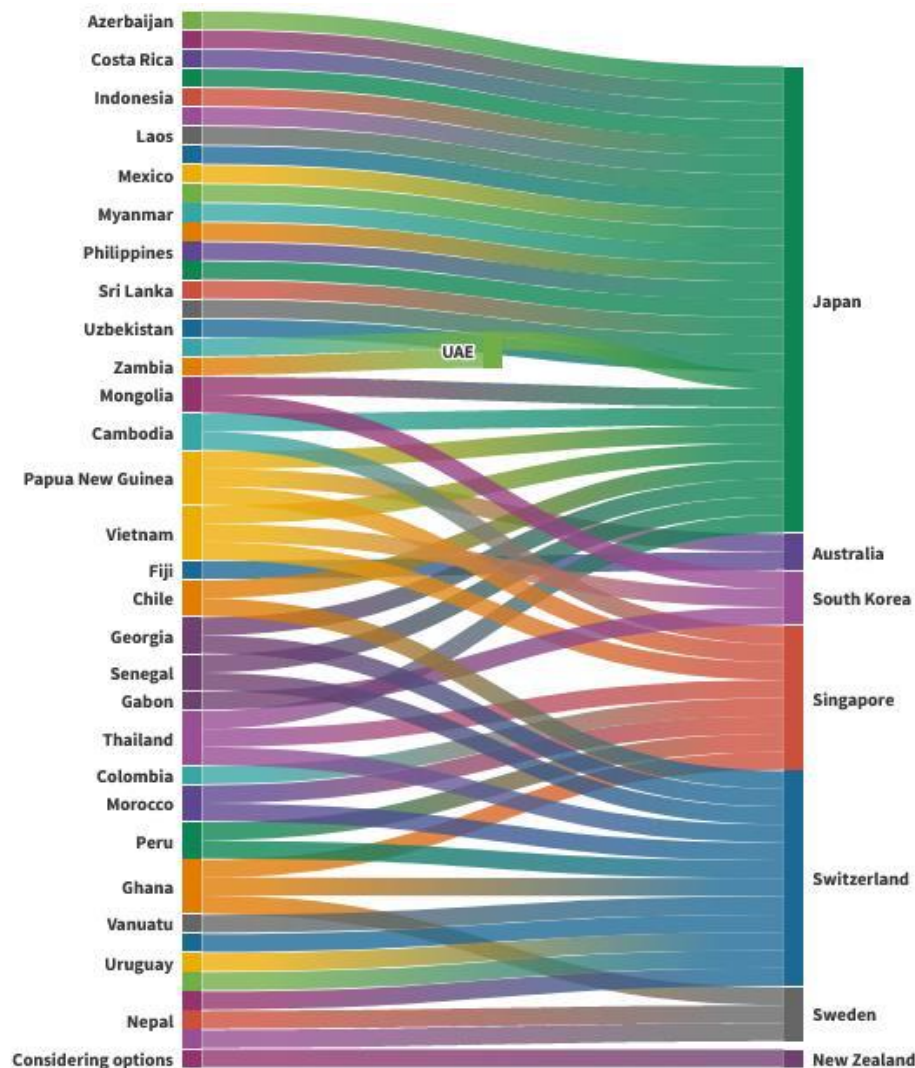
Scheme by the Australian Government to support climate action in the Indo-Pacific. Australia will partner with countries in the region to develop a carbon market that supports emissions reduction projects.

JCM

As of April 2023, JCM partnership document is signed by 26 countries.

The JCM aims to facilitate diffusion of leading decarbonizing technologies and infrastructure, etc., through investment by Japanese entities, thereby contributing to GHG emission reductions or removals and sustainable development in partner countries.

Art.6 cooperation, to develop projects under Art.6.2 of the Paris Agreement



Source: Carbon Pulse

Why does all this matter?

- Article 6 is an important part of the world's “toolbox” for addressing climate change
- Article 6 is the only part of the PA that directly engages the business and private investment sector in directly implementable activities in which they can invest
- In addition to the trading instruments, implementation of NMA is essential to contribute to sustainable development and poverty eradication
- NDCs implementation cost reduced by half as much as (\$250 billion by 2030) or facilitate removal of 50% more emissions (about 5 GT of Co2 e/year by 2030)
- There is strong real-world potential for cooperative action - shown by existing pilot Article 6 projects, with the UN decisions in Glasgow understanding the overall impact of cooperative action on global mitigation is facilitated
- Centralized mechanism helps in ensuring broader accessibility of markets

Article 6 Capacity Building Programme

Article 6.2 – Capacity Building Programme including through RCCs in consultation with Parties

- Support the development of institutional arrangements, including reporting
- Help Parties ensure that cooperative approaches support ambition;
- Assist the LDCs and SIDs in meeting the participation requirement

Article 6.4 – Capacity Building Programme including RCC in consultation with 6.4 SB and Parties

- Establish then necessary institutional arrangements to implement the requirement
 - Develop the technical capacity to design and set baselines for application in host Parties;
 - Capacity-building in development countries to apply the Article 6.4 mechanism, and support for the transition
-

The Collaborative Instruments for Ambitious Climate Action (CiACA)

Announced in COP22, assists parties in the development of carbon pricing instruments for implementing their Nationally Determined Contributions (NDC) under the Paris Agreement

It builds on existing NDC support projects, promotes awareness of carbon pricing and explore possibilities of joining carbon markets.

Types of Support

Regional Cooperation organizations

Individual Parties

Subnational Jurisdictions

Scope of Support

Technical Support, Capacity Building, Funding Studies, Exp. Sharing WS

Supported Jurisdictions

Pakistan, Panama, Senegal, Dominican Republic, ASEAN, etc



United Nations
Climate Change

THANK YOU



Jens Radschinski
UNFCCC/IGERS RCC
Asia-Pacific
Regional Expert for Art.6
& Carbon Pricing
jradschinski@unfccc.int