The Carbon Markets Conundrum at COP26

What is the issue?

The conclusion of Article 6 of Paris agreement has remained unresolved since the accord was signed and it will be one of the most technical and highly contentious issues at the upcoming UNFCCC COP26.

What is Article 6 of Paris agreement?

- **Article 6 of the Paris Agreement introduces provisions for using international carbon markets to facilitate fulfilment of Nationally Determined Contributions (NDCs) by countries.**
- **Article 6.2** provides an accounting framework for international cooperation and allows for the international transfer of carbon credits between countries.
- **Article 6.4** establishes a central UN mechanism to trade credits from emissions reductions generated through specific projects.
- **Article 6.8** establishes a work program for non-market approaches, such as applying taxes to discourage emissions.

What does the Kyoto protocol say on emission reduction?

- **The Kyoto Protocol aims to limit or reduce the greenhouse gas emissions by three market-based mechanisms – emissions trading, clean development mechanism and joint implementation.**
- **Emissions trading** – An advanced country "A" can acquire emission units from an advanced country "B" for meeting a part of their enission reduction target.
- **Clean development mechanism** – An advanced country can implement emission reduction projects in a developing country to earn certified emission reduction (CER) credits which can be traded to achieve their reduction targets.
- **Joint implementation** - An advanced country "A" and an advanced country "B" may take part in an emission-reduction project and count the

resulting emission units towards meeting its Kyoto target.



What is the issue regarding carbon markets?

- **Developing countries, particularly India, China and Brazil, gained significantly from the carbon market under CDMof Kyoto Protocol.**
- India registered 1,703 projects under CDM which is the second highest in the world.
- The ratification of the Paris Agreement would change the scenario of carbon markets.
- **Targets for developing countries** - Unlike the Kyoto Protocol, now even developing countries are required to have mitigation targets.
- **CDM transition**- If the decision regarding transition of CDM is not favourable, it could lead to a loss of revenue as India holds around 4 billion unsold certified emission reductions (CERs).
- Several countries like India are demanding to carry forward the old carbon credits earned to meet new climate targets.
- **Accounting rules-** Under Article 6.4 of Paris agreement, a country can purchase CER credits from public and private entities to meet its NDC targets but these reductions must represent additional efforts of such entities.
- **Share of Proceeds (SOP) to the Adaptation Fund -** While developing countries emphasise that SOP must be uniformly applied to Articles 6.2 and 6.4 to fund adaptation, developed countries want to restrict its application to Article 6.4.

What are the other issues to be discussed in COP 26?

China, the United States, and European Union are the three largest GHG emitters on an absolute basis. Per capita greenhouse gas emissions are highest in the United States and Russia.

- **Emission cut pledges-** In 2015, countries have agreed to cut GHG emissions to 2 degrees Celsius and ideally 1.5 degree Celsius.
- The deadline for countries to make steeper emission cut pledges is this year and major emitters like China and India have not yet come forward

with strengthened NDCs.

- **Fossil Fuels -** The UN has called upon the OECD countries to phase out coal by 2030 but environment ministers from G20 economies have not agreed on a timeline.
- **Finance-** Developed countries pledged to raise $100 billion per year till 2020 to assist developing countries in dealing with the effects of climate change but it has not yet been achieved.
- Climate justice demands that developing countries get access to their fair share of global carbon space.
- A facilitative carbon market mechanism that respects the principles enshrined in UNFCCC would help accelerate the transition to low carbon development.

Source: The Hindu

