

# ARTICLE 6 AND THE PARIS CLIMATE AGREEMENT

*Fundamentally, it can deliver the net-zero future*

NEFCO Seminar  
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# IETA's 250+ members will help deliver the Paris climate goals



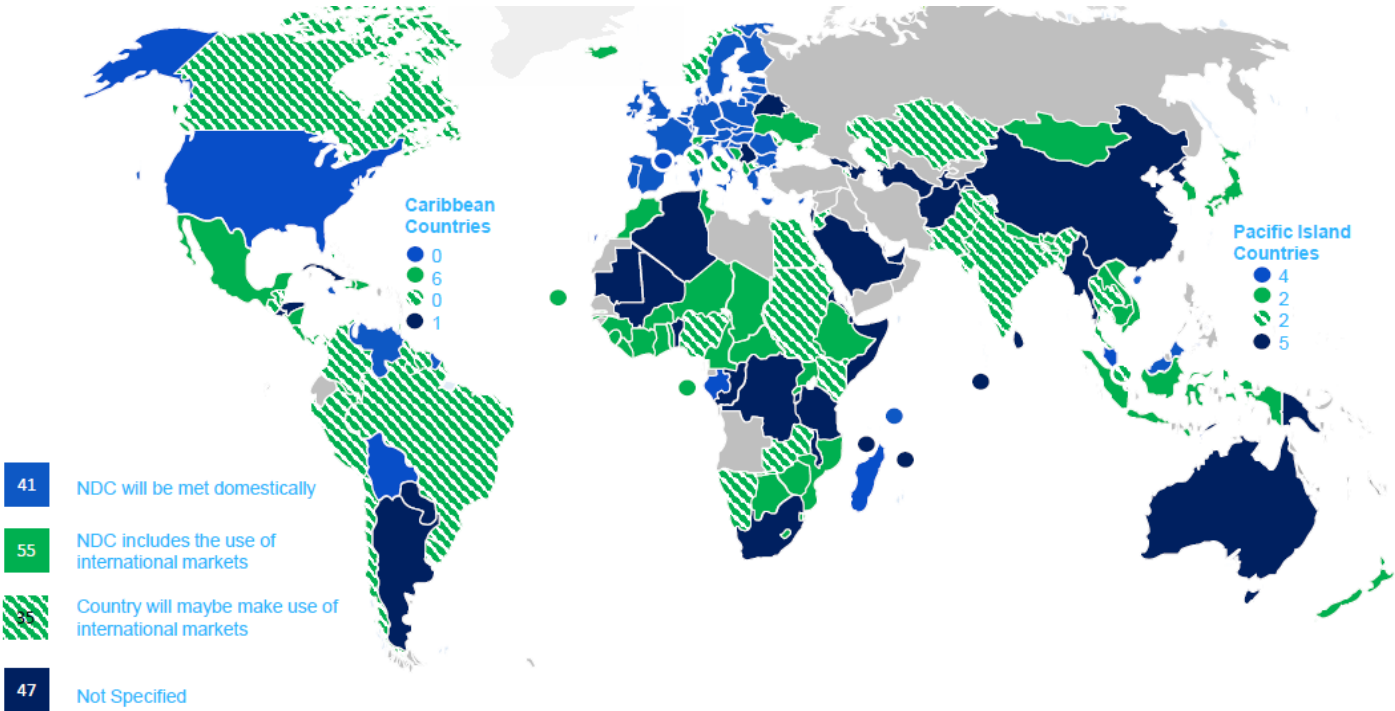
## The fundamentals.

Article 6 is the “net” of “net zero.”

It can deliver the goal of achieving a “balance of sources and sinks” in the Paris Climate Agreement.

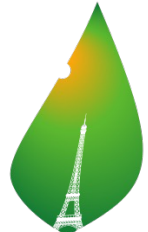
# Over 50% of Initial NDCs showed interest in Article 6 markets

Paris climate targets (NDCs\*) show of interest in use of markets



Source: IETA and EDF (2016)

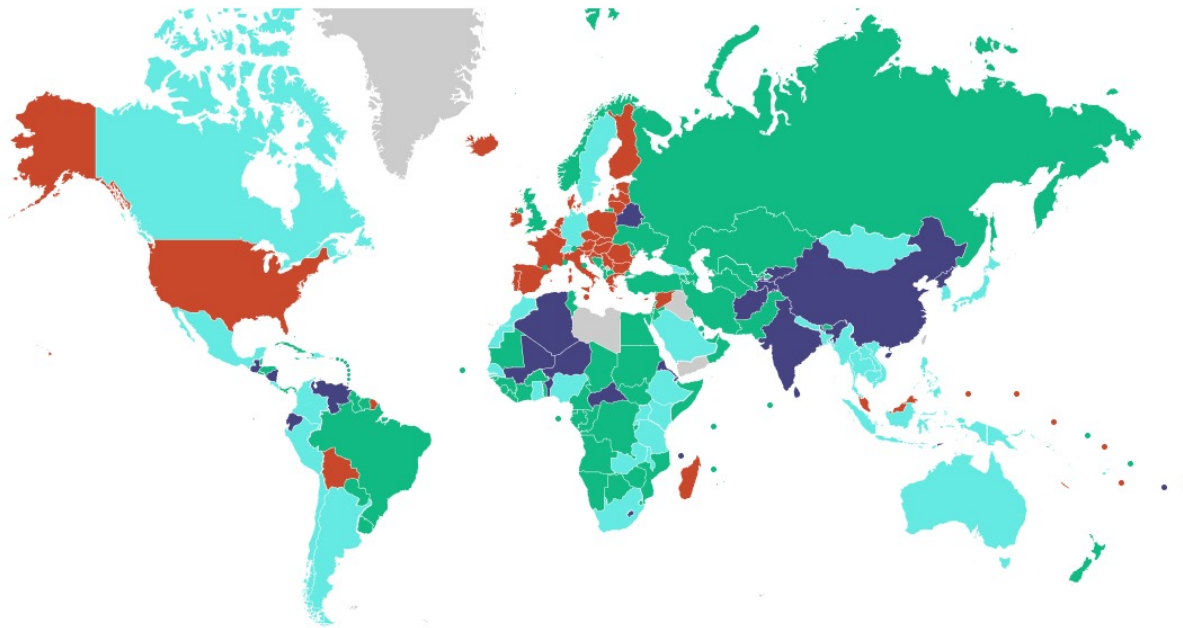
\* Nationally Determined Contributions



**PARIS2015**  
UN CLIMATE CHANGE CONFERENCE  
COP21·CMP11

# In 2022, 80% of updated NDCs show interest in Article 6 markets

International Cooperative Approaches Tracking Map



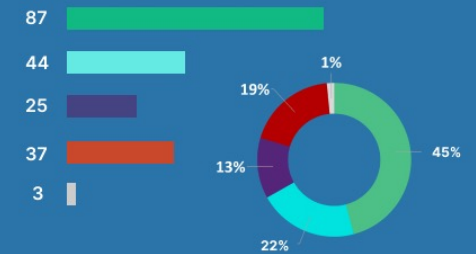
Source: own elaboration adapted from Institute for Global Environmental Strategies (IGES), Nationally Determined Contributions (NDC) Database; UNEP Copenhagen Climate Centre, Paris Agreement Article 6 Pilot activities; United Nations Climate Change, Nationally Determined Contributions Registry.

### Legend

- Countries that consider international market mechanisms to achieve their NDC or increase their climate ambition
- Countries already engaged with bilateral cooperation on cooperative approaches (agreements, MOUs, pilots...)
- Countries that consider broad international support for achieving their NDC or increasing their climate ambition
- Countries that do not mention or consider using international market mechanisms
- Countries that have not delivered their NDC yet or without information

\* Although the US and the EU do not consider using Article 6 in their current NDCs, there are some international linkages between markets in these geographies, such as the California-Quebec and the EU ETS-Switzerland ETS, among others.

### Number and Percentage of Countries per Status



Source: IETA (2022)

## The fundamentals.

Article 6 is the "net" of "net zero.

Market cooperation can channel private finance to the places with the best mitigation potential.

## Why growing interest in markets? Economic potential of Article 6

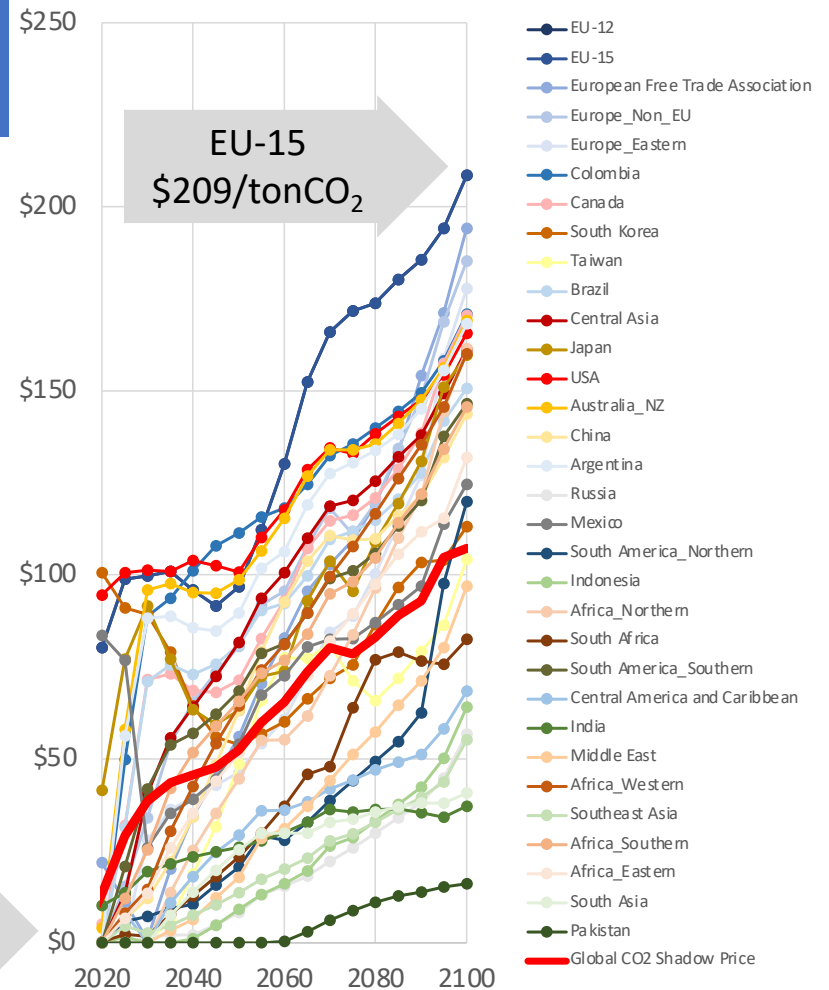
### Independent vs. Cooperative Article 6 Implementation

- Independent NDCs show wide range in shadow prices
- Cooperative NDC implementation **cuts costs in half**
- Potential to **double the ambition** at no extra cost
- Every country is **better off** economically with cooperation

	2030	2050	2100
I-NDC Range	\$0 to \$101/tonCO <sub>2</sub>	\$0 to \$111/tonCO <sub>2</sub>	\$16 to \$209/tonCO <sub>2</sub>
J-NDC	\$38/tonCO <sub>2</sub>	\$52/tonCO <sub>2</sub>	\$107/tonCO <sub>2</sub>

Source: IETA, University of Maryland, World Bank Carbon Pricing Leadership Coalition (Sept 2019)

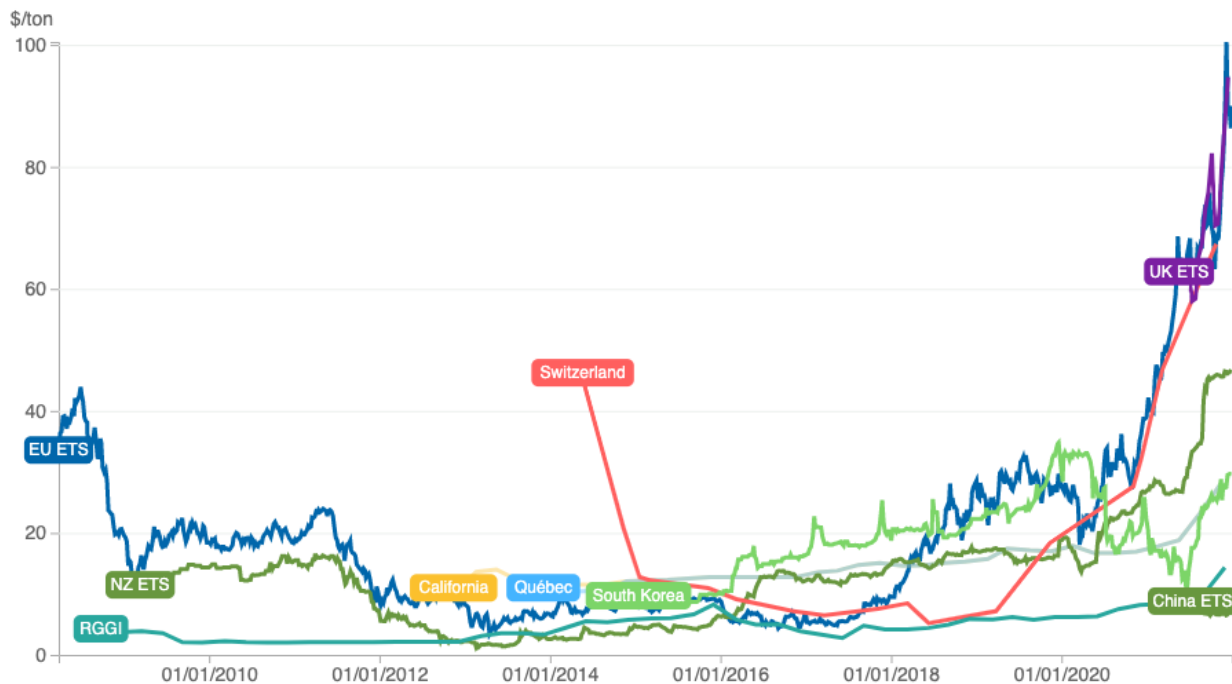
## Shadow Price of CO<sub>2</sub>



# Today's leading carbon allowance markets



ICAP Allowance Price Explorer



Source: International Carbon Action Partnership -31 December 2021

## Allowances & Credits

- **Allowances** are mainly used in compliance markets (EU, China, South Korea, California, Quebec)
- Allowance market = **\$84b** in 2021 (*World Bank State & Trends 2022*)
- **Credits** are mainly used in Voluntary Carbon Market (VCM) or CORSIA
- Voluntary carbon markets are driven by corporate net-zero goals
- Voluntary market = **\$2 billion** in 2021 (*Ecosystem Marketplace, 2022*)

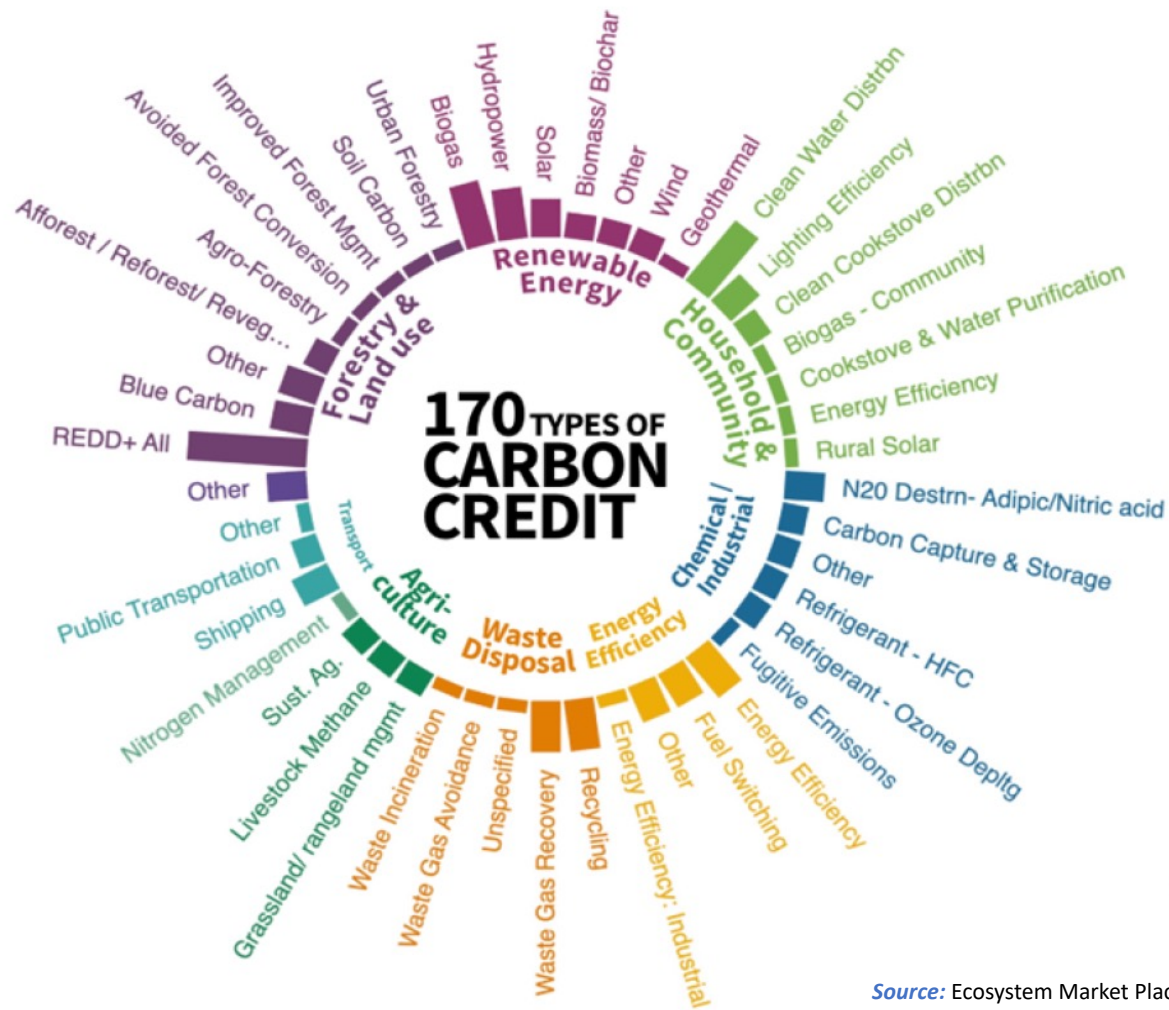


# Voluntary carbon offset market 2006 – 2021

*“(August 2022) much anticipated (Ecosystem Marketplace) briefing provides final market values for 2021 as the Voluntary Carbon Market is officially over the \$2 billion mark.”*



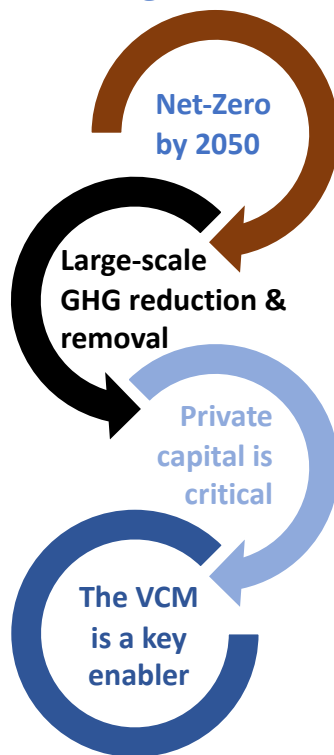
Source: Ecosystem Market Place-Forest Trends, August 2022



Source: Ecosystem Market Place-Forest Trends, August 2022

## A High-integrity VCM is critical to keep 1.5°C alive

**High-integrity carbon credits** are a complementary tool to mobilize private capital towards reducing and removing emissions at the necessary speed and scale



Every ton of GHG emissions contributes to global warming and every increment of global warming means changes get larger in frequency and intensity. At current rates, we would exhaust the carbon budget to limit global warming to 1.5°C within 10 years. To keep 1.5°C alive, GHG emissions need to peak by 2025 reach net zero by 2050. (IPCC)

To achieve Net Zero, GHG emissions need to drop by 85-95% compared to 1990 with carbon removals making up the difference. (EU Commission)

Mobilizing private capital is critical. The climate crisis demands action and investment on a speed and scale governments and philanthropy alone cannot provide. Annual clean energy investment worldwide will need to more than triple by 2030 to around \$4 trillion (IEA)

A well-functioning, liquid voluntary carbon market will be a critical enabler to channel billions of dollars of capital from emitters to solution providers with the ability to reduce and remove carbon at the speed and scale necessary to keep 1.5° alive.

*Source:* IC-VCM 2022

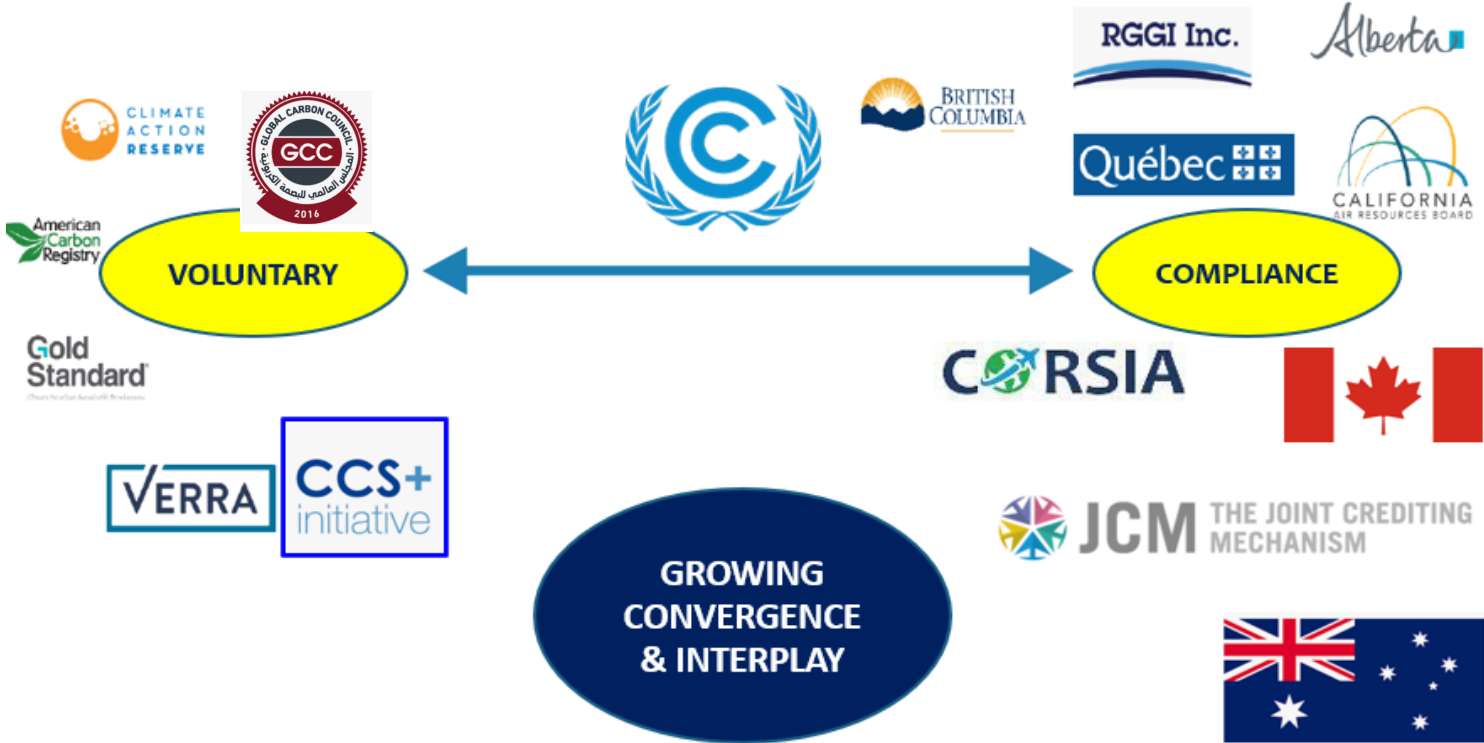
## The fundamentals.

Article 6 is the “net” of “net zero.”

It can encourage innovation and cooperation between public and private actors.

# Voluntary and Compliance Offset Standards/Protocols





## Period of Growth, Transition and Convergence



# Coming soon: Climate Action Data Trust

*A global public good for efficient, transparent markets*



-  **1** A data environment that enables reconciliation of data from registries. It facilitates a peer-to-peer connection and communication among decentralized registries in order to track mitigation outcomes
-  **2** Provide visibility into corresponding adjustment procedures and the lifecycle of carbon offsets from issuances to retirement, which will safeguard against double counting and ease reporting requirements.
-  **3** Surface publicly-available information on MOs and record status changes to provide information on how MOs are used.
-  **4** Enhance transparency and trust among market participants and enable tracking of MOs and reduce double counting risk. The Climate Warehouse would not hold assets or directly facilitate.



## The fundamentals.

Article 6 is a tool for cooperation.

Nobody can get to net-zero alone.

Article 6 offers the greatest hope of delivering the Paris climate goals.



THANK YOU