

## 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.

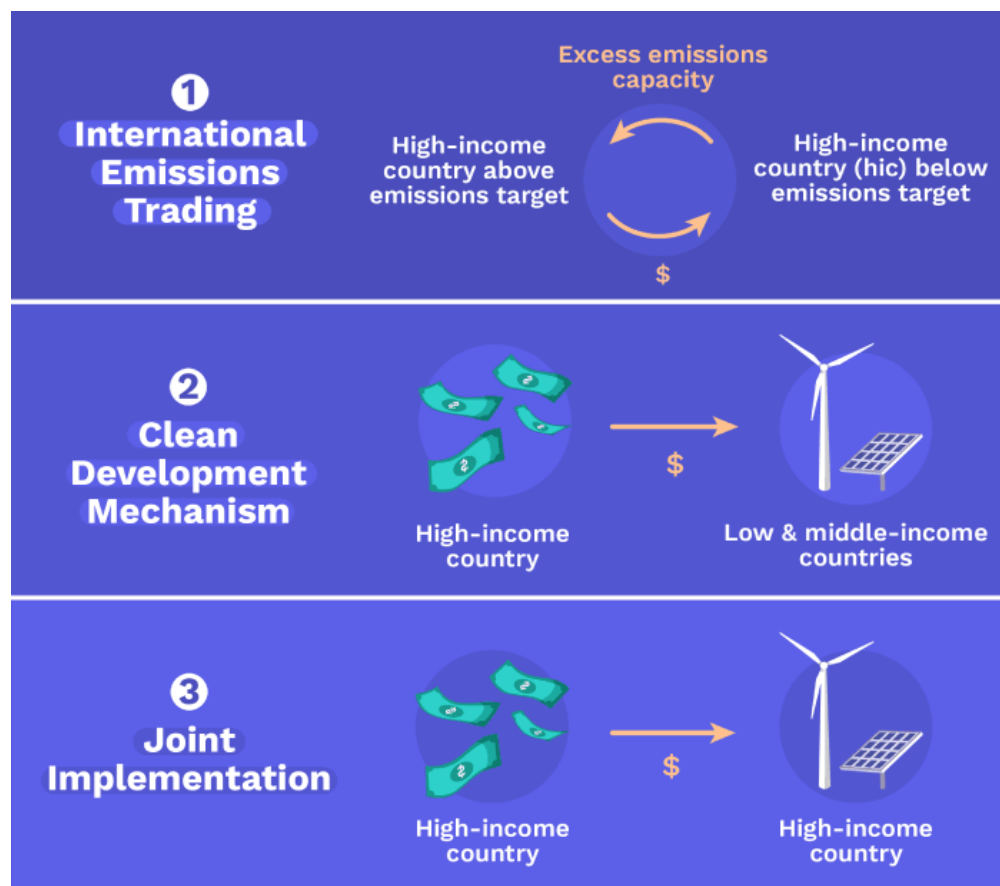
### What is Article 6 of Paris agreement?

- **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 emission 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 CDM of 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**