

IETA input to the Talanoa Dialogue

2 April 2018

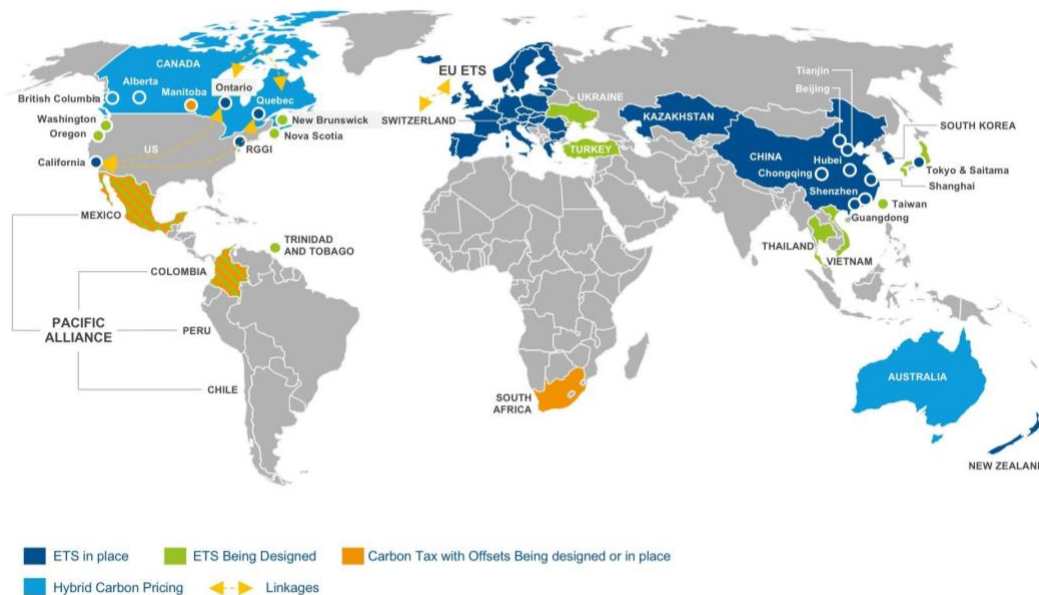
Where are we?

More than two years after the adoption of the Paris Agreement, the climate action momentum generated in December 2015 in Paris has not ceased. On the contrary, it has grown in breadth and reach.

This is reflected by the ever-expanding implementation of carbon pricing policies worldwide. In many jurisdictions, carbon pricing is implemented in the form of market-based policies such as emissions trading systems (ETS).

The latest ICAP status report¹ shows that, at present, ETS cover 15% of global GHG emissions, while more are scheduled for implementation. Moreover, the latest World Bank's 'State and Trends of Carbon Pricing' report² shows that, as of the end of 2017, 55% of global GHG emissions are covered by Nationally Determined Contributions (NDCs) that feature references to domestic and/or international carbon pricing. This confirms that carbon pricing and carbon markets are a key component of the global efforts to tackle climate change.

The map below shows the current global outlook for market-based climate policies. The map includes emissions trading systems, carbon taxes with offsets and hybrid forms of carbon pricing that feature market elements.



¹ Available here: <https://icapcarbonaction.com/en/icap-status-report-2018>

² Available here: <http://documents.worldbank.org/curated/en/468881509601753549/State-and-trends-of-carbon-pricing-2017>



An analysis carried out by IETA³ revealed that around half the NDCs make a direct or indirect reference to the need for international carbon markets. Some countries are looking at international carbon markets as a way to attract the finance needed to meet their NDC targets. Other countries seek access to international carbon markets as a way to meet part of their mitigation commitment, which would be too costly or simply impossible to achieve with domestic-only actions. Some countries also state that they are willing to commit to even more ambitious reduction targets if they have access to well-functioning international markets.

These developments are promising but they are not sufficient to meet (or even to get close to) the ambitious goals set by the Paris Agreement. While the 15% coverage estimated by ICAP is encouraging, it means that there are still no hard emission caps on the remaining 85% of global GHG emissions. Moreover, in the context of the 2016 GHG Market Sentiment Survey⁴, the majority of IETA members indicated that a price of 40 EUR/tCO₂e would be needed to meet the long-term target of the Paris Agreement. Such price signal, as shown in the ICAP report, has not materialised yet.

Where do we want to go?

The international community, by adopting the Paris Agreement, has agreed on the 'destination'. Article 2 of the Agreement clearly states that the objective is to hold the increase in global temperature to well below 2°C above pre-industrial levels, and to pursue efforts to limit it to 1.5°C, recognizing that it would significantly reduce the risks and impacts of climate change.

Article 4 of the Agreement defines the trajectory needed to achieve the long-term objective: Parties should aim to reach global peaking of GHG emissions as soon as possible, and to undertake rapid reductions thereafter, so that a balance between anthropogenic emissions by sources and removals by sinks of GHG emissions can be achieved in the second half of this century.

The key is therefore to scale up emissions mitigation actions, and at the same time to develop enough sinks capacity, to achieve a world of net zero emissions in the second half of the century, or in as little as 35 years, if we are to achieve the 1.5°C goal.

Nevertheless, regardless of how successful and ambitious global decarbonisation efforts are, studies show that emissions sources will continue to exist well into the second half of the century. This will happen because not all countries are capable of decarbonising at the same pace and, more importantly, because not all emissions sources can be tackled with the same effectiveness.

³ Available here:

<https://docs.google.com/spreadsheets/d/1YgIQiiucWW9vuDUAMeRstzzLxTXi6zFWtFVCiqtRTe4/edit#gid=0>

⁴ Available here:

http://ieta.org/resources/Resources/GHG_Market_Sentiment_Survey/IETA%20GHG%20Sentiment%20Survey%202016.pdf



Article 4 itself recognises that reaching an emissions peak will take longer for some countries. At the national level, the decarbonisation trajectory will vary from country to country depending on, among many factors, national capabilities, characteristics of the economy, the nature of key emissions sources and, significantly, the availability of emissions sinks.

Similarly, at the international level, the timeframe and trajectory of global decarbonisation will depend on many factors, including the aggregated ambition of NDCs, technological development, the ability to mobilise climate finance and, most crucially, on the ability to balance key emissions sources with emissions sinks.

In the second half of the century we will therefore be in a scenario where some countries will be fully decarbonised and, possibly, will act as emissions sinks, while some countries will still be going along their decarbonisation pathway. Moreover, other countries will have completed their decarbonisation process but will still have emissions sources that cannot be fully removed.

As mentioned above, the long-term objective of the Paris Agreement does not imply reaching zero emissions – it implies reaching net zero emissions. It will therefore become crucial to ensure that any leftover emissions source is balanced by an equivalent emissions sink. Emissions sinks can be natural, e.g. forests, or engineered, e.g. carbon capture and storage technologies. The quicker this happens, the closer we will get to 1.5°C.

How will we get there?

The Paris Agreement outlines provisions for the creation of the framework needed to balance leftover emissions sources with sinks. Article 6 of the Agreement provides a framework for international cooperation on mitigation action through ‘cooperative approaches’ by allowing international transfers of mitigation outcomes and by establishing a mechanism to mitigate GHG emissions. IETA has outlined its [Vision for Article 6](#) and has put forward detailed suggestions for [its implementation guidance](#).

In IETA’s view, the framework of Article 6 should connect different NDCs, allowing countries that are net sinks to cover for the leftover emissions still present in other countries. Moreover, this framework should create an economic incentive for countries to act as net sinks, which can bolster the sink capacity in many countries.

IETA therefore believes that the use of markets is embedded in the very nature – and goal – of the Paris Agreement. In the absence of a framework to connect different NDCs, the main objective of the Agreement would not be met, as reaching net zero emissions would take much longer. Article 6 and its market provisions can be instrumental in different ways, as outlined below.

In the short term, Article 6 can expedite climate action by providing access to international market mechanisms to those countries who need them. Moreover, having such a framework in place will incentivise more countries to implement ambitious



domestic policies. Through international cooperation, countries can meet their NDCs faster and more cost-effectively – enabling achievement of greater ambition over time.

At the same time, the Article 6 framework is only one side of the coin. To maximise the benefits of international cooperation countries will need to design their NDCs accordingly. Countries should put the Article 6 market provisions at the forefront when defining and implementing NDCs. This will allow reaching net zero emissions as soon as possible and in the most cost-effective way, enabling countries to further raise ambition.

In the longer term, Article 6 will act as the key enabler of the scale of action needed to get the world onto a 1.5°C pathway, by balancing leftover emission sources with emission sinks and by creating the incentive for the enhancement of the global sink capacity, both natural and engineered.

IETA plans to explore this topic by convening a series of Talanoa Dialogues held at the various regional events held around the world over the course of 2018. The outcome of these dialogue will be reflected in our second input to the dialogue.