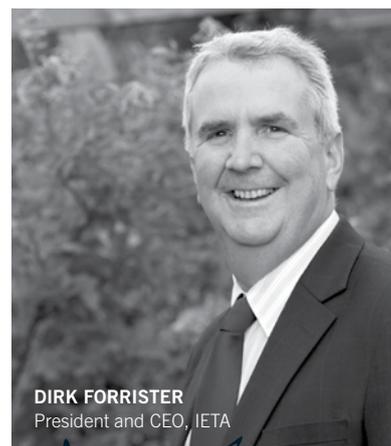


MARKETS DELIVER AMBITION: LEARNING THE VALUE OF ARTICLE 6



A blue ink handwritten signature of Dirk Forrister.

Dirk Forrister explains why it is vital that COP24 sees guidance for the new wave of international markets if the world is to achieve the 1.5°C goal.

COP24 OPENS IN KATOWICE, Poland on 2 December. Will it be all about rules – or more about ambition?

As always with a UN climate meeting, it will not be about just one thing. It will be about compromises and packages, forged in late night policy debates and political wrangling. As the COP approaches, the relationship between clear rules and enhanced ambition is coming into stark relief:

- How can countries amp up ambition unless they have confidence that others are joining the cause, using common reporting standards to assess progress?
- How can they reach for the heights of climate ambition unless there are strong avenues for international cooperation between interested partners?

The issues of higher ambition and good rules are – and always were – deeply intertwined. They come together on the pages of Article 6: it contains the most promising avenue for fostering the kind of economic cooperation that will enable greater ambition.

This year, we began to see the first economic analysis of the value of Article 6. It shows the potential of Article 6 to lower costs – making higher ambitions possible. The initial assessments by the Joint Global Change Research Institute at the University of Maryland show that, with current levels of ambition, Article 6 cooperation can lower costs over the century by nearly \$1 trillion.¹ Viewed from another

perspective, economists at the Environmental Defense Fund found that cooperative approaches envisioned in Article 6 could drive double the ambition for the same economic cost.² This is the potential value of Article 6, and why it deserves such serious attention. It is also why the business community is so intently focused on its success, because it can lower cost and enable transformation.

The Article 6 guidelines will appear as one chapter in a larger Paris Rulebook. The full Rulebook will address a suite of important issues – from reporting and transparency to technology, finance, adaptation, capacity building and just transition for workers and communities.

The Article 6 portion will set out common standards for countries to account for market imports and exports of emissions units, so as to avoid double-counting and assure public confidence. The chapter will also set up the operations of a new mechanism to support emissions reductions and sustainable development, building on the experience of the Kyoto Protocol's Clean Development Mechanism. Finally, it will set up a work programme to explore how cooperation in non-market approaches can foster even more action.

During the Kyoto Protocol era, a wide range of companies around the world gained

(1) www.iea.org/media/workshops/2018/18thghggetsworkshop/Shayu.pdf (2) blogs.edf.org/climate411/2018/08/01/international-trading-of-emissions-reductions-could-greatly-increase-global-climate-ambition/

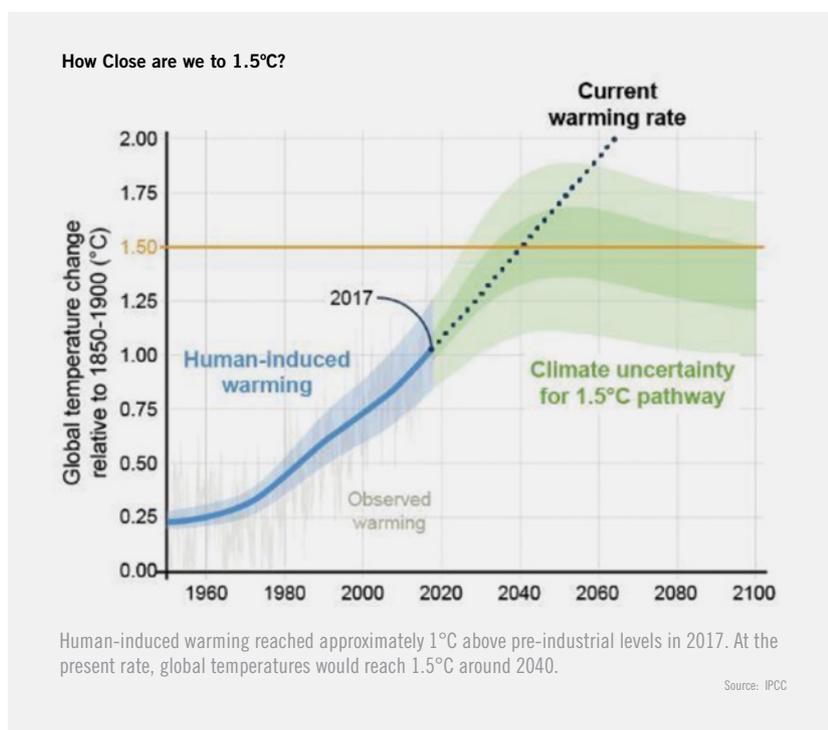
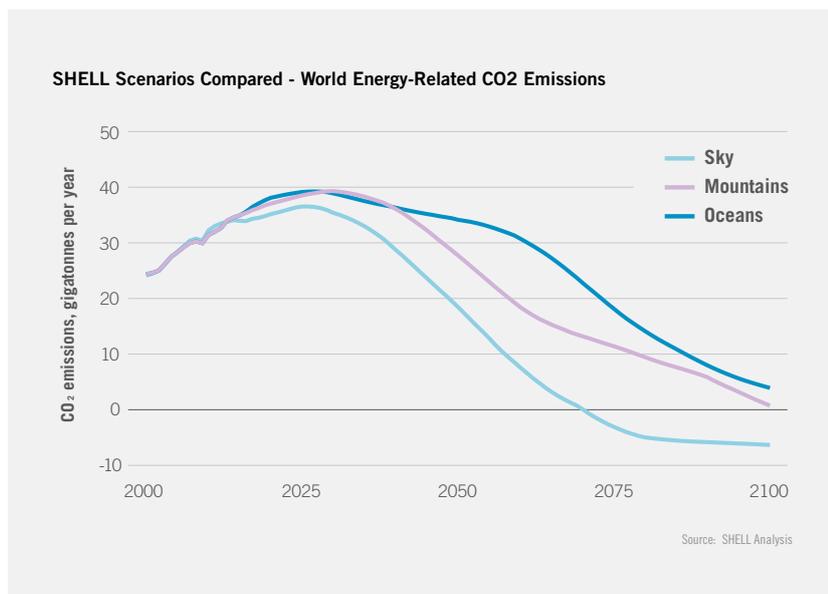
experience in how markets can deliver financial rewards to those who invest in reducing emissions. But this was just a foretaste of much bigger things to come. At present, over half of the countries involved in the climate negotiations plan to use Article 6 to achieve their future climate aspirations. Many are already using market approaches via domestic emissions trading or carbon tax systems.

This year, when the topic of enhancing ambition takes center stage with the culmination of the Talanoa Dialogues, ask yourself: what is stopping countries from doubling down on their commitments? They know the scientific imperative. They have taken stock of the new IPCC Special Report on 1.5°C. They have seen increasingly powerful storms, fires and floods. They know that an ounce of prevention (mitigation) is worth a pound of cure (adaptation). So what is the hold-up?

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The IPCC highlighted the fundamental challenge: a 1.5 degree level of ambition requires economic transformation on a scale that we have never seen before. As Shell described in its “Sky Scenario” of a world embracing 1.5°C level of protection, the goal is possible, but it is not plausible unless much more is done. Shell’s scenario went on to illustrate how aggressive use of emissions reduction technologies and storage solutions would be needed. Since the reduction and storage potential is not evenly distributed to every country, we need a trading system to allow cooperation across international borders. This is the work of Article 6.

The real hold up, then, is about finding the political will to scale up the economic transformation – and doing it together



so that competitiveness concerns are mitigated. The political will depends on breathing life into the strong fundamental economic underpinnings in the implementation of the Paris Agreement.

Put simply, for a country to scale up its ambition, it needs to have clear rules that provide flexibility to cooperate with others through international trading. Absent this clarity, large scale change will be impossible – and the ambitious temperature targets will be too expensive.

Thankfully, the reverse is also true: a clear and simple Rulebook in Katowice can enable countries to implement cooperative approaches – and build the type of market system that can transform the energy economy globally. From a solid Article 6 foundation, policy frameworks can be built at the provincial, national and regional level that are capable of supporting large scale investment that transcends national borders. This system can enable us, as a global community, to achieve much more benefit for the investments made.