

Carbon markets after COP26.

The agreement around article 6 and its implications for carbon markets are critical.

Even before COP26 in Glasgow started, Article 6 of the Paris Agreement was expected to be a significant point of tension between the different member states participating to the negotiations. After nearly 2 weeks of discussions, climate negotiators finally agreed on the rules for applying Article 6 of the Paris Treaty. Parties managed to finalize the so-called Paris Agreement Rulebook and the Paris Agreement is now operational and implementable.

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Because Article 6 defines the rules that governs the international carbon markets, it is central in the climate negotiations and discussions between climate diplomats have been tense ever since the signature of the Paris agreement in 2015. Finally on November 13, one day after COP26 was officially due to finish, governments representatives finally reached an agreement about the operating rules supporting the carbon markets mechanisms, which are designed to incentivize a reduction in greenhouse gas emissions.



Previous carbon markets had already been partly implemented following the Kyoto protocol. For instance, the so-called Clean Development Mechanism (CDM) was created and many new projects that were setup in developing countries have already generated a significant number of the so-called Certified Emission Reductions (CERs). In Glasgow, countries like China, Brazil and India, which generated many of these credits through low-carbon projects on their territories, have been allowed to convert existing CERs generated from 2013 into the new carbon market. That is a significant advantage for these states as they enter into the new market with a very significant starting bonus of carbon credits, that they can partly use towards their national targets.

Criticized by environmentalists opposing this decision, the validated carryover of CERs will bring an estimated 320M tons of CO₂e into the new Paris mechanism, out of the 4 Billion credits that would have been carried out with an unrestricted transition.



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Much less known than Article 2, which defined the now famous objective to limit global warming "to well below 2°C", Article 6 of the Paris treaty created different carbon market mechanisms.



Another key point specified by the COP26 article 6.2 relates to the establishment of rules to avoid any double counting of carbon reduction units. Because there is indeed a risk that carbon credit may be accounted once in the buying country and once in the selling country, the new framework article now validates a specific mechanism called “*corresponding adjustment*”, that defines the accounting rules when internationally Traded Mitigation Outcomes (ITMO) are issued and transferred abroad. This will apply when these ITMOs are transferred to countries but also to private players, indirectly creating a link between the Nationally Determined Contributions (NDC) scheme and the voluntary market as borders clearly blur. On the voluntary market, this may actually lead to the creation of “Article 6 Label” attached to credits with a validated corresponding adjustment obtained by the host government.

Even if lines are blurred between the different markets and schemes, COP26 also confirmed that the voluntary market is not being regulated by Article 6.



Carbon Credit= 1Tonne CO₂

Another new element validated at COP26 is the opportunity for states to generate carbon credit based on the policies and measures that are developed, when it was only possible for specific projects in the past. If the incorporation of the carbon impact of specific new policies may make sense, it remains a real challenge to properly quantify the associated carbon credit and this disposition will probably attract further scrutiny.



We can now say with credibility that we have kept 1.5 degrees alive. But, its pulse is weak and it will only survive if we keep our promises and translate commitments into rapid action.”

Alok Sharma

UK President of COP26





Additionally, an ancient key request from environmental and indigenous group has also been validated with the setup of a new mechanism for disputes around carbon-offsetting projects through the deployment of an independent grievance process that can be used for instance when human rights aspects are not properly taken into account.

Finally, the Article 6.8 also clarify the setup of a formal framework for climate and climate cooperation between parties when no carbon trade is involved, covering for instance development aid.

Like for any international agreement, some specific policy dimensions are probably missing. However, COP26 encourages the development of emissions trading mechanisms that will continue to play a growing role, thanks to all the clarifications brought by the agreement. For the private sector in particular, it represents a chance to contribute to global emissions reduction and a rapid growth at a global level for carbon market activities should be anticipated.



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