

Unfortunately, despite the United Nations (UN) Framework Convention on Climate Change being negotiated in 1992, global emissions of greenhouse gasses have risen in almost every subsequent year. Unsurprisingly therefore, the goal of the Convention, which is to restrain global temperature rises to a level that is safe for humankind and other global living systems, has become less likely with each passing year.

Part of the challenge has been the changes in the pattern of global economic development over the last thirty years, and the consequent changes in the pattern of major greenhouse gas emitters. This change was not anticipated, nor factored into the language of the Convention. The primary obligations of the Convention fall upon developed Member countries. Even as recently as 2015, the Paris Agreement reiterated this model. Developed country parties should undertake economy-wide absolute emission reduction targets. Developing country Parties need only continue enhancing their mitigation efforts. True, over time, they should move towards reduction targets in light of their different national circumstances.

Yet three of the four largest emitters, are now developing countries: China, India and Russia. China alone now emits more than a quarter of the world's greenhouse gasses. The major growth in greenhouse gasses is now from the developing world. The goal of decoupling economic growth from carbon growth has proven elusive.

The developed world built their economies on burning fossil fuels and therefore hold a historic responsibility. Based on the principle of equity and common but differentiated responsibilities, as enshrined in the Convention, it is hard to deny the developing world the same opportunities.

Therefore, it was always appreciated that the developed world would have to share the burden of the developing world, if the latter was to adopt a new paradigm of low carbon economic growth. Thus, the climate change toolbox has contained many mechanisms to encourage the transfer of technology and to help fund this challenge.

In Glasgow, the emphasis was on direct financial transfer, with efforts to lock in and grow the Paris commitment of financial support of US\$100 billion a year. But much of this money will go to the smaller and economically weaker developing countries with an emphasis on managing the consequences of climate change through adaptation. Most Member countries are not and will never be major emitters. It is obvious that direct financial transfers will not solve the fundamental challenge of reversing the growth in emissions from the major developing countries.

Arguably, a better chance of achieving this goal is through major investment by the private sector of the developed world in low carbon opportunities in the developing world. Thus, the importance of Article 6 of the Paris Agreement – the 'Rulebook' that has only just been agreed at COP26 after six years of negotiation.

Article 6 establishes a mechanism, which would allow one state to invest in low carbon opportunities in another state, and be able to claim the resulting carbon credits against its Paris Agreement carbon commitments. These bilateral opportunities were established in Paris but have been slow to take off, probably because bilateral agreements would first have to be negotiated between States. Now after Glasgow, there will be a UN supervised marketplace to facilitate these investment opportunities and legitimise international carbon trading.

This has of course been tried before. The Kyoto Protocol, under which developed countries accepted binding reduction targets, provided flexibility measures to assist implementation in a cost-effective way. These measures included the Clean Development Mechanism (CDM) to

allow the offsetting of developed country obligations through investment in mitigation opportunities in developing countries. Successful projects resulted in Certified Emission Reduction units (CERs) which could be traded. From 2001-2018, according to the UN, the program supported over 8000 projects and programs in 111 countries, avoided 2 billion tonnes of carbon dioxide equivalent and sparked investment close to US\$304 billion. But the big emitters, the US and China, were not in the CDM, so most of the investment flowed from Europe. And the second commitment of the Kyoto protocol expired last year.

In a not dissimilar way, the European Union Emissions Trading Change Scheme, through the sale of EU Allowances (EAUs), has facilitated private sector investment from the more developed parts of the Union, into the less developed, where the cost of abatement is lower. But apart from its adoption of the CDM mechanism, investments have been predominantly within the Union.

Carbon markets are not an unusual tool to help reduce emissions within a state. China, the UK, Australia, Canada and various US states all have markets of varying types. What is less common is the capacity to trade between states and thus facilitate investment in carbon reduction projects in the developing world. Interestingly, opportunities have existed through various private certification schemes such as the Swiss based 'Gold Standard,' with its Voluntary Emission Reductions (VER) units and the Washington DC based 'Verified Carbon Standard,' with its Verified Carbon Units (VCUs). Now there are financial products that integrate these carbon credits, such as the World Bank's carbon-linked bonds.

But it's fair to say that following the Kyoto Protocol programs, the global community has really looked to the Paris Agreement, and in particular Article 6, to set the framework for Member countries of the Convention, to progress these investment opportunities.

Article 6.2 provides a framework for countries to establish 'cooperative approaches' to generate and trade Internationally Traded Mitigation Outcomes (ITMOs). ITMOs can be traded with the partner country for use toward its Nationally Determined Contributions (NDCs), the non-binding emissions reduction commitment of each country under the Paris Agreement.

Article 6.4 establishes a mechanism under the governance of the UN to implement the framework. Rules, modalities and procedures for the implementation of Article 6.4 were agreed in Glasgow. The '6.4 mechanism' will generate tradeable emission reduction units (A6.4ERs), and replace the CDM.

Article 6.8 provides a framework for the facilitation of 'non-market approaches' (NMAs), which are "transformative" mitigation and adaptation actions. NMAs can also be used toward the participating parties' NDCs. NMAs are likely to take the form of multi-stakeholder public-private initiatives, statements and commitments. Much will depend on whether NMAs can attract policy funding outside of traded markets.

This should be a good thing. It inherently encourages investment in low carbon solutions in the developing world. It attempts to incorporate the learnings of the last thirty years in improving the integrity of the mechanism. There is much merit in having one set of rules. It brings existing CERs into the new scheme, providing continuity. The whole global community will now have the chance to participate.

On the other hand, it could be said that Glasgow only agreed a framework for rules. A great deal of detail has been referred to the Subsidiary Body for Scientific Advice for further work. The UN bureaucracy is famously arcane and laborious (as is always the case with 197 masters). Implementation will be slow and will require states to opt in. But with more states accepting ever more ambitious targets, it's reasonable to assume that they will be looking to

reduce cost and that their private sectors will be urging that they make this opportunity available.

An event in Glasgow in support of the nascent Indo Pacific Carbon Offset Scheme was encouraging. Again, the detail of the Scheme is yet to be agreed, but it was positive to have representatives of Japan, Papua New Guinea (PNG), the Republic of Korea, and the private sector, expressing support for this Australian initiative. Major emitters certainly need a large, credible source of offsets to meet their abatement commitments. Australia's two new bilateral agreements with PNG and Fiji for high quality carbon offsets were also positively reported.

It has been said that the Article 6 mechanism might generate US\$100 billion a year. If so, it's not going to save the planet, given the trillions of dollars of investment necessary to achieve the Paris outcomes. But it is worthwhile and adds another tool to the toolbox.



Hon Robert Hill AC

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