COP24 Katowice

Key Takeaways

December 2018

Carbon Market Institute

In Poland last week, the UNFCCC Conference of Parties succeeded in finalising the Paris Agreement rule book that sets out the rules, modalities and procedures for how the global community will decarbonise the economy to keep global temperature increases to below 2 degrees (towards 1.5 degrees). Across multiple workstreams, negotiators worked tirelessly towards outcomes across adaptation, climate finance, indigenous participation, global stocktake, capacity building, enhanced transparency, and loss & damage. However, two issues remained undecided: the mechanics of global markets and the need for parties to raise ambition.

CMI again led a delegation of members to the COP and participated in many events and engaged across the spectrum of negotiations. Below we've outlined these issues, and our key takeaways from COP24.

1. The Rulebook will drive increased accountability to targets.

According to the 156-page rulebook, Parties agreed to revise and enhance their commitments in the form of Nationally Determined Contributions (NDCs) before 2020. They must outline mitigation and adaptation measures as well as details of financial support for climate action in developing countries. Parties agreed to undertake a "global stocktake" of the effectiveness of climate action in 2023. In doing that they will have to provide quantifiable information on their reference points for measurements, the gases covered, their planning processes, and how they consider their contribution to be fair and ambitious.

In short, they have to provide clear, transparent and understandable information on what they did and how they did it, so it can be added up and compared to what others are doing. The process committed to will make assessing the wide variations in commitments more comparable and make aggregation of global activities less challenging. This means Australia will have to be much more accountable in demonstrating through accurate data that the policies we have in place are driving down absolute emissions. This is currently not the case and greater scrutiny will come on Australia if our policies are insufficient to meet ever increasing targets.

2. Negotiations on Article 6 kicked down the road.

Unfortunately, negotiators were not able to fulfil a mandate to finalise the rules for development and implementation of markets under Article 6, with a very small minority of nations standing in the way of guidance for how a global market mechanism (Article 6.4) will operate with transparency, and transition the existing Kyoto Mechanism's Clean Development Mechanism into the new mechanism. Specifically, this small minority insisted that the new global markets mechanism should not require a project host nation to properly reflect the transfer of Internationally Transferred Mitigation Outcomes (ITMO's) in their Nationally Determined Contribution (NDC). This lack of transparency would encourage double counting and undermine the integrity of the mechanism, which would be key to provide business with certainty to engage in market participation.

Finalisation of Article 6 rules has been pushed to the 2019 workplan for Paris Agreement implementation. Despite the delay, it is critical to recognise that countries like Australia are still able to move forward with their own 'cooperative approaches' under Article 6.2, which allows countries to engage in market linkage or bilateral arrangements to facilitate the transfer of ITMOs and carbon market activity across borders (rather than via a UN governed market mechanism that will eventually exist under finalised 6.4 rules). The Australian Government should be proactively seeking out counties that may act as net suppliers of credits as well as countries such as New Zealand and South Korea who have a functioning ETS that could be a destination for Australian Carbon Credit Units. CMI will continue to engage to ensure we can optimise our position as international markets develop.

3. Carbon markets can enable greater ambition.

Regardless of design, carbon pricing schemes are becoming an effective tool that countries are using to implement their Nationally Determined Contributions (NDCs) under the Paris Agreement, and to leverage private sector capability and innovation. It was clear in Katowice, that COP24 was the arena in which countries were sharing knowledge about market design and implementation. The Canadian Environment Minister Catherine McKenna made the case for a carbon price for large emitters when she explained in one forum that "when pollution is free, there will be more of it".

According to the World Bank, in 2018, carbon pricing schemes covered 19.8% of global emissions, or 11GtCO_2-e. At COP24, many heads of state and ministerial representatives from across the world acknowledged the need for private sector engagement and leadership on climate action. Pragmatically, they realise that business must be incentivised to reduce emissions at lowest cost, and that this can drive deeper emissions cuts across many sectors of the economy. Over 90 countries have signalled their current or future use of carbon markets to mitigate climate change, and more and more commercial interactions and trade across borders will in some way include carbon market activity. As the global economy shifts towards a zero-carbon future Australia should look to develop policies that provide a clear carbon price signal and develop clear market-based policies that are aligned, and could link with others in our region (and our major trading partners).

4. Australia's domestic offset market could be a net global supplier of offsets.

In the post-2020 period, there will be a shortage of carbon credits in the global supply and demand equation as countries soak up their domestic supply to meet NDC commitments. Australia has the knowledge, expertise and institutional frameworks in place that can encourage investment in, and export of credible, high-quality, low sovereign risk abatement to the global community. There is an opportunity as markets develop under Article 6, for Australia to establish bilateral markets and forms of linking with other jurisdictions. If Australia is to meet our own domestic targets, and also meet future export market opportunities, we need to invest in the diversification of, investment in, and innovation for supply of credits to both markets. CMI is engaged in the development of this future national competitive advantage through the development of an action plan from our Carbon Farming Industry Roadmap, which by 2030 could achieve 360-480 million tonnes of CO_2-e abatement delivered; between $10.8-$24 billion in revenues to the Australian economy; and between 10,500-21,000 direct and indirect jobs, predominantly in regional and rural areas.

5. Countries are collaborating on emissions reduction.

Since Paris, the annual Conference of Parties has become an opportunity for countries to announce new policies, initiatives, pledges and increased ambition – and COP24 was no exception. This year, a multiplicity of announcements focused on collaboration across borders, which is indicative of the positive nature of the momentum that has built since Paris. Countries recognise they cannot do this alone, and will need the support of other developed and developing governments, civil society, indigenous peoples, technology, business and finance to drive the transition forward.

Australia has a key role to play in this transition, and we need to better embed climate change considerations in our aid, trade and diplomacy, so that we are aligned with the activities of other nations and that we can play a positive responsible role, particularly in our region to address climate change.

6. Australian experience and capability in policy, finance, technology, markets is in demand.

CMI met with several countries including Singapore, Pakistan and Indonesia, who are looking to leverage Australia's model and design of the Carbon Pricing Mechanism and our domestic offset scheme (Carbon Farming Initiative & Emissions Reduction Fund). Australia has the capacity, expertise and experience to create a resource for regional neighbours and global trading partners on decarbonisation; if we wish to create a competitive advantage we need to construct the pathways towards deep engagement with other nations on climate change, and develop the frameworks to incentivise investors and private sector leaders to create the low-carbon solutions that can be deployed at scale across the world.

Next year on the 8th & 9th of May 2019, we will use the 6th Australasian Emissions Reduction Summit to invite key stakeholders from the international business and political community here, to learn lessons from our domestic experience, and to showcase our national capabilities that can be deployed to drive the global economic transition (earlybird registration now available here).

7. A Just Transition is a challenge that involves multiple stakeholders.

With COP24 taking place in the middle of Polish coal country, it was pretty evident that the transition towards a decarbonised world is a complex challenge with no easy answers. Technology change will impact livelihoods as automation increases, just as low-carbon economic policies will have localised impacts on small communities, First Nations peoples, and smaller cottage industries. What's more, the way that investors channel their capital can have an impact on those that are not just making the changes (like employers and industrial leaders), but on those that are indirectly impacted - that have things 'done to' them, rather than having control over their own transition.

However, it was highlighted in multiple events at COP24 that the cost of inaction will be greater than this transition cost. It is important that Australia develops a plan for all stakeholders and the nation as a whole, to ensure a fair and just transition for our workforce, and our most vulnerable communities.

8. The role of capital markets is incredibly important.

At COP24, 415 investors, with $32 trillion in assets-under-management, called on governments around the world to step up action to address climate change, as signatories of the 2018 Global Investor Statement to Governments on Climate Change. Led by a number of investor groups including Australia's Investor Group on Climate Change (IGCC), the 'Global Investor Statement' marks the single largest policy intervention to date from investors on climate change. It asks governments to strengthen their Nationally Determined Contributions to meet the goals of the Paris Agreement and to enact policies to facilitate the world's transition to a low-carbon economy across three priority areas - achieving the Paris Agreement's goals; accelerating private sector investment into the low carbon transition; and committing to improve climate-related financial reporting. It specifically suggests that governments phase out thermal coal power, fossil fuel subsidies, and put a meaningful price on carbon.

The Katowice rulebook defined a process for establishing new targets on finance from 2025 onwards to follow-on from the current target of mobilising $100 billion per year from 2020 to support developing countries. The text urges developed country parties to channel more grant-based resources for adaptation to climate change as against loans. Australian capital markets will have a big role to play.

9. The solution to climate change must involve global strategies in how we use our forests and lands.
Reiterated again at COP24, was the fact that forests are ⅓ of the climate solution, and that as a global community and economy, we can't let this become the 'forgotten solution'. Land-based sequestration and emissions avoidance activities are critical to reducing emissions, and forests as carbon sinks are critical as a scalable solution to invest in – not only to generate abatement for entities that require carbon credits to meet emissions liabilities, but to support biodiversity, landscape resilience, natural resource management, improved ecosystem services and increased agricultural productivity.

Australia has the largest domestic land-based offset scheme in the world, and is recognised as having rigorous abatement methods, and high standards of measurement, reporting and verification which sets us up as the natural partner for global investment in forests and land-based carbon sinks as markets develop under Article 6 of the Paris Agreement. As such, reducing emissions from deforestation and forest degradation (REDD+) could have real relevance and prominence in Australia, as it does around the world, and Australia should seek to include REDD+ as a priority under any international units we may use within our own compliance schemes.

In Conclusion.
Progress has been made, but there is still more to come for the Paris Agreement, and for how the global economy will begin to shift gears on decarbonisation efforts and bridge the gap between public and private sector collaboration. CMI will continue to engage in how the rules around Article 6 will play out, and work towards optimising our position in international carbon markets.

We look forward to working with you in 2019, and welcoming you to the 6th Australasian Emissions Reduction Summit on the 8th & 9th May, at the MCG in Melbourne to discuss how to Futureproof the Australian economy.

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The Carbon Market Institute is at the centre of climate change policy and business in Australia. Independent and non-partisan, we bring business, policy makers and thought leaders together to drive the evolution of carbon markets towards a significant and positive impact on climate change.

Engaging leaders, shaping policy and driving action, we're helping business to seize opportunities in the transition to a low carbon economy.

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