COP25 Madrid

Key Takeaways

December 2019

Carbon Market Institute

business leading transition

INTRODUCTION

In Madrid last week, the UNFCCC's 25th Conference of Parties (COP25) took place, bringing together national government delegations; civil society, business, and finance observers. With most of the Paris Agreement rule book complete, negotiations focused mostly on the rules of Article 6, aiming to finalise how carbon markets will evolve post-2020 as countries begin implementation of the first of their Nationally Determined Contributions (NDCs) and their related emission reduction targets.

Other issues under discussion at COP25 included: management and financing of loss and damage (responding to impacts that can't be adapted to); common time frames for post 2030 NDCs; financial commitments to assist developing and vulnerable countries; gender action plans, and; just transition initiatives.

This was the longest COP in history, extending some 44 hours after scheduled closing. It was attended by nearly 27 000 delegates. This included a large private sector presence at COP25, eager to understand the implications of negotiated carbon market rules. Private sector representatives were also keen to share knowledge, build capacity and collaboration to drive corporate ambition and support the development as well as implementation of climate solutions.

CMI again led a delegation of its business members to the COP and participated in many events and engaged across the spectrum of negotiations. This included hosting a Side Event in the Moana Blue Pacific Pavilion entitled "Carbon Markets in the Pacific: Practice and Potential."

Inspired by the Pacific's love of Rugby Sevens in this report we outline our seven key takeaways from COP25, these include:

1. **Postponing carbon market rules to COP26 is a missed opportunity, building on and communicating the respected integrity of Australia's carbon market assumes greater importance as a result;**

2. **All countries were urged to consider the gap between current commitments and agreed warming goals in re-communicating or updating their NDCs at COP26, Australia's proposed use of Kyoto carryover will remain under international scrutiny and Australia should use policy processes underway to update its 2030 commitments and develop a 2050 Long Term Strategy by the September 2020 Pacific Island Forum;**

3. **More business and investors see the inevitability of net-zero emissions and, recognising governments can't always lead alone, are joining ambition alliances with increasing investments and engagement;**

4. **Liability, litigation and rebellion are intensifying risks for companies and governments that can't show credible, long-term climate action plans;**

5. **Nature based carbon reduction activities assume greater strategic importance, not just offsets but as a key partner in solutions in addition to industrial decarbonisation activities;**

6. **Voluntary markets play an important role in enabling companies to meet their stated climate change commitments. These markets are growing and will evolve alongside and occasionally within NDCs as the latter are updated and reviewed, and as Article 6 rules are further defined;**

7. **Australian business and government experience can play a greater role in Asia Pacific with climate legislation and carbon markets there stepping up.**

This report does not aim to give a detailed analysis of formal negotiation outcomes. Examples of these can be found at Carbon Brief and Climate Home News. The report concludes with a calendar of key dates for 2020.

1. Postponing carbon market rules to COP26 is a missed opportunity, building on and communicating the respected integrity of Australia's carbon market assumes greater importance as a result.

A chorus of voices has decried the missed opportunity that is the postponement of coordinated global guidance for carbon markets under Article 6 of the Paris Agreement.

Prior to COP25, CMI joined with other Australian and international groups highlighting research indicating that properly designed global carbon markets could reduce the costs of implementing current commitments by up to US$320 billion or, more importantly, double emission reduction outcomes if that saving was properly invested.

At COP25 at least four "crunch" issues for Article 6 were in play. These include

- accounting rules to prevent double counting;
- the transition of Kyoto activities and carbon "units";
- the "share of proceeds" that would be set aside for adaptation in the most vulnerable countries;
- how to ensure net reductions or "Overall Mitigation in Greenhouse Emissions" (OMGE) from carbon markets.

Countries focused on achieving the latter OMGE, a requirement under Article 6.4, were particularly motivated by analysis such as that published during the COP by thinktank Climate Analytics: "*If China and Brazil use their CERs domestically to meet their domestic NDCs, and if Australia uses its surplus AAUs towards its NDC, this would reduce global ambition by 25%.*"

In the closing days of the negotiations over 30 countries including the UK, Germany, France and Pacific countries such as Fiji, Marshall Islands and 2020 Pacific Island Forum host Vanuatu released the San Jose Principles for High Ambition and Integrity in International Carbon Markets. Calling themselves the Unconventional Group they urged an Article 6 rule book that at minimum:

- Ensures environmental integrity and enables the highest possible mitigation ambition
- Delivers an overall mitigation in global emissions, moving beyond zero-sum offsetting approaches to help accelerate the reduction of global greenhouse gas emissions
- Prohibits the use of pre-2020 units, Kyoto units and allowances, and any underlying reductions toward Paris Agreement and other international goals
- Ensures that double counting is avoided and that all use of markets toward international climate goals is subject to corresponding adjustments
- Avoids locking in levels of emissions, technologies or carbon-intensive practices incompatible with the achievement of the Paris Agreement's long-term temperature goal
- Applies allocation methodologies and baseline methodologies that support domestic NDC achievement and contribute to achievement of the Paris Agreement's long-term temperature goal
- Uses CO2-equivalence in reporting and accounting for emissions and removals, fully applying the principles of transparency, accuracy, consistency, comparability and completeness
- Uses centrally and publicly accessible infrastructure and systems to collect, track, and share the information necessary for robust and transparent accounting
- Ensures incentives to progression and supports all Parties in moving toward economy-wide emission targets

- Contributes to quantifiable and predictable financial resources to be used by developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation
- Recognizes the importance of capacity building to enable the widest possible participation by Parties under Article 6.

The near-final draft (pdf) of the Article 6.4 rules would have allowed the use of CERs within the Paris regime, but with a "vintage" restriction meaning only credits created after a certain date would be allowed. This would have been beneficial to CMI members currently invested in live projects they are wishing to continue to support. That date was not defined in the draft text which would have still postponed certainty.

This near final draft removed earlier options prohibiting the use of carryovers such as that proposed by Australia. However, the final decision included references to previous drafts, meaning all of these issues will be live through to Glasgow COP26 and Australia's proposal will remain a centre of controversy.

Former UK climate minister Claire O'Neill, who will act as COP president for COP26 in Glasgow next year, tweeted that "*no deal is def[initely] better than the bad deal proposed*". She pledged to *"pull no punches next year in getting clarity and certainty…work[ing] with everyone including the private sector for clear rules and transparent measurement*".

Such completeness would be welcome as timelines to achieve a fully functioning new market mechanism are slipping and the current draft rulebook texts defer many key operational decisions to later years following additional work by the proposed new supervisory body and the Conference managing the Paris Agreement (CMA).

Madrid's COP25 outcomes represent a missed opportunity, but not the end of carbon market development. As the International Emissions Trading Association's (IETA) Dirk Forrester noted at the conclusion of talks:

> "It will be more difficult for Countries to commit to stronger targets without having confidence that the economic fundamentals are secure – and that market cooperation will enable achievement.
>
> The collapse of the Article 6 talks in Madrid means that the task of piloting the new markets that were set out in the Paris Agreement falls to individual nations.
>
> "The failure in Madrid won't stop countries from cooperating on building the high integrity markets of the future," Forrister said. "Since the UN climate process has stalled, the opportunity will move to bilateral and regional markets, where pilot systems are already in formation."

This is an area where Australia has a positive track record and can contribute. Australia's carbon market operated by the Clean Energy Regulator is one of the world's most advanced with eight years' experience and over 800 projects. Its monitoring and integrity schemes are internationally respected and CMI is working with the Government and the CER to continue to improve and build on its integrity. This includes CMI's management of the world's first Carbon Industry Code of Conduct and work with state governments to boost carbon market development and integrate natural capital, regional and indigenous benefits.

CMI is also working with the Government to streamline and modernise the functioning of the Australian carbon market its transaction costs and operating procedures. Oxford University's Dr Ben Caldecott talks of the formation of "next generation" carbon markets enabled by new technologies that didn't exist when carbon markets first developed:

> "These include ubiquitous mobile banking (particularly in developing countries), smart phones with intuitive user interfaces (also becoming ubiquitous), distributed ledgers (that can log transactions more efficiently, transparently, and securely), smart contracts (that are partially or fully self-executing, self-enforcing, or both), developments in earth observation (cheaper sensors and platforms, particularly new satellite constellations with much more regular revisit periods), dramatic improvements in data processing (developments in AI and cloud-based computing to scan and interpret information quickly), and continuous improvements in predicative modelling (that help to turn data into insights) as well as software (to operate markets and auctions efficiently and to do so in intuitive ways).
>
> All of these technological developments are proven and are developing rapidly. This is a virtuous cycle. The underlying technologies keep getting better and better, and cheaper and cheaper. Our experience of using these technologies in combination is also growing as the huge number of use cases becomes increasingly apparent. We are gaining experience and doing so at pace."

Building on the integrity and effectiveness of Australia's carbon markets and effectively communicating their benefits thus becomes globally significant. This can hopefully be integrated with a transition from a taxpayer-driven to business-driven 'next generation' market. In the interim CMI is committed to working with the Governments to ensure its almost $2 billion Climate Solutions Fund is utilised as effectively as possible.

Finally, it is important to note that Australia was constructive in supporting indigenous and human rights being built into the integrity rules for carbon markets under Article 6. Hopefully these, and other integrity rules can be re-built into progress at COP26 in Glasgow UK in November 2020.

2. **All countries were urged to consider the gap between current commitments and agreed warming goals in re-communicating or updating their NDCs at COP26, Australia's proposed use of Kyoto carryover will remain under international scrutiny and Australia should use policy processes underway to update its 2030 commitments and develop a 2050 Long Term Strategy by the September 2020 Pacific Island Forum;**

The Paris Agreement's ratchet mechanisms were designed to begin from the outset in 2020 with the request that parties communicate or update their NDCs at COP26. The theory was that this at least put pressure on countries to reconsider their NDCs and targets made in advance of the 2015 Paris meeting.

It has been clear for some time that collective commitments, not just that of Australia, have us off track for the Paris goals, heading more for three degrees warming. The UN Environment Programme released its 2019 emissions gap report, just prior to the COP, which showed the stretch 1.5C goal of the Paris Agreement is "slipping out of reach". Even if existing NDCs are met, emissions in 2030 will be 38% higher than required to meet that target, the report concluded.

Efforts have been made at recent COPs to increase pressure on countries to raise ambition with attempts to get formal decisions with stronger language and this COP was the same.

The outcome at this COP was the agreed text of 1/CMA.2 "*re-emphasizes with serious concern the urgent need to address the significant gap*" between current ambition and the goals of limiting warming to 1.5C or well-below 2C. In paragraph 7, the text then "*urges parties to consider [that] gap*" when they "[re]communicate" or "update" their NDCs, though it does not specify a fixed timeline. It also asks the UNFCCC secretariat to prepare a report adding up the NDCs ahead of COP26 next November.

CMI has been emphasising that the Government has an opportunity to strengthen their NDC or at least step back from the proposed use of the Kyoto carryover through the policy review and Long Term Strategy development processes underway.

At COP, Australia was taking a slightly more flexible position on the Kyoto carryover by saying it would only use it to the extent necessary, *if at all*. We understand they were briefing other countries to this effect at COP25. This has now been confirmed by reports in the Australian Financial Review.

Hopefully this will encourage a revisit of the Government's negotiating position from that which was reportedly so inflexible and one which, as outlined in point one above, opened the door for other parties with similar positions that significantly undermined the emission reduction potential of initial NDCs.

Australia again came under fire from Pacific countries. At an event for the Carbon Neutrality Coalition welcoming new members including Japan, Korea, Ireland and Fiji joining other countries including Canada, Germany, UK and France. In his speech the Prime Minister of Fiji, Frank Bainimarama, made some interesting comments:

> "Frankly, I'm tired of hearing major emitters excuse inaction in cutting their own emissions on the basis they are 'just a fraction' of the world's total. The truth is, in a family of nearly 200 nations, collective efforts are key. We all must take responsibility for ourselves, and we all must play our part to achieve net zero. As I like to say, we're all in the same canoe. But currently, that canoe is taking on water with nearly 200 holes — and there are too few of us trying to patch them. As a retired seaman myself, I can tell you this: You can't fix a leaky boat with Kyoto credits!"

Ireland spoke to the announcement also just made of the European Commission's Green New Deal with targets of halving emissions by 2030 and net-zero by 2050. The list of Australia's major trading partners making such clear commitments for a transition to net zero emissions are growing and the gap with Australia's trajectory raises economic as well as climate risks.

Our 2019 Australian Climate Policy Survey of Australian business showed 70% of respondents were concerned about such tariff risks – another reason for the Long Term Strategy to have clearer goals for the Australian economy of net-zero emissions by 2050.

So that Australia can present more constructively it should work to develop its policies and positions in this regard before the September 2020 Pacific Island Forum in Vanuatu. This would enable improved diplomacy and economic engagement in the run up to pre-COP and COP26 later in the year (see timeline below).

3. **More business and investors see the inevitability of net-zero emissions and, recognising governments can't always lead alone, are joining ambition alliances with increasing investments and engagement**.

At COP25, the widening gap between the government ambition and accelerating business ambition was made clear. Companies and investors across the world are recognising the speed and scale of the economic transition that is required to meet the 1.5°C Paris goal. Market and community forces aligned with the Paris Agreement and the inevitability of the requirement for net-zero emissions, are arguably greater drivers for business than government policy.

However, the speed and scale of the economic transition required needs better alignment of government policy. Many business and investors, recognising governments can't always lead alone, are joining ambition alliances with increasing investments and engagement.

Just one year on from the talks at COP24 in Katowice we have seen a lot change: natural climate solutions are firmly on the agenda; more international business alliances are being formed than ever before; corporate commitments and pledges to net-zero (or net-negative) are emerging at an exponential rate, and there are signs we are reaching several tipping points that will likely impact and increase the rate at which business simultaneously drive climate action, whilst also pushing governments for more ambitious targets and leadership.

COP25 saw nations and business leaders join together to relaunch of the Climate Ambition Alliance - a pledge program to drive climate action and ambition, and to achieve net-zero emissions by 2050. This pledge program was initially launched at the UN Secretary General's Climate Action Summit in New York in September, but this relaunch has seen participation double in only two months, now including 73 Parties to the UNFCCC, 14 regions, 398 cities, 786 businesses and 16 investors are working towards achieving net-zero CO2 emissions by 2050. In presenting this ambition to the COP25 audience, Patricia Espinosa, Executive Secretary of the UNFCCC was also able to confirm that all 73 Parties participating, would be releasing updated and more ambitious NDCs by the end of 2020.

At COP 25, 631 institutional investors managing more than $37 trillion in assets issued the joint Global Investor Statement to Governments on Climate Change, urging governments to step up efforts to tackle the global climate crisis and achieve the goals of the Paris Agreement. The statement was developed by the seven Founding Partners of The Investor Agenda, and urges governments to: phase out thermal coal power; put a meaningful price on carbon; end fossil fuel subsidies; and update and strengthen nationally-determined contributions to meet the goals of the Paris Agreement. The first iteration of this statement was launched last year at COP24 in Poland, and 12 months on another 116 global investors managing an additional $5 trillion in assets under management joined the movement.

Led by a number of investor groups including Australia's Investor Group on Climate Change (IGCC), the 'Global Investor Statement' remains the single largest policy intervention to date from investors on climate change.

This agenda is driving investor interest and scrutiny in the companies they invest in; investors are increasingly requiring more sophisticated reporting and long-term strategies to manage climate change. Under this framework, the valuation of, and investment in companies will increasingly factor in meaningful action on climate change and sophisticated plans to manage environmental and climate risks.

Other recent corporate or relevant commitments included:

- net-zero by 2050 pledges from the CEOs of 87 of the world's largest companies
- a leadership group to reduce emissions from hard to abate sectors (recently joined by Australia);
- discussions of catalytic financing under the Green Climate Fund have scaled up in the median ranges of USD$3-5billion per year;
- increasing adoption of the TCFD recommendations;
- development of a Green New Deal for the European Union;
- 3 800 American subnational jurisdictions (including states, cities, communities and tribes) calling for ambitious US action through the We Are Still In movement (representing almost 50% of USA's GDP); and;
- seven million children and adults marching in the streets.

This is to name but a few of the bigger factors at play, there are many more that are driving change at various levels.

The momentum is now unstoppable, so it really is now a question of timing, and whether business can move fast enough to mitigate the worst of the climate impacts that are to come. Communities, trade unions and employees are coming to the table to ensure a just transition for workers and livelihoods, and the impact that one 16 year old girl has had, is irrefutable.

Paul Polman, former CEO of Unilever, highlighted the 'Greta effect' in industrial relations where employees and the unions that represent them, push within companies for action. He cited action taken by 8 000 Amazon employees, that forced CEO Jeff Bezos to take stronger action on climate change. As an indicator of the transition underway, Polman's support for this was delivered emphatically and unashamedly to a morning briefing session of business organisations.

Back home we're seeing signs of action increasing, coupled with investor pressure and shareholder activism; litigation and executive/director liabilities under scrutiny, new climate-related accounting standards, and last week's announcement by ASIC of the launch of investigations into Australian companies' climate change risk governance.

If Australian business and our economy is to be climate-resilient, and remain competitive in a changing global market, we will need to be much more critically aware of the leadership trends, collaborations and industry transitions that are taking place, and truly grasp the speed at which this is all taking place.

Next year on the 19th & 20th of May 2020, we will use the 7th Australasian Emissions Reduction Summit to invite key stakeholders from the international business and political community here, to share lessons from the global transition underway, and to showcase our national capabilities that are or can be deployed to drive the global economic transition (earlybird registration now available here). Make sure you don't miss out!

4. **Liability, litigation and rebellion are intensifying risks for companies and governments that can't show credible, long-term climate action plans**.

In addition to the gap between business and government action, the widening gap between community expectations and government actions was frequently highlighted.

In the second week Greta Thunberg, Spanish Minister Teresa Ribera, and Head of Greenpeace International Jennifer Morgan were speaking at a Climate Emergency Event. Morgan warned that she had "*never seen a division so large between what's happening inside and outside*" of a COP. All three urged action and ambition from parties, with Greta Thunberg saying people are "*desperate for any sign of hope*" and reminding decision makers that "*in just three weeks we will enter a new decade, a decade that will define our future".* Youth activists from Fridays for Future (FFF) took the stage at the end of the event in a call for ambitious action.

It is hard to believe that last year Greta Thurnberg walked through COP24 as a minor celebrity but here was a star attraction thronged by government, business and community delegates.

Similarly in the last 12 months the Extinction Rebellion has surged to the fore provoking climate emergency declarations from parliaments but also the attention of Senior Executives and Boardrooms as was highlighted at a recent CMI boardroom lunch.

At COP25 former US Secretary of State John Kerry addressed a pack crowd about his recently launched World War Zero campaign, "a new bipartisan coalition of world leaders, military brass and Hollywood celebrities."

Karl Mathieson, editor at Climate Home drew out what he described as the Trump effect and the Greta effect.

> At COP25, a few nations - Brazil, the US, Saudi Arabia and Australia in particular - were emboldened as never before to stand against the world and nakedly try to weaken efforts to tackle climate change to benefit their short term interests.
>
> Call this, if you like, the Trump effect. The US president has blown apart the assumption that opprobrium from fellows will foment a race to the top on climate.
>
> On the flip side, a far larger number of governments held firm; preferring to see no deal, than what they viewed as a bad deal. Call that the Greta effect. Certainly more leaders than ever feel their electoral futures are tied directly to their efforts on climate change.
>
> Regardless of what happens to individual governments in the coming months and years, polarisation is the future of climate politics. Even as the impacts of climate change rain down harder, making citizens' demands grow more potent, resistance from those who see action, not warming, as their existential threat will grow more desperate.
>
> Resolution will be difficult to find. It's hard to see how consensus politics will work any better at Cop26 in Glasgow than Cop25 in Madrid. Perhaps a change in presidency will help.
>
> But the main item for next year does not require consensus: the raising of national voluntary climate targets. Bilateral deals - especially between the EU and China - could power the formation of a vanguard. With proper commitments on finance, developing countries could aid this push.
>
> *Source: Climate Home COP25 Bulletin (published on 15/12/19)*

5. **Nature based carbon reduction activities assume greater strategic importance, not just offsets but as key partner in climate solutions in addition to industrial decarbonisation activities**.

   Many of the compliance and voluntary carbon market discussions at COP25 focused on the development of nature-based or 'natural climate solutions'. We now see that the need for credible emissions reductions and scalable climate repair solutions, is driving significantly more private investment into nature-based carbon sinks than ever before. These projects are no longer being seen just as zero-sum carbon offset projects but key partners in climate solutions in addition to industrial decarbonisation activities.

   Natural climate solutions are conservation, restoration and improved land management actions that increase carbon storage or avoid greenhouse gas emissions in landscapes and wetlands across the globe. This includes a range of activities, namely forest regeneration, soil and agricultural carbon, and blue carbon (coastal wetland, mangrove and sea grass restoration) projects.

   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.

   Combined with innovations in clean energy and other efforts to decarbonize the world's economies, natural climate solutions offer some of our best options in the response to climate change.

   New research, led by The Nature Conservancy and 15 other institutions shared at COP25 side events, and published in the Proceedings of the National Academy of Sciences, demonstrates that nature-based solutions can provide up to 37 percent of the emission reductions, 11 billion tonnes, needed by 2030 to keep global temperature increases under 2°C—30 percent more than previously estimated.

Also released at COP25, the Ecosystem Marketplace's global State of the Voluntary Carbon Markets 2019 report showed that natural climate solutions projects increased by 264% in the two years since 2016 (2019 data to be announced in 2020), with Latin America leading the way, and Africa not far behind. This report shows that these projects are far outstripping the nearest renewable project competitors, and that the volumes traded and prices are at seven year highs.

COP25 also saw the launch of the Natural Climate Solutions (NCS) Initiative. Supported by four of CMI's members BHP, BP, Shell and Woodside, in conjunction with some other global players, this initiative aims to effect global markets for carbon credits generated from Natural Climate Solutions which enables private sector investment at scale. It will focus on maximising private investment in natural climate solutions to ensure it plays the fullest role possible in delivering the goals of the Paris Agreement, encouraging high environmental integrity and environmental/social co-benefits; supporting price transparency; and scale-up of projects across the globe (increased investment and broad participation).

Australia has the largest domestic land-based carbon project 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. The potential of this activity has expanded with the WA state government's decision announced in early December to allow carbon projects to take place on crown land. This is a major win for the carbon industry, and CMI is proud to have played a role in the process to drive the State Government to a successful decision.

CMI is well linked into these global conversations and we look forward to helping catalyse these opportunities for our members in 2020 and beyond, as part of the Carbon Farming Industry Roadmap's goal to scale up land-sector abatement opportunities to meet domestic demand, and become a mainstream sector contributing to Australia's economy and emissions reduction and climate repair challenges.

6. **Voluntary markets play an important role in enabling companies to meet their stated climate change commitments. These markets are growing and will evolve alongside and occasionally within NDCs as the latter are updated and reviewed, and as Article 6 rules are further defined;**

There is a lot of ongoing discussion about how voluntary markets will interact with Article 6 and different countries' NDCs. High level market rules defined in Article 6 may provide some context, however as Article 6 doesn't actually deal with or reference voluntary carbon markets (potentially outside of international market frameworks like CORSIA or a future IMO shipping scheme), it will be up to countries' implementation of their own NDCs that will predominantly shape how voluntary markets will evolve post-2020.

Under the Kyoto Protocol, only developed countries had emissions reduction responsibilities, leaving much of the world's carbon credit generation, trading and market activity outside of the scope of these countries' international obligations. With the advent of the Paris Agreement, this commodity market will see its boundaries significantly decrease, as every country begins to ringfence their own emissions, and account for all reductions and related market activity that contribute to their NDC.

As we transition from Kyoto to Paris Agreement frameworks, the voluntary market will inevitably evolve to fit its new environment, despite not being directly governed by the overall Paris rules. Business wants to invest in voluntary carbon markets to increase climate ambition beyond compliance obligations. If this carbon commodity market is to reach the mainstream scale required to contribute to the Paris goals and climate repair, it will need to hold true to similar integrity standards of traditional physical commodity markets. That is to retain value, trades must be appropriately accounted for between exporting and importing parties (corresponding adjustments), and that the commodity cannot be consumed more than once (avoidance of double counting). It will be critical for carbon as a standardised commodity to hold true to these fundamental principles of integrity, in order to attract and retain the large-scale private sector investment that will be required.

In terms of how companies can continue to operate in voluntary carbon markets, any agreed Article 6 accounting rules will be critical for how emissions units and transfers between jurisdictions will be accounted for in a Parties' NDCs, particularly through bilateral arrangements under 6.2. Essentially, if these units are used in a trading scheme towards an NDC, this would require authorisation of the transfer by the host country, corresponding adjustments by both Parties to account for the transfer of units between jurisdictions, and finally inclusion of these transfers in both country's National Inventories.

There is no single rule as to how countries might approach the use of markets towards their NDCs - whether emissions unit creation activities (carbon sequestration/avoidance projects) would sit inside or outside of an NDC, and therefore whether those reductions would be included in, or excluded from that country's national emissions accounts. If emissions units are excluded from an NDC, then these activities should theoretically still be able to continue and be freely traded. However, as ambition of NDCs increases over time in line with Paris commitments, we would ideally see countries taking responsibility for more (eventually all) activities within their borders. In the long term this could mean that open and untethered units disappear in favour of different shades of compliance markets within NDCs - that still allow transfer between countries, but with all units accounted for in NDCs, ensuring no leakage, double counting or 'hot air' in the system.

This evolution would take time of course and wouldn't necessarily prevent voluntary corporate activity from taking place (as is currently the case in some jurisdictions). For units that are created under NDC-bound activities, there is still an option for these units to be voluntarily traded, purchased and retired within the host country by private organisations. The company would be able to rightly claim the use of the unit; separately the unit could be counted by the country towards its NDC - this way a company can leverage private finance to increase its own ambition and simultaneously assist a country in meeting its NDC.

Some companies however, would prefer to use use 'orphaned' units (that have been voluntarily excluded from a country's NDC), as they haven't been claimed by another company, nor counted by a country towards its NDC. This could provide more integrity and depth to a corporate carbon neutrality claim - which is an interesting consideration for companies that are under scrutiny over perceived use of offsets as a way of avoiding other emissions reduction activities (getting out of fossil fuels for example). Many of the largest companies at COP highlighted that the use of offsets (particularly natural climate solutions) for net-zero targets or carbon neutral products/services are critically in addition to, not instead of meaningful corporate reduction activities.

There remain many questions unanswered, but the first step to new markets will require high level agreement of Article 6 rules, and in the coming few years, the detailed technical work required by countries to confirm how they will use, transfer, account for, and include or exclude units fro their NDC commitments. The evolution of voluntary markets will be a process of learning by doing and working closely with countries to understand how the interpretation of Article 6 rules within and between countries will have implication for evolving voluntary markets down the line.

7. **Australian business and government experience can play a greater role in Asia Pacific with climate legislation and carbon markets there stepping up.**

   At COP25 various side events discussed progress in carbon markets in the Asia Pacific region. Participants in the Korean market showed that current prices were in excess of AU$50 and likely to reach $60 in a couple of years. They demonstrated benefits for Korean industry but also projects that have been facilitated by their market such as mass cleaner cookstoves in Bangladesh and Africa.

   Indonesia shared plans to launch a pilot emissions trading scheme for its power and industry sectors next year aiming to transition to full market no later than 2024. As reported by Carbon Pulse:

   - The ETS will be facilitated by the Environment Fund Agency, which the government set up in October to handle climate funding and carbon market activities.
   - Under the Paris Agreement, Indonesia has pledged to unconditionally reduce GHG emissions 29% below BAU levels in 2030, a number that could rise to 41% with international assistance.
   - The nation was an active host country under the UN Kyoto Protocol's Clean Development Mechanism, and 20 projects based in Indonesia have so far been registered to generate carbon credits under Japan's Joint Crediting Mechanism.

   CMI discussed this proposal with Indonesian officials, as well as discussing East Timor initiatives with their government representatives at our joint CMI/Australian Government reception in Madrid on 12 December.

   At COP25 CMI continued discussions with the PNG Government, commenced at our 3rd National Carbon Farming Forum on the Sunshine Coast, about assisting their development of a similar roadmap to our 2017 Australian one. This is a concept under discussion with DFAT who has personnel working with the PNG government on related policy.

   Finally, CMI hosted a panel on Carbon Markets in the Pacific: Practice and Potential. This was well attended and opened by the Fijian Government Minister for Economy and responsible for climate change Hon. Aiyaz Sayed-Khaiyum. The Minister spoke to Fijian climate legislation currently under consultation. We noted this legislation had been developed with assistance from Baker McKenzie and Pollination. Comhar's Emily Gerrard, OMF's Nigel Brunel and GreenCollar's James Shultz presented on their experiences and markets in Australia, New Zealand and the Pacific.

   The meeting concluded with an agreement between CMI and the Fijian Government to develop a MOU on the ways in which CMI and its members can best assist the implementation of the Fijian legislation.

   This was indicative of the diplomatic and opportunities that can come from regional carbon markets. CMI is looking to work with Pacific countries, regional development agencies and Australian and NZ foreign affairs and trade agencies.

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 develop and play out, and work towards optimising our position in international carbon markets.

We look forward to working with you in 2020, and welcoming you to the 7th Australasian Emissions Reduction Summit on the 19th & 20th May, at the MCG in Melbourne to discuss the role of Australian business in Accelerating to Zero.


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Key 2020 Climate Events

19 - 20 May	Australasian Emissions Reduction Summit, Melbourne Australia
31 May-10 June 2020	UNFCCC intersessional in Bonn, Germany (the "52nd session of the subsidiary bodies")
10-12 June 2020	G7 summit, Camp David, US
27 June-5 July	London Climate Action Week, UK
September 2020	Vanuatu hosts Pacific Island Forum
September 2020	EU-China summit, Leipzig, Germany
September 2020	UN secretary-general's climate action summit, New York
15-30 September 2020	UN General Assembly, New York
21-27 September 2020	New York climate week, US
October 2020	Pre-COP, Milan, Italy
5-10 October 2020	Convention on Biological Diversity COP15, Kunming, China
3 November 2020	US presidential election
9-20 November 2020	COP26 in Glasgow, UK
20-21 November 2020	G20 summit, Riyadh, Saudi Arabia
31 December 2020	End of UK's proposed transition period for leaving the EU

The Carbon Market Institute is at the centre of business and climate action 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 net-zero carbon economy.

Carbon Market Institute

business leading transition