

Media Briefing: Article 6 of the Paris Agreement

Madrid, 12 December 2019 - Here at UN climate negotiations (COP25) in Madrid, Minister Jonathan Wilkinson has stated the importance of Canada to reach and exceed our targets within the Paris Agreement. To this end, Canada must uphold the integrity of its current climate policies for its largest and fastest-growing source of emissions: the fossil fuel sector. We are calling on Canada to ensure the oil and gas industry is a responsible partner on national efforts to reduce emissions.

Given the recent comments this week following the meeting between Prime Minister Justin Trudeau and Alberta Premier Jason Kenney, and the launch of the 30 million dollar advertising campaign to promote expansion of the oil and gas industry in Alberta, we are extremely concerned that the fossil fuel lobby is again calling for changes that would weaken the effectiveness of Canada's climate strategy to allow for the expansion of their industry and thwart our country's ability to reach and exceed its Paris targets for 2030, and net-zero emissions by 2050.

In order to avoid further delay in much needed climate action, we recommend that the government of Canada:

- 1) Reject efforts to undermine the ambition of the Paris Agreement by creating loopholes in the rules for carbon markets being negotiated here at COP25 under a provision of the Paris Agreement called Article 6. We are concerned by the proposition put forward by members of the Canadian fossil fuel industry, and politicians who use their talking points, that Article 6 be turned into a mechanism that allows them to continue business as usual while claiming credit for alleged climate action - for instance by claiming credit for the export of LNG to countries relying on coal. The Paris Agreement remains the world's best hope for tackling the carbon pollution that threatens the stability of our climate. Its institutions and mechanisms cannot be used to prolong and expand the use of fossil fuels. To this end, we ask the Canadian government to signal to our international partners that we don't want to see any crediting activity under article 6 that perpetuates the use of fossil fuels.
- 2) Uphold Canada's methane pollution regulations. Canada is at risk of failing to meet its methane reduction targets and increasing the gap to meeting its Paris agreement commitments if weak provincial regulations are deemed equivalent. Alberta and Saskatchewan have both proposed regulations that are significantly weaker than the federal standard. ECCC should not grant equivalency to Alberta or Saskatchewan until their regulations are significantly improved. Analysis shows that additional cost-effective emission reductions of at least 75 per cent could be achieved with current technologies in the oil and gas sector by setting a new target for 2030. Efforts to reduce methane pollution from the oil and gas sector are among the easiest and cheapest actions to reduce carbon pollution in Canada.

3) Do not approve the Teck Frontier Mine. The greenhouse gas (GHG) emissions from Frontier Mine, in addition to significant emissions from currently operating and projects with approvals to date, are fundamentally inconsistent with the steps Alberta and Canada will need to take to meet Canada's 2030 and 2050 targets. If constructed, the Frontier mine would contribute 4 Mt CO₂e per year, increasing to 6 CO₂e per year when including upstream emissions from the production of fuels used on site and emissions due to land use changes related to the project. For perspective, all light duty vehicles in British Columbia emit 4 Mt/year. Over the lifetime of the project, its cumulative emissions are estimated to reach 151 Mt CO₂e. The Teck mine would continue extracting oil until 2066, extending well past the 2050 deadline to be at net zero emissions.

Canada must move quickly to meet and exceed its Paris commitment and get on a path to reach net zero by 2050. Reducing GHG emissions from the oil and gas industry plays a critical role in supporting these goals.

BACKGROUND

Why is Article 6 important for ensuring Canada's climate ambition:

- There are two very different conversations happening around Article 6: On the one hand, conversations at COP25 in Madrid are about how to decide on rules for carbon trading that is mandated to increase the overall ambition of the Paris Agreement. On the other hand, conversations in Canada, where the fossil fuel industry, and politicians who use their talking points, are trying to turn Article 6 into a mechanism that allows them to continue expanding fossil fuel extraction while claiming credits for alleged climate action.
- Article 6 should not be used as a means to extend the life of oil and gas development. This means companies switching from coal to gas should not be granted credit as it locks in the use of natural gas, especially as more and more studies question whether gas really has a lower global warming footprint than coal when gas leaks from wells and pipelines are accounted for.¹
- Exporting LNG with the intention of claiming a carbon credit (as suggested by the Canadian Association of Petroleum Producers and the Government of Alberta) is fraught with problems including fostering the expansion of oil and gas when it should be phased out, lack of certainty that the credit would be returned to Canada, and the fact that such a scheme would amount to yet another fossil fuel subsidy.
- Stringent Article 6 rules are needed to ensure that only activities that result in reducing overall emissions are counted towards a country's Paris commitment. In the absence of article 6 rules, Canada and/or provinces could develop weak carbon

¹ See Howarth, Robert W., Renee Santoro, and Anthony Ingraffea. "Methane and the greenhouse-gas footprint of natural gas from shale formations." *Climatic Change* 106.4 (2011): 679 and Schwietzke, Stefan, et al. "Natural gas fugitive emissions rates constrained by global atmospheric methane and ethane." *Environmental science & technology* 48.14 (2014): 7714-7722.

trading systems and count them towards their emissions reductions targets , but emissions are not actually lowered.

What is Article 6:

Article 6 of the Paris Agreement is the section that permits countries to trade carbon credits (carbon trading) and count them towards their commitments to mitigate GHGs. This is the only piece of the Paris Rulebook that was not completed last year at COP24 in Katowice and is a priority issue to be resolved at COP25 in Madrid.

The trading of carbon credits allows one country (Country A) that has reduced carbon emissions to sell the reduction to another country (Country B). In selling the carbon credits, Country A does not count the reduction of emission but the Country B does. When designed well, such a scheme allows a country that is taking action on climate to receive funding that can be used for further emissions reductions. In this way, the most cost-effective mitigation activities can be pursued and thus deeper emissions cuts are possibly with the same amount of resources. Country A receives money and country B can report that they have reduced their emissions. This is often referred to as Internationally Traded Mitigation Outcomes (ITMOs).

There are several ways to game the carbon trading system. For example both Country A and B could count the credits against their commitments, resulting in “double counting.” Or one Country B could purchase carbon credits that do not reflect real emissions reductions in country A but are counted towards B’s commitment, resulting in an overall increase in emissions globally.

The overarching concern with article 6 discussions is whether the mechanism will help or hurt the planet and people. A well designed article 6 can help countries be more ambitious and thus reach the 1.5°C objective, while poorly designed, article 6 can fatally hurt the world’s chances to get to that point. Likewise, depending on the outcome of the negotiations at COP25, article 6 has the potential to help people by contributing to sustainable development, but could also really hurt people if it doesn’t include strong safeguards to protect them.

- Relevant components:
 - Article 6.2: provides an accounting framework for international cooperation, such as linking the emissions-trading schemes of two or more countries. This is relevant to Canada because Quebec uses a carbon trading system with California known as a cap and trade system and the rules for article 6.2 will outline how Canada can count those credits towards the NDC. 6.2 will also allow for the international transfer of other carbon credits between countries, otherwise known as Internationally Traded Mitigation Outcomes (ITMOs).

- Article 6.4: establishes a central UN mechanism to trade credits from emissions reductions generated through specific measures; otherwise known as the Sustainable Development Mechanism (SDM).
- Article 6.8 establishes a work program for non-market approaches, such as applying taxes to discourage emissions.

Article 6: Robustness and Ambition

- Poorly designed carbon trading rules risk undermining the Paris Agreement so substantially as to place the Agreements' temperature limitation objectives firmly out of reach. There are several specific areas where such weakening can occur:
 - *Kyoto Unit carry over (6.2)*: Under the Kyoto Protocol (predecessor to the Paris Agreement) a carbon trading mechanism known as the Clean Development Mechanism (CDM) was developed. This system was severely flawed and allowed countries to shift emissions around but failed to result in an overall reduction of global emissions, thereby failing to meet the main purpose of allowing for carbon trading. Additionally, many projects under the CDM generated CDM credits that did not actually reflect emissions reductions. If used, such credits lead to an overall *increase* in global emissions. Some countries, namely Brazil, want to bring these poor carbon credits in the Paris Agreement. Further, under the Kyoto Protocol, developed countries were issued another type of emissions units that corresponded to their target emissions levels, this to enable trading among them. Countries such as Russia, Ukraine, and Australia set weak target for themselves, resulting in the issuance of excessive amounts of such units, so called "hot air" units. These countries are also interested in bringing these units over to the Paris regime. The scale of the problem is massive, with total volume estimated to be around 18-20 GtCO₂eq for both types of Kyoto units. For scale, according to UNFCCC analysis, the mitigation impact of the current NDCs in 2030 relative to the reference case is 7 GtCO₂eq².

Canada should continue resisting these parties' efforts; the Paris Agreement does not mention that such carry over should be permitted.

- *Article 6 should be used to increase ambition (6.2 and 6.4)*: In order for the Paris Agreement's carbon trading regime to move beyond a regime that, in the best case, merely shifts emissions reductions around the world (like the Kyoto Protocol's CDM), the Paris Agreement mandates the new mechanisms to provide an "overall mitigation of global emissions" (OMGE), i.e. to go beyond offsetting. If

² UNFCCC (2016) *Aggregate Effect of the Intended Nationally Determined Contributions: An Update. Synthesis Report by the Secretariat*. Bonn; United Nations Framework Convention on Climate Change. <http://unfccc.int/resource/docs/2016/cop22/eng/02.pdf>

done right, this would represent a contribution by the carbon trading mechanism to increase the overall mitigation ambition of the Paris Agreement. Climate Action Network supports OMGE via automatic cancellation of a certain fraction of credits, ideally 50%.³

Canada should promote strong OMGE via automatic cancellation of credits, with the ideal level of cancellation at 50%, to be applied to both 6.2 and 6.4.

- *Corresponding adjustments and avoidance of double counting:* In order to protect the environmental integrity of the Paris Agreement, it is crucial for the carbon trading rules to ensure the avoidance of all forms of double-counting (including double claiming, issuance and use) by ensuring a publicly accessible common accounting system for all international transfers is established and used, covering transfers inside and outside of the UNFCCC mechanism. Double counting must be avoided with all types of targets, including voluntary programs (e.g. pursued by business initiatives, cities, and such) and those set out under the Carbon Offsetting and Reduction Scheme for International Aviation (CORSA). Parties should, therefore, track all units, and apply corresponding adjustments. I.e. if one country makes an adjustment to count a traded unit toward their commitment, the other country must make an adjustment of the same size (ie. corresponding) that precludes the unit to be counted towards its own commitment . If the article 6 rules allow for the issuance of credits from activities outside the scope of a host country's NDC (for example, if a country's NDC doesn't cover emissions from certain economic sectors, such as agriculture or forestry), a corresponding adjustment must be applied also for the transfer of those units.

Canada should reject wording that permits double counting to be part of Article 6 and insist on provisions that ensure corresponding adjustments.

- *Conservative baselines and single-year targets:* Issuance of credits under the carbon trading mechanism often rely on counterfactual baselines as reference level (e.g. where a hypothetical plan to build a heavily polluting coal fired power plant is compared against building a solar farm instead). In order to avoid issuing credits that do not represent actual emissions reductions (and thus cause an increase in global emissions when traded, commonly referred to as "hot air"), baseline setting must follow conservative methodologies that set baselines below "business-as-usual" (BAU) projections , or below NDC target levels in the case of NDCs that include hot air reductions (i.e. where countries set NDC target levels

³ Research shows that under most circumstances, cancellation rates of up to 50% not only lead to substantial atmospheric benefits, but have a positive impact on the economic benefits of the projects for the project hosts with only small additional costs for the credit users. See: Schneider, L., C. Warnecke, T. Day and A. Kachi (2019) *Operationalising an 'Overall Mitigation in Global Emissions' Under Article 6 of the Paris Agreement*. Berlin, Cologne: New Climate Institute. <https://newclimate.org/wp-content/uploads/2018/11/Operationalising-OMGE-in-Article6.pdf>

that are so weak that they can be achieved without any actual emissions reductions effort, or, in the worst case, are set even higher than the BAU projection). Similarly, many NDCs are expressed as single year targets (e.g. for 2030) which represents methodological issues for crediting activities in years other than the target year, calling for strong conservative approaches to crediting in such cases.

Canada should advocate for baselines that use conservative methodologies to set baselines below BAU, or below NDC target levels in the case of NDCs that include hot air reductions.

- *No Fossil Fuels Under 6.4*: While many decisions with regards to the functioning of the article 6.4 mechanism will be decided by the future supervisory body for the mechanism, it is not too early to articulate views on some of the principles for the mechanism that the supervisory body should implement. Specifically, it is Climate Action Network's view that it is more than inappropriate, and sends exactly the wrong signal, if the article 6.4 mechanism were to be used for activities that are clearly in contradiction to the objectives of the Paris Agreement. For example, the article 6.4 mechanism should not credit activities that perpetuate the fossil fuel economy (e.g. replacing a heavily polluting coal plant with less polluting coal plant, instead of replacing it with non-emitting generation), activities that are not supported by local communities or exhibit a clear lack of additionality or sustainable development benefit, etc.

Canada should support at COP25 and in public statements, the adoption of project type restrictions (e.g. relating to fossil fuels), to be considered by the Supervisory Body under article 6.4.

Article 6: Human Rights and Indigenous rights

- The experience with carbon trading under the Kyoto Protocol includes offset projects that caused the violation of human rights and the Rights of Indigenous Peoples and local communities. To avoid a repetition of these experiences under the Paris Agreement mechanism, explicit safeguards must be agreed for both human rights and the Rights of Indigenous Peoples.

Canada has been a champion on this issue at COP25 and should continue to promote the inclusion of safeguards for human rights and the rights of Indigenous Peoples under the operative rules for the article 6.4 mechanism.

Article 6: Funding Adaptation through Carbon Trading

- “Share of Proceeds,” whereby a fraction of the proceeds of carbon trading is set aside to fund adaptation activities in developing countries (as well as to cover administrative expenses), is mandated by the Paris Agreement under article 6. Developing countries seek to extend the share of proceeds from the article 6.4 mechanism to article 6.2 trading. Climate Action Network supports this position because it could help build trust, demonstrate solidarity with the most vulnerable, and raise crucial funds for adaptation directly from market activities without burdening the public purse in developed countries. Concessions on extending share of proceeds to article 6.2 could unlock progress on other contested issues in the article 6 discussions.

Canada could unlock progress in article 6 discussions and show goodwill to its international partners by agreeing to extend share of proceeds to article 6.2 trading.