STEERING THE PLANET TO NET ZERO

COP28 OUTCOMES

A Comprehensive Review Through the Lens of the Carbon Market

by

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1. An Introduction to COP28

From November 30 to December 12, 2023, Expo City in Dubai hosted the 28th Conference of Parties, COP28. Representing a milestone in addressing the climate crisis, this conference was characterized by its commitment to inclusivity, where the Blue and Green zones worked seamlessly together to deliver concrete solutions.

COP28 emerged as a pivotal event. Through constructive dialogues, knowledge sharing, and fostering a positive entrepreneurial spirit, the conference aimed to drive collective action against the climate crisis.

The dynamic approach of COP28 empowered all participants to tackle environmental challenges with ambitious optimism. By embracing the power of partnerships and collaboration, the conference facilitated the resolution of seemingly insurmountable climate issues.

This reflection underscores COP28 as a collaborative journey towards a sustainable future. The spirit of partnership, which permeated the conference, became the driving force behind actionable solutions to combat climate change.

Source: UN

COP28's Action Agenda focused on four key areas:

- Fast-tracking a just and orderly transition
- Fixing climate finance
- Focusing on nature, lives and livelihoods
- Fostering inclusivity for all

Let's delve into the outcomes and key decisions of COP28 as we move forward.

2. Challenge of Operationalizing Article 6 Compliance Market

The recently concluded COP28 in Dubai addressed critical issues, particularly regarding the operationalization of Article 6, focusing on international compliance carbon markets. However, negotiations faced challenges and ultimately failed to produce a deal, leading to continued uncertainty.

Expectations were high for progress under Article 6.2 (bilateral or multilateral cooperation) and Article 6.4 (International carbon compliance markets). Both components needed to pass as a package for the mechanism to become operational.

The International Emissions Trading Association (IETA) criticized the "politicization" of carbon markets, pointing to efforts to relegate policy discussions to specific bodies.

Two weeks of intensive talks failed to clinch a deal on Article 6 carbon markets, leaving the UN-led international carbon markets in a state of uncertainty.

The lack of a breakthrough was seen as avoiding inadequate rules that could hinder businesses and private participation in fulfilling climate ambition.

Article 6 negotiations (Photo IETA)

- Article 6 at a Glance

  Article 6 of the Paris Agreement is a crucial component facilitating global collaboration in the fight against climate change while also providing financial support to developing nations. Within Article 6, there are three tools available for countries:

- Article 6.2: Bilateral Mitigation Exchange

  - This tool allows countries to exchange their mitigation outcomes directly with each other.
  - Countries can report these trades and incorporate them into their Nationally Determined Contributions (NDCs), contributing to their overall climate goals.

- Article 6.4: UNFCCC Mechanism for Carbon Offsets

  - Article 6.4 establishes a new mechanism under the United Nations Framework Convention on Climate Change (UNFCCC).
  - This mechanism validates, verifies, and issues high-quality carbon credits, creating a structured approach to incentivize emission reduction efforts.

- Article 6.8: Collaborative Achievement of NDCs

  - Article 6.8 provides an avenue for countries to collaborate in reaching their NDCs without relying on carbon markets.
  - This tool encourages cooperation among nations to achieve their climate targets collectively, offering an alternative to market-based approaches.

In summary, Article 6 serves as a framework offering diverse tools for nations to collaborate, exchange mitigation outcomes, issue carbon credits, and work together towards achieving their climate commitments, fostering a comprehensive and inclusive global effort.

COP28's failure to operationalize the Article 6 compliance market underscores the challenges in aligning views on carbon markets, revealing the ongoing struggle between unrestrained market approaches and cautious nations seeking robust regulations.

3. Standardization in Voluntary Carbon Markets (VCM) at COP28

At COP28, a significant achievement unfolded within the Voluntary Carbon Markets (VCM) sector as regulators and standards organisations joined forces to establish uniform standards. This collaborative effort aimed to bring consistency to the VCM, providing a cohesive framework that enhances transparency and effectiveness. The agreement reached on the sideline of COP28 signifies a pivotal step toward streamlining processes and ensuring credibility in carbon markets.

The decision to adopt uniform standards carries several benefits for market participants. Standardization offers clarity, making it easier for stakeholders to navigate the VCM landscape. This, in turn, enhances integrity and bring-in much needed trust and confidence among participants, which is crucial for the overall success of carbon markets. By agreeing on consistent standards, COP28 has laid the groundwork for a more transparent and trustworthy VCM.

The impact of this agreement extends globally, fostering a harmonized approach and interoperability among various registries in VCM. The agreement of uniform standards set during COP28 have implications that reach beyond individual markets, contributing to a more inclusive and effective VCM on the international stage. This collaborative effort is poised to bring about positive changes, ensuring the VCM plays a significant role in advancing global climate action.

Additionally, the immediate void resulting from indecision in the Article 6 carbon market has bestowed added responsibilities and significance upon the Voluntary Carbon Market (VCM) in the global decarbonization journey. Key carbon credit programs, including VCS, GS, and GCC, collaborated for synchronized efforts. VCMI's proactive issuance of regulations empowers buyers to attain ratings, mitigating greenwashing criticism. ICVCM sees VCS and GS aligning methodologies with its Core Carbon Principles, with CCP labelling set to commence by May 2024, propelling the market's momentum. IREC remains unaffected being a well-structured M&V protocol, and Plastic Credits exhibit no discernible impact. Overall, COP28's support and industry initiatives are shaping a more robust and transparent Voluntary Carbon Market.

4. Unlocking High-Integrity Carbon Markets

In a pivotal move to advance global initiatives against climate change, the Presidency of the 28th Conference of the Parties (COP28) orchestrated a High-Level Roundtable on 'Unlocking High-Integrity Carbon Markets.' Key players, including VCMI, ICVCM, SBTi, CDP, GHG Protocol, and the 'We Mean Business Coalition,' joined distinguished leaders in collaboration with senior representatives from nations. Together, they established a robust framework aimed at enhancing understanding and integrity in carbon markets.

The roundtable underscored the crucial role of carbon pricing schemes, compliance markets, and high-integrity Voluntary Carbon Markets (VCMs) in the worldwide transition to net-zero. Carbon markets were identified as pivotal channels for financing high-quality decarbonization projects in emerging markets and developing economies (EMDEs). UNFCCC Executive Secretary Simon Stiell acknowledged the substantial progress made by the Article 6.4 supervisory body. Additionally, World Bank Group President Ajay Banga revealed plans for the expansion of high-integrity global carbon markets, with 15 countries set to generate income from carbon credits through forest preservation.

Acknowledging the accomplishments of the Integrity Council for the Voluntary Carbon Market and Voluntary Carbon Markets Integrity initiative, the roundtable emphasized the need for capacity building in EMDEs to ensure their active participation in international carbon markets. Participants recognized the imperative need for coordination among key stakeholders to seamlessly integrate the remaining components of the global carbon markets architecture by 2024 and 2025. The objective is to establish a cohesive and mutually reinforcing global carbon market architecture in alignment with climate mitigation goals.

5. Historic COP28 Deal Agrees to 'Transition Away' From Fossil Fuels, Although 'Phase Out' Phrase Omitted

In a groundbreaking development at COP28 in Dubai, delegates from nearly 200 countries approved a historic climate deal, marking a significant step toward transitioning away from fossil fuels to combat the adverse impacts of climate change. The deal, praised by COP28 President Sultan al-Jaber as a "historic package," outlines a robust plan to cap global temperatures at 1.5°C above pre-industrial levels.

While hailed as a pivotal moment by global leaders, the agreement stops short of calling for a complete "phase-out" of fossil fuels, a demand made by over 100 nations. Instead, it emphasizes the need for a "transition away from fossil fuels in energy systems, in a just, orderly, and equitable manner, accelerating action in this critical decade." This transition aligns with the goal of achieving net-zero greenhouse gas emissions globally by 2050, in line with climate science.

The final version of the agreement, unlike the previous draft, explicitly calls on all nations to contribute through a series of actions, marking a shift from optional measures to a more assertive stance. The negotiations, which extended beyond the summit's scheduled end, resulted in a revised central document called the global stocktake, which emphasized the imperative to address fossil fuels directly.

Despite criticisms over the UAE's ties to fossil fuel interests, the COP28 presidency's new document signifies progress in acknowledging and confronting the challenges posed by fossil fuel dependence. The agreement, while a strong step forward, will require continued efforts and financing to meet the ambitious climate targets outlined in the deal. The next two years of climate conferences are expected to address and resolve crucial financial issues for developing nations, emphasizing the need for sustained global cooperation and commitment.

6. Climate Finance Far From What is Needed

At COP28 in Dubai, money took center stage as delegates addressed the substantial gap between the need for climate finance and the actual commitments on the table. While many nations promised significant contributions to the loss and damage fund, the overall promises to meet the demands of adequate climate financing have fallen short of expectations.

The International Monetary Fund emphasizes that developing nations require trillions of dollars annually until 2050 to fulfill their adaptation and mitigation objectives. Back in 2009, developed countries pledged to provide $100 billion each year by 2020. This funding was intended to come from various sources, including public, private, multilateral, and others. However, the absence of official guidelines on what qualifies as climate financing allowed developed nations to exploit unclear reporting requirements, leading to incomplete fulfillment of commitments.

As the host of COP28, the United Arab Emirates made a noteworthy pledge of $270 billion in green finance by 2030 through its banks. Additionally, various development banks took steps to amplify their funding efforts, such as committing to suspend debt repayments in the event of disasters.