The International Emissions Trading Association and Net Zero

The International Emissions Trading Association (IETA) is one of the most influential business lobbyist groups at the UNFCCC negotiations. Its members include "greenhouse gas emitters, verifiers, certifiers, auditors, investors, insurers, traders, brokers, financial and commodity exchanges and other companies serving the greenhouse gas emissions trading market in developed, emerging economies and developing countries." Part of this influence resides in the placement of IETA representatives on government delegations to advocate industry positions as official Party positions. Some developing country Parties have proposed a conflict-of interest policy that would prohibit trade association advocacy on Party delegations. However, developed country opposition to such a policy likely ensures IETA's continued intra- and inter-Party influence.

SELLING "POTENTIAL BENEFITS" UNDER AN IETA ADVOCATED ARTICLE 6

Another part of IETA's influence derives from its research and lobbying position papers. In September 2019, IETA published an econometric study designed to project "potential benefits for emissions offset markets under four distinct scenarios. (For a comprehensive analysis of Article 6, see Carbon Market Watch's "In Depth Q & A".

For example, one scenario "assumes that countries cooperatively implement their NDC [Nationally Determined Contribution] goals and reduce emissions beyond 2030 under Article 6 of the Paris Agreement. In this scenario, countries can purchase and sell ITMOs [Internationally Transferred Mitigation Outcomes, i.e., globally traded emissions offset credits], which are assumed to accurately represent actual emissions mitigation implied by NDCs, to achieve their decarbonization goals." (p. 3) The quantified outcomes of the study are dependent on such assumptions as "environmental integrity in all transactions" (p. 5) in offset markets.

The quantification of projected carbon prices, trading volume, and physical emissions transferred from offset selling countries to offset buying countries is illustrated in detail. But the econometric results of this scenario, as well as the other three scenarios in the IETA paper, depend on their policy assumptions, even if they are utopian and contrafactual. Nevertheless, in the hands of a skilled IETA representative, the charts of potential benefits might persuade Parties, particularly developing country sellers of offset credits, that they too will benefit from secondary offset derivatives trading (***secondary markets*** e.g., in the Chicago Mercantile Exchange's Nature Based Global Offset Emissions™ futures contract.

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FRAMING ARTICLE 6.2 TO PROTECT IETA MEMBERS FROM NET ZERO RELATED LEGAL RISK

IETA has commissioned an Article 6.2 "legal gaps" analysis characterized as "delivering Net Zero with integrity." The analysis identifies "gaps" Parties should fill in the current draft Article 6.2 to promote private sector confidence and "market integrity" to trade offsets internationally. Parties should agree in a final Article 6.2 that 1) governments of the countries hosting offset projects authorize the first transfer of the offset credit (transferring the liability for inaccurate emissions offset verification and reporting from the project developer and offset standards verification organizations to the governments); 2) governments commit not to use transferred offset credits in their own NDC reporting of emissions reductions; and 3) governments commit to reporting a "***corresponding adjustment***" for each internationally transferred offset credit to prevent double counting of offset credits in their country of origin and in the countries where those offsets are subsequently bought and sold. (p. 5) In effect, the "legal gaps" analysis is IETA's demand for Article 6.2 or at least the basis for such a demand.

To further reduce legal risk for carbon market participants, the analysts propose "structural risk mitigation measures" related to but not within the text of a final Article 6.2. These measures include meta-registries of initially transferred offset credits that would allow comparison of reporting from the Party's national registries (p. 10) and political risk insurance to indemnify participant Parties in case future governments did not honor the Article 6.2 commitments agreed by their predecessors (p. 23).

Reviewers of the "legal gaps" analysis, "noted that ITMOs under Article 6.2 may derive their legal status not from the Paris Agreement itself, but rather from national laws and/or mutual recognition agreements between countries." (p. 6) Accordingly, including internationally traded emissions offset credits in NDCs requires first that the 6.2 definition of offset credits and NDCs be harmonized with national laws and/or agreements among Parties to recognize those credits to be consistent with national emissions trading law and the 6.2 finalized definitions.

The relevance of Article 6.2 to the practical trading of offset credits (vs. the proposed Party obligations) is further diminished by this: "This memorandum does not address additional legal risks which may apply to transfers of mitigation outcomes for other international uses, such as ***CORSIA*** [Carbon Offsetting and Reduction Scheme for Civil Aviation] or for the voluntary carbon market." (p. 9) However, the international trading of offset credits accepted by CORSIA as the underlying asset of futures trading and futures contracts in voluntary emissions markets, e.g., as proposed by the Task Force on Scaling Voluntary Carbon Markets (TSVCM), is projected to result in $100 billion annually in offset trading value by 2030, according to the head of the Institute for International Finance, the TSVCM's sponsor. TSVCM has stated that it will comply with whatever final form Article 6 takes. (See TSVCM and Net Zero.) But if Article 6.2 is inapplicable or only very indirectly applicable to the $100 billion voluntary carbon market of 2030 governed by national authorities, Article 6.2 lives in a parallel universe in which private sector offset trading may or may not be counted in NDCs to help avoid the climate impacts projected in the latest IPCC report.

IETA'S POSITION ON "SHARE OF PROCEEDS" OBLIGATIONS UNDER THE CURRENT DRAFT OF ARTICLE 6

Proceeds from offset trading will remain with the market participants and exchanges. IETA's position is "No share of proceeds in relation to Article 6.2," judging such sharing to be "inapplicable" to the private sector. Even under Article 6.4 offset trading mechanisms, such as the meta-registries of offset credits traded and retired, IETA advises, "the share of proceeds should be kept at a minimal level." IETA's position, if agreed by Parties, would vitiate the Article 6.6 requirement that "a share of proceeds" from the mitigation mechanism

"assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation."

It would be remarkable if developing country Parties assented to IETA's position, particularly given the huge underfunding of adaptation projects and programs. According to the former IPCC co-chair for mitigation, cited in Nature in 2019, "Neither the amount of financial flows nor their direction is sufficient to keep temperatures below 2°C, let alone 1.5°C."

CONCLUSION

CLARA member Carbon Market Watch proposed that the share of proceeds "must apply to Article 6.4 but should also apply to 6.2. If Parties cannot find agreement, then a clear mechanism is needed for developed countries to channel adaptation finance to developing countries." Because some developed country Parties support IETA's position on Article 6, including on share of proceeds, such a "clear mechanism" will be needed. CLARA is proposing one towards the achievement of Real Zero, i.e., absolute reductions, rather than the accounting balance of Net Zero international offset credit and futures trading. (See "Non-market Approaches, Article 6.8)

IETA's econometric estimates of "potential benefits" of offset trading and its proposals to fill in Article 6.2 "legal gaps" require Parties to ensure the environmental and market integrity of offset trading and to assume *liability for inaccurate emissions offset reporting*. By opposing the sharing of proceeds from trading in offsets, IETA members are essentially advocating the transfer of ultimate climate financial risk to the Parties, and away from themselves.

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