



# WWF's position on International Compliance Carbon Markets

This position details criteria and recommendations for how international compliance carbon markets should be designed and how they should operate. Specifically, this position pertains to decisions that will be taken by countries within the United Nations Framework Convention on Climate Change (UNFCCC) regarding implementation guidelines for Article 6, paragraph 2 (6.2) and Article 6, paragraph 4 (6.4) of the Paris Agreement.<sup>1</sup> Article 6.2 could be considered an accounting system involving the use and transfer of *mitigation outcomes*.<sup>2</sup> Article 6.4 reflects an agreement among countries that a centralized crediting mechanism must be established; the Article 6.4 mechanism is thought of by most as the successor to the Clean Development Mechanism (CDM) and Joint Implementation (JI) that have served the Kyoto Protocol.

This position also pertains to the International Civil Aviation Organization's (ICAO) Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)<sup>3</sup>, because preventing double counting in CORSIA requires greater clarity from the UNFCCC on the rules under Article 6.2. (Airlines may fulfill their offsetting obligations under CORSIA by purchasing carbon credits deemed eligible by ICAO.)

This paper does not delve deeply into voluntary carbon markets. WWF recently agreed to a paper titled "WWF position and guidance on voluntary purchases of carbon credits" position paper which provides recommendations for corporates on carbon credits and presents a communications protocol for WWF offices for advising on and amplifying corporate carbon credit purchases. There are internal and external facing versions of this paper.

Similarly, this position does not comment on the integrity of domestic market-based climate measures like the EU Emissions Trading System (ETS), the Western Climate Initiative (Quebec-California linked ETS), or the Colombian Carbon Tax. However, many of the "Carbon market policy mechanism principles for international compliance carbon markets," which are directly below, would apply to subnational, national, or regional market-based climate measures.

## Carbon market policy mechanism principles for international compliance carbon markets

Rules for international compliance carbon markets (i.e. under Article 6 and CORSIA) could enable greater ambition, create perverse incentives that could have a stunting effect on greater climate ambition from countries and non-Party actors, or have little effect either way (i.e. be zero sum). For this reason, getting the design details of carbon markets right is paramount. The

principles below are critical to reflect in carbon market policy mechanism design. Some are generic and drawn from the literature on carbon markets; others are specific to the context of the Paris Agreement or are included to align with WWF principles to safeguard natural systems and support sustainable development:

- **Supplementarity:** Carbon markets should not displace climate action that should be taking place first, whether committed to or not. This is also called “supplementarity.” (i.e. the principle that the use of the international carbon market should be supplemental to domestic action). The parallel situation with voluntary purchases of carbon credits would be following some version of the “climate mitigation hierarchy” (avoid emissions, then minimize emissions, then compensate for residual emissions or finance climate beyond one’s border or boundary).
- **Delivering an “overall mitigation of global emissions” (OMGE)<sup>4</sup> or “net atmospheric benefits”:** Use of carbon markets should lead to enhanced ambition, not be zero sum. Carbon markets should lead to cost savings for buyers of mitigation outcomes, and some of those savings should be reinvested towards enhanced ambition and/or action.
- **Supporting progression of NDCs towards full emissions scope:** Per Article 4.3 of the Paris Agreement all NDCs must progress towards including all of a country’s emissions.
- **High-integrity mitigation outcomes:** The underlying mitigation outcomes in carbon markets being traded should represent a high-level of quality.
- **No double counting:** Tradeable mitigation outcomes should only be counted once, thus preventing double counting.
- **High-levels of transparency:** Markets operate efficiently and effectively only if high amounts of transparency is afforded to market actors.
- **Comply with social and environmental safeguards:** Even if the mitigation outcomes delivered by a carbon credit project meet environmental integrity criteria, any violations of human rights resulting from that project would make the entire project inviable.
- **Maximize co-benefits:** Prioritize projects that generate co-benefits in order to achieve the sustainable development goals. These co-benefits should be maximized and could include but are not limited to technology transfer; health and social co-benefits; funding for climate adaptation; and biodiversity and other environmental co-benefits.

## WWF recommendations for international compliance carbon markets

The following are recommendations for key positions WWF could take on international compliance carbon markets:

1. **Sufficient Ambition of National Climate Mitigation Targets:** Countries should only be transferring or using tradable mitigation outcomes if (a) they have established official climate mitigation targets (i.e. NDCs) for reducing emissions well below their business-as-usual (BAU) levels, and (b) their BAU emissions have been reviewed by an expert team to ensure they are not inflated as should be the case given the establishment of the Paris Agreement’s transparency framework at COP24.
2. **Avoid double counting** for all mitigation outcome transfers, including all Article 6.4 units that are used.

3. **A rational transition for the CDM and JI:** No pre-2020 certified emissions reductions (CERs) under the CDM or emission reduction units (ERU) under the Joint Implementation should be eligible for meeting NDCs.
4. **Article 6 rules should require corresponding adjustments for all transfers of mitigation outcomes, irrespective of whether they sit in or outside of the country's NDC.** It can be difficult to determine what is in and what is out of the scope of an NDC. Moreover, if a transferring country does not have to adjust its NDC if emission units come from a non-NDC sector, this is a perverse incentive against including more sectors in its NDC over time.
5. Allow only the most environmentally **robust accounting approaches to conduct corresponding adjustments.** The “averaging approach” in which a country must apply a corresponding adjustment in the target year of their NDC equal to the average annual net transfer over the covered NDC period, is one way to achieve this.
6. **Ensuring strong baseline setting procedures** for Article 6.4 projects and other baseline credit systems under Article 6.2.
7. **Article 6 markets must deliver a measurable additional benefit** for the global atmosphere beyond zero-sum exchanges of mitigation outcomes (i.e. “Overall mitigation of global emissions” (OMGE)).
8. **Establishing options for private sector actors to finance mitigation outcomes:** For example, in addition to having a mandatory requirement for OMGE through partial cancellation, governments should allow voluntary actors to finance mitigation outcomes, cancel/retire the mitigation outcomes,<sup>5</sup> and then claim them towards OMGE as long as the host country is apply an accounting adjustment.
9. **Funding for adaptation through Article 6:** Share of Proceeds should be applied to Article 6.4 (using a process similar to that of the CDM) *and* to Article 6.2 (in some manner).
10. **Establishing a cut-off date for emissions units eligible under CORSIA:** For transfers involving aeroplane operators using emissions units for compliance with CORSIA, WWF believes the project start date cut-off should be 31 December 2019--the date when CORSIA begins to enter into force.<sup>6</sup> A restriction on the timeframe for use of emissions units from project types should be considered as well in ICAO.

<sup>1</sup>UNFCCC (2015) The Paris Agreement.

[http://unfccc.int/files/essential\\_background/convention/application/pdf/english\\_paris\\_agreement.pdf](http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf)

<sup>2</sup> Mitigation outcome: An emission reduction or removal attributable to human invention. This is a term used in the Paris Agreement.

<sup>3</sup> <https://www.icao.int/environmental-protection/CORSIA/Pages/default.aspx>

<sup>4</sup> Overall mitigation of global emissions: A concept in carbon markets which in its broadest form refers to when carbon market mechanisms immediately deliver, or eventually lead to, additional climate mitigation beyond what could be considered zero sum trading. This is mentioned explicitly in Article 6.4 of the Paris Agreement. OMGE is also known as “net atmospheric benefits.”

<sup>5</sup> These would most likely be emissions units, particularly carbon credits from carbon crediting programs like the Article 6.4 mechanism, bilateral mechanisms, or the Gold Standard Foundation's program.

<sup>6</sup> This view aligns with that of the Government of Norway.  
(<https://www.greenaironline.com/news.php?viewStory=2463>).