



Message from Dirk Forrister

President and Chief Executive Officer, International Emissions Trading Association (IETA)

For two decades, IETA has championed market-based solutions as the best response to tackle climate challenge. The clue is in our name: we don't just advocate for carbon markets, but for these efforts to transcend borders. This is the key to delivering the climate ambition our world needs.

All the benefits of a market system are elevated by cross-border collaborations: emissions cuts can be realised at a quicker pace than if action is confined to jurisdictional borders, and this in turn allows for greater ambition. Uniform rules and pricing help level the playing field and reduce competitiveness concerns, while allowing business the opportunity to innovate and unlock lowest-cost reductions, thus keeping down costs for consumers.

We already have experience with international markets, via the Clean Development Mechanism (CDM). The scale of innovation and investment this pioneering global mechanism unleashed into the developing world was transformational and, despite current troubles, we continue to reap its benefits and leverage its learnings. As we move towards a new generation of carbon markets and clubs – which include those established under Article 6 of the Paris Agreement and CORSIA – we have an opportunity to accelerate the decarbonisation of the global economy, with the right framework and rules in place. These markets are essential if governments are going to increase their ambition.

As the first international sector-based carbon market system, there is a lot of attention on CORSIA and the aviation community's success. It could be the trailblazer for other sectors—while demonstrating how stakeholders across different regions can unite and work together on a shared goal. CORSIA's roots are similar to those of the Paris Agreement, as both saw the international community come together to act on the greatest environmental challenge of our lifetimes. These promises have been well received but, as always, the devil is in the detail – and it

is these details that are critical to ensuring their success. The relationship between CORSIA and a future market under Article 6 of the Paris Agreement is crucial: both can only succeed with cooperation, collaboration, and commitment to achieving their goals.

Guidance for implementing Article 6 made impressive progress over the course of 2018, moving from a list of disparate elements to a fully-fledged, almost-final set of rules. However, a deep divergence of views on some fundamental elements related to the operationalisation of Article 6 meant that this chapter of the rulebook could not be finalised at the December 2018 UN climate negotiations (COP24). Critical issues remain unresolved and should be agreed upon this December. This, combined with CORSIA action over the coming months, means 2019 is a critical year for the development of international carbon markets.

What is the potential power and impact of these markets? IETA has been working to answer this question through a special Article 6 project, launched earlier this year. In partnership with the University of Maryland, we are modelling and assessing different rulesets and their implications on costs and emission reduction goals. Preliminary results, based on current national climate targets, known as Nationally Determined Contributions (NDCs), show that Article 6 holds enormous potential, with estimated cost savings of US\$250 billion annually by 2030, \$350 billion by 2050 and nearly \$1 trillion in 2100. If these cost savings are reinvested in emissions mitigation action, Article 6 could deliver an extra 5 billion tonnes per year of additional emissions reductions in 2030. The power of markets to be transformational is huge.

We are in a strong position in 2019, now with over 20 years of experience with carbon markets to draw upon when setting the parameters for the next generation. Not only have we learned many lessons about carbon market design, we also have the benefit of existing greenhouse



gas standards and systems to tap. This is a vastly different environment to that from which the CDM first emerged, and means we don't need to take several years to finalise rules, we are not starting from scratch this time. We have a window of opportunity to affect great change. CORSIA

implementation is now under way and this, together with the expected agreement under the UNFCCC process on pending issues related to Article 6 of the Paris Agreement, are resolute steps to tackle the multi-faceted challenges posed by climate change.