The Paris Agreement Rule Book is Finished. Does it Matter?

Now that leaders and climate negotiators have packed their bags and left Glasgow, we can better assess what came out of COP26.

Countries made lofty promises on finance, combating methane pollution, and ending deforestation, but the loftiest ones occurred outside of the official UNFCCC process. And pledges aren't commitments. Within the actual Glasgow Climate Pact, rich countries did agree to double their support to vulnerable countries in adapting to climate change. Not as strong a commitment as is needed, but important because it's included as part of the 'official' outcome.

Also completed at COP26 is the 'rule book' allowing for full implementation of the Paris Agreement. After years of wrangling, delegates completed rules to implement Article 6, launching mechanisms for both 'market' and 'non-market' approaches to increasing ambition.

So, what kind of ambition does Article 6 represent? How much do the new rules on Article 6 improve global alignment with the goal of limiting warming to 1.5°C?

The answer is: maybe not so much – despite the huzzahs of support from big banks, fossil fuel companies, and some of the major conservation organizations.

The mechanism under article 6.4 provides the legitimation framework for a global emissions offset market. Polluters can continue to pollute but can now claim to offset their emissions by buying credits derived from projects to reduce, avoid, or 'permanently' remove greenhouse gases. Voilà, "carbon neutral" oil shipments! With 6.2, rich countries seeking cheaper mitigation options can fund projects in developing countries and claim the mitigation benefit for themselves.

Now, if those credits are 'retired' – that is, not used in offset markets – then the mechanisms under Article 6 could lead to an 'Overall Mitigation in Global Emissions', or OMGE, one of the benchmarks for establishing climate ambition in Article 6.

So, what level of mandatory retirement of credits did countries agree to in Glasgow? Twenty-five? Fifty? No, only two percent of the total and only from 6.4 activities. *Two percent.* 98% of the transaction is still available for offsets! Hardly the ambitious action needed. At that rate of retirement, OMGE will be DOA.

But looking beyond the mitigation benefit (or not) of agreement under Article 6, there are two other major concerns about what the Article 6.2 and 6.4 deals will bring. And the interrelation between the two will tell us a lot about whether Glasgow delivers on any promises pertaining to 'climate justice'.

The first of these is the inclusion of land-use offsets – from forest management, reforestation, and soil carbon – in Article 6 market mechanisms. Our organizations have consistently opposed efforts to enable continued fossil-fuel use with land-based offsets because we need to reduce emissions now, not net them out with offsets in the future. Moreover, the science (including from the Intergovernmental Panel on Climate Change (IPCC)) demonstrates that you cannot offset "positive emissions," e.g., from fossil fuels, 1:1 by "negative emissions," e.g., soil carbon sequestration.

So, what does the use of land-based offsets mean in developing countries hosting Article 6 offset projects? Analysts examining those projects describe a pattern of 'carbon colonialism' that monetizes the farm and forest assets of rural communities and Indigenous Peoples in the global south to enable continued emissions in the global north.

And what guarantees did the Glasgow outcome provide to protect human rights in offset project development? The rights of Indigenous Peoples are mentioned in the rules across Article 6, but the rules in Article 6.4 do not ensure Indigenous Peoples' right to free, prior and informed consent related to carbon-offset projects that may take place on Indigenous lands.

Our second concern relates to that question of offset credit quality. Indigenous groups didn't get what they wanted from Article 6.4, but the big banks and carbon traders did: in particular, crediting periods that allow the same credits to be sliced and diced for trading in financial markets again and again, with just a tiny sliver of credits required to be retired.

Much has been made of the power of the fossil fuel industry in watering down the Glasgow outcome. Much less attention has been paid to how the Glasgow outcome empowers big financial institutions to fatally delay OMGE.

How soon before until a Citibank or an HSBC is offering financial products that combine so-called 'robust' offsets with tranches of much less quality – carbon credits based on bad accounting, weak verification procedures, and just possibly, violations of indigenous and communal rights?

How soon before carbon traders start advertising their products as 'low-risk' simply because they've pulled together offsets from different countries, using different verification standards from different certification bodies?

It may be only a matter of time before we see the emergence of a 'sub-prime' market for carbon credits. This secondary market does nothing for OMGE, but generates wealth for big-bank trading desks, who face no limits on the trading of financial derivative contracts whose underlying assets are offset project credits, sourced mostly from developing countries.

Any history here? Yes, of course. Twelve years ago, these same institutions were slicing and dicing home mortgages, putting them into collateralized debt obligations and other speculative vehicles deliberately designed to obscure and hide risk factors.

But the secondary market for carbon is worse than the failure of mortgage backed derivatives. The risk doesn't disappear. It gets assigned away from traders and toward the developing countries and communities that host land-based carbon-offset projects, while social risk escalates in the context of climate change.

Article 6 legitimates the scaling up of carbon markets. Completion of this part of the 'Paris Rulebook' is celebrated as one of the most important outcomes of COP26. But because of the weak guarantees to ensure OMGE – coupled with the absence of guarantees for affected people on the ground and the absence of any constraints on big banks to trade carbon credits – we will hold our applause.