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Liechtenstein, Mexico, Monaco, Switzerland

Matters relating to Article 6 of the Paris Agreement

1. Background - SBSTA 45

The Environmental Integrity Group (EIG) welcomes the opportunity to submit its views on matters relating to Article 6 of the Paris Agreement, based on the conclusions of SBSTA 45.

For the EIG, SBSTA 45 conclusions¹ emphasize an important point, i.e. that cooperative approaches referred to in Art. 6.2 of the Paris Agreement, the mechanism established by Art. 6.4 and the framework for non-market approaches referred to in Art. 6.8 all adhere to the basic principles of sustainable development and environmental integrity mentioned in Art. 6.1.

2. Overarching issues

2.1. Assurance of high standards of environmental integrity

In order for an activity-based approach under Art. 6.2 and 6.4 to be credible, elements like setting of the baseline, determination of the additionality as well as methodologies, tools, procedures and accreditation of third party validation and verification must be considered (further details are provided below).

The implication of the principle of environmental integrity shall be the same for both approaches (as a kind of “the lowest common denominator” between them): mitigation outcomes (both ITMOs under Art. 6.2 and emission reductions under Art. 6.4) have to lead to emission reductions beyond the efforts that the host country can take and result in verifiable, permanent and real reductions.

The EIG is of the view that environmental integrity should also address potential areas of conflicts with other environment-related aspects, e.g. the conservation of biodiversity.

2.2. Assurance of no double counting

Avoiding double counting and achieving verified, permanent and real emission reductions are the most crucial components for well-functioning carbon markets. There needs to be detailed guidance and rules to prevent double counting. Double counting can occur not only directly, but also in rather indirect ways, which can be challenging to identify.

Avoiding double counting (and therefore also double claiming) effectively requires national and international coherence and consistency at least in the areas of accounting of units and consistent tracking and reporting on units. While international agreement on rules for accounting, tracking and reporting is crucial to prevent double counting, the supporting governance arrangements at the national level for implementing these rules could vary.

It is important to recognize the diverse range of capabilities that exist in countries for robust reporting of GHG emissions. There is a need to further strengthen global efforts to enhance capacity

¹ FCCC/SBSTA/2016/L.28 ; FCCC/SBSTA/2016/L.29 ; FCCC/SBSTA/2016/L.30.

for establishing GHG inventories and national systems for transparency for all countries, particularly for those in need of improved capabilities, which will be essential to avoid double counting at the global scale.

In addition to the avoidance of double counting, double issuance of units (ITMOs under Art. 6.2 or emission reductions under Art. 6.4) for the same emission reductions must be avoided. This will require careful design of the mechanisms/systems, robust transparency requirements as well as comprehensive publication of information related to the activities and its outcomes or results.

2.3. Promotion and fostering of sustainable development

Standards to promote sustainable development shall be sufficiently reflected for all activity-based approaches under Art. 6.2 and Art. 6.4. As a minimum, the activities should be consistent with the Sustainable Development Goals, the sustainable development objectives and strategies of the Parties involved and be consistent with and represent no threat to human rights.

This means in practical terms that a sufficient level of host country approval process is required under Art. 6.2 and Art. 6.4. The host party has to confirm conformity with sustainable development, incl. human rights. There needs to be an international tool to assist countries and participants on sharing information on sustainable development in the activities and the assessment thereof.

3. Elements to be addressed in the guidance for “corresponding adjustment”

Framing of an ITMO

- An ITMO shall be **quantified and reported in CO₂eq**.
- An ITMO may **originate from bilateral cooperation under Art. 6.2 or from the mechanism under Art 6.4**.
- An ITMO **cannot be accounted for more than the value reported in the originating system**, i.e. “exchange rates” or “trading ratios”² shall not apply to the mutual recognition of emission reductions or allowances for international accounting under the PA. The aim is to avoid that emission reductions/allowances get multiplied when they are internationally accounted for, although they represent only a certain emission reduction/allowance in their originating countries. Parties when using ITMOs towards their NDC may apply voluntarily “discount rates” to account for less than the value reported in the originating system. Discounting of emission reductions/allowances does not represent any problem since the implication of not accounting for them entirely involves a positive net benefit for the atmosphere.

Information necessary for “corresponding adjustment”

- **Clear and transparent information on NDCs** of countries exporting and importing ITMOs (these may originate from bilateral cooperation under Art. 6.2 or from the mechanism under Art 6.4), including on :
 - scope and coverage of the NDC (whole economy or sectors that are included, gases, etc.);
 - references contained in the NDC regarding emissions and level of emissions to be achieved with the NDC need to be or to include an absolute number in tCO₂eq (this means that for accounting purposes BAU-intensity or non-GHG targets need to be translated into an absolute number in tCO₂eq that would accompany the NDC);

² With a trading ratio the value of an ITMO traded between systems is adjusted by a conversion factor. For example, a trading ratio of 1:2 could be set up between systems A and B, i.e. two units from system B could be used in place of one unit in system A, then in system B, one system A unit would be worth two system B units.

- emissions pathway over the period corresponding to the NDC that will inform accounting or will be used to account for ITMOs and therefore track progress in achieving the NDC (e.g. definition of a multiyear GHG emissions budget given that emission reductions take place over a period of time and not in a single year);
- the period and/or year (vintage) of the ITMOs and how this information is tracked;
- the share of ITMOs that will be used for achieving the NDC and information on any other use (mitigation under ICAO, climate finance, banking, etc.);

Functioning of the “corresponding adjustment”

- Each transfer of an ITMO shall be reported through the BR/BUR (biennially) and through an adjustment of the emission level (inventory) taking into account the international transfers of mitigation outcomes, both by the exporting and importing countries (double entry bookkeeping).
- The exporting country shall add the quantity of CO₂eq resulting from the activity to its reported emissions in the inventory and the importing country shall subtract the same quantity from its reported emissions in the inventory. This information is provided **separately from the inventory**, namely in the **biennial reports (BR)/biennial updates reports (BUR) in the context of tracking progress towards the achievement of the NDC**. This information must be included biennially. At the end of the period, the net transfer of ITMOs over the period relevant for the NDC is to be reported. It must include information on any ITMOs sold to or acquired from another Party (possibly through the secondary market), including on the origin, related activities, final use (if yet known), current holding and transfers that have occurred since the last report.
- According to para. 36 of decision 1/CP.21, such additions and subtractions must be carried out **in all cases, irrespective of the final use** of the ITMO. In particular, it is irrespective of the fact that the ITMO or emission reduction took place within the scope of the NDC or outside of its scope, and irrespective of the fact that the ITMO or emission reduction is used finally to achieve an NDC, a mitigation purpose under ICAO or is voluntarily cancelled. If the ITMO or emission reduction is eventually used in the originating country to achieve its NDC, the final subtraction operation will neutralize the addition operation from the beginning, and the originating country will have the emission reduction reflected in its inventory (the reported emissions in the inventory have decreased).
- As soon as an ITMO is internationally **transferred**, the exporting country has to account for it (as an addition) in the report that tracks progress towards the achievement of the NDC that is separate from the inventory.
- ITMOs that are used to meet an NDC shall not be used for **other purposes** (e.g. under ICAO, for international climate finance by a contributing country) in order to ensure avoidance of double counting. The CMA should invite other UN organisations that use ITMOs for other purposes than meeting NDCs to define robust accounting rules in order to avoid double counting.

Technical tools

- Government to government transfers do not necessarily require elaborated registries but only accounting formats and reporting procedures. For allowing transfers of ITMOs to other stakeholders on a voluntary basis (**secondary market**, beyond a single government to government transaction), registries will however be needed. Such registries will keep track of transfers of ITMOs and their final use (e.g. for achieving an NDC, for ICAO). Registries must be under the authority of Parties to the PA (even if Parties can then work in collaboration with other entities to operationalize them). Parties that want to have registries but do not want to develop their own registry (because of capacities, costs, etc.) should have the possibility to do it under a system managed by the UNFCCC Secretariat. Possible synergies with registries under ICAO should be considered.

- For tracking transfers of ITMOs on the secondary market and use thereof, these registries need to fulfil some **standards** (e.g. format of the serial numbers, reconciliation procedures, security checks). In addition, they need to be linked through a **transaction log** in order to identify and impede possible inconsistencies in transfers or deviations from the guidance on accounting. A technical group under the UNFCCC composed of registry experts shall define (starting in 2019) these standards for registries and the transaction log that will apply for transfers of ITMOs and emission reductions under Art. 6.4 (for issuance, cancellation, transfers, use of units for achieving an NDC, etc.).

4. Elements to be addressed in the guidance for environmental integrity

- Parties, when ensuring that ITMOs are **environmentally integer**, shall inter alia:
 - refrain from potential areas of conflicts with **other environment-related aspects**, e.g. the conservation of biodiversity, water pollution or the protection of the ozone-layer, or in case of activities leading to unavoidable conflicts but that still have a substantive positive net result, measures to compensate for the negatively affected aspects are taken.
 - result in **real** mitigation outcomes, whereby credible reference levels are set for calculating mitigation outcomes or emission reductions, leakage is avoided and fraud and inaccuracies from errors are addressed taking into account materiality.
 - result in **permanent** mitigation outcomes, whereby irreversibility is ensured, or in case of reversibility, measures to compensate for a possible reversal are taken.
 - result in **verified** mitigation outcomes, whereby independent and competent verification is guaranteed, and reporting on all activities is carried out in a transparent way and all information related to the activities is published on the internet.
 - result from activities where the **reference to calculate the emission reductions shall be set well below BAU of the specific sector**. Best practices should be identified through dialogue in order to identify and promote best technical approaches.
 - This means that in the case of ITMOs originating from a cap-and-trade system in a country or group of countries that are transferred into another country with a separate NDC, emission caps in the cap-and-trade system shall be well below BAU. We speak here about ITMOs being the net importing/exporting effect of two linked cap-and-trade systems. Allowances of each of the linked cap-and-trade systems are not considered as ITMOs.
 - In the case of transfers of ITMOs originating from activities or sectors not covered by a cap-and-trade system, activities that result in ITMOs shall have baselines well below conservative estimates of current efforts and shall account for all policies (local, regional, national) in the baselines.

5. Elements to be addressed in view of conformity with the guidance

- **Conformity with all this guidance shall be demonstrated by the respective countries and be described in the BR/BUR.**
- All activities resulting in ITMOs shall meet **stringent transparency criteria** and be comprehensively recorded, with comprehensive and publicly available information. All information related to the activities shall be published on the internet. Best practices should be identified through dialogue in order to identify and promote best technical approaches.
 - This means that in the case of ITMOs originating from a cap-and-trade system, such systems shall have in place stringent transparency principles for the emissions covered by the system and shall include robust compliance measures at the national level.

- In the case of ITMOs originating from activities or sectors not covered by a cap-and-trade system, such activities shall meet stringent transparency criteria in line with the criteria applying to activities under Art. 6.4.

6. Elements to be addressed in the M&P of Art. 6.4 and their operationalization

Art. 6.4 should be an enhanced market mechanism based on the experience and lessons learnt from the flexibility mechanisms under the Kyoto Protocol. The need for enhancement comes from the fundamental difference of the new climate regime under the PA, in which every Party has an NDC. In this context, rules as well as modalities and procedures should be adjusted in accordance, taking into account the different types of NDCs and the need for improvements over time.

- The **body** responsible for the supervision of the mechanism shall:
 - Develop tools and standards for additionality, baselines, MRV, permanence, among others, based on best practice standards
 - Define procedures for ensuring that all activities and emission reductions under Art. 6.4 meet the criteria and rules that have been defined or will be defined
 - Be responsible for assessing conformity of the activities with the tools and standards.
- Assurance of **additionality**:
 - Objective tools for assessing additionality shall be developed by the body responsible for the supervision of the mechanism.
 - Additionality of activities shall be periodically reassessed. In case an activity is not additional any more, crediting shall stop.
 - Activity types with high risk of non-additionality shall be excluded.
- **Conservative quantification** of reductions:
 - Emission reductions shall be quantified in CO₂eq.
 - Conservative assumptions shall be made when estimating the emission reductions. Baselines shall be set well below conservative estimates of current efforts. In addition, shorter crediting periods as the usually applied ones should be used where appropriate.
 - All policies (national, regional, local) shall be accounted in the baselines.
 - Dynamic changes in baselines shall be applied in order to take into account changes in technologies, developments of policies, etc.
 - Rules shall be set for avoiding leakage and addressing fraud and inaccuracies from errors, taking into account materiality.
- **MRV/transparency**:
 - Independent and competent verification shall be guaranteed, including reporting on all activities in a transparent way.
 - All information related to the activities shall be published on the internet.
- **Permanence**:
 - Activities shall ensure irreversibility, or in case of reversibility, measures to compensate for a possible reversal shall be implemented.

7. Relationships with other provisions of the PA, the Convention and related legal instruments

- Art. 4.13 of the PA mentions that Parties shall account for their NDC. NDC accounting and accounting of ITMOs under Art. 6.2 and emission reductions under Art. 6.4 are closely related.
- Characteristics of the NDCs, transparency thereof and upfront information are closely related to Art. 6 (see above), in particular to distinguish Parties' unilateral efforts to achieve their NDC and areas where international voluntary cooperation is available.

- Consistency between methods and methodologies for preparing national inventories and for calculating ITMOs under Art. 6.2 and emission reductions under Art. 6.4 is required (e.g. compulsory use of tier 3 for estimating emissions from the sector as well as the reduced emissions), so that accounting is consistent and coherent. In both cases, countries have to use the same methodologies as for the national inventory reports under Art. 13 para. 7a.
- Art. 13 on transparency aims at building mutual trust and confidence and promoting effective implementation through an enhanced transparency framework. With respect to emission reductions, transparent information on the emission reductions themselves and their tracking is needed.
- Since around half of Parties have indicated in their (I)NDC the possibility to use carbon markets, the global stocktake of Art. 14 may consider to include reviewing the actual implementation of Art. 6 and further potentials to contribute to raising global ambition.
- Art. 15 on compliance should address the risk that some Parties engaging in activities under Art. 6 do not fulfil their NDC.
- Accounting of emission reductions under Art. 6.4 and accounting under ICAO need to ensure that there is no double counting.

8. The framework for non-market approaches referred to in Art. 6.8

Art. 6.9 defines a framework for non-market approaches to sustainable development which according to Art. 6.8 should be available to Parties in order to assist them in the implementation of their NDC in a coordinated and effective manner in the fields of, mitigation, adaptation, finance, technology transfer and capacity-building. In addition to that, the framework has the objective to consider how to enhance linkages and to create synergies between these fields.

8.1. Elements to be addressed in the work programme of Art. 6.8 and their operationalization

It is crucial that elements to be discussed under Art. 6.8 do **not duplicate work** under the UNFCCC and in other multilateral fora. Institutional arrangements that have already been created should not be duplicated; this applies for example under the UNFCCC to finance, technology transfer and capacity-building.

Moreover, the elements to be addressed under Art. 6.8 have to take into account the overall character of Art. 6 which is the **voluntary cooperation** between Parties and as such requires a certain level of **international dimension**.

In addition, the term “non-market” is to be understood as tools or instruments that have **no internationally transferable units or such outcomes**, on the contrary to “market” instruments. Non-market approaches could therefore consist in sharing best practices and information on various topics relevant for climate change mitigation and adaptation, as well as using/promoting/supporting specific policies and actions that directly or indirectly help to mitigate GHG emissions or adapt to climate change in a cost-efficient way.

Due to the cross-cutting nature which characterizes this framework, expertise is requested in different areas (mitigation, adaptation, finance, technology transfer, capacity-building). In order to facilitate coordination of work, each issue needs to be discussed in the context of each different agenda item. The EIG therefore suggests examining **concrete and relevant areas of cooperation** in the context of Art. 6.8 and its corresponding decisions. These areas of cooperation should address the explicit aims mentioned in Art. 6.8 and could include the following areas:

- Encouraging the use of international sustainability standards and global environmental labels (Mitigation/Adaption)

- Removal of inefficient fossil fuels subsidies (Mitigation/Finance)
- Encouraging measures to lower climate-related risks (Adaptation).

The three above-mentioned conditions (international dimension, no duplication of work, no transferable units) must be met.

Promote mitigation and adaptation ambition: The framework should focus on measures that aim at increasing mitigation and adaptation ambition between Parties. The framework should also assist Parties in their NDC implementation. Since there is no transfer of mitigation outcomes (Art. 6.2) or emission reductions (Art. 6.4) foreseen, the problem of double counting reductions or outcomes is not relevant. Nevertheless, approaches under the non-market framework that do not transfer outcomes but still have an international dimension need to promote sustainable development and environmental integrity as laid down in Art. 6.1.

Enhance public and private sector participation in the implementation of NDC: Relevant initiatives need to put specific emphasis on the participation of the public and private sector in a balanced manner. The requirement of a comprehensive stakeholder consultation should also contribute to an enhanced linkage and the creation of synergies between relevant activities of Parties NDCs if applicable.

Enable opportunities for coordination across instruments and relevant institutional arrangements: Depending of the respective areas of cooperation, instruments and arrangements that are involved may differ. However, since all areas of cooperation qualifying for Art. 6.8 need to have a certain international dimension, it has to be ensured that coordination between Parties is necessary to facilitate their voluntary cooperation.

8.2. Relationships between Art. 6.8 and other provisions of the PA, the Convention and related legal instruments

Elements and areas of cooperation to be discussed under Art. 6.8 shall not duplicate work under the UNFCCC and in other multilateral fora.

9. Possible transition of CDM

It is important that current efforts to reduce emissions with CDM projects are further encouraged (continuation of vulnerable CDM projects that would stop without the revenues of the CDM and development of new projects) in order to achieve more emission reductions as soon as possible and to keep capabilities and competences in this field.

At some point in the discussion, it should be discussed whether and how CDM projects could be included under Art. 6. This may involve that projects are adapted to the new rules and fully reassessed if they fulfill the new requirements. This applies especially for the reassessment of additionality (emission reductions beyond the host country NDC), the revision of the baselines and the application of the accounting rules of Art. 6. CDM projects could for example re-register under Art. 6.4 if these projects meet the rules of Art. 6 and the modalities and procedures of the new mechanism of Art. 6.4.

10. Structure and content of the roundtable discussion of May 2017

Considering the tight timeframe of the development of the Paris rulebook as agreed at COP22 in Marrakech, the EIG is of the view that Parties should make best use of the allocated time for the respective roundtable discussions in May. This includes enabling Parties to get actively engaged with

each other by exchanging views in an open and inclusive way. The roundtable should allow Parties to identify areas of convergence that will be useful for the drafting process at a later point.

11. Expectations and timeline for the process

In order to finish before COP24 (2018) the work mandated under paragraph 36-40 of decision 1/CP.21, technical work (expert-level workshops, technical papers prepared by the Secretariat) will need to be continued or ensured after SBSTA46.