

EIG submission on Article 6.2 and 6.4 Paris Agreement

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Matters relating to Article 6.2 and 6.4 of the Paris Agreement

1. Background - SBSTA 44

The Environmental Integrity Group (EIG) welcomes the opportunity to submit its views on matters relating to Article 6 of the Paris Agreement, based on conclusions and the documents of SBSTA 44:

SBSTA	11	(a)	Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement www.unfccc.int/7551	FCCC/SBSTA/2016/L.11  Reflections note (178 kB) 21 May 2016, 8:35 am
SBSTA	11	(b)	Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement www.unfccc.int/7551	FCCC/SBSTA/2016/L.12  Reflections note (184 kB) 21 May 2016, 8:35 am

2. Market mechanisms as tool to increase ambition

Market mechanisms are economic instruments that allow Parties to develop more ambitious nationally determined contributions (NDCs) by making use of lower marginal abatement costs and/or foreign direct investments respectively. These costs savings may free resources to raise ambition and provide additional climate finance and foreign investment to accelerate green growth and to leapfrog technologies in countries with investment demand. The Paris Agreement explicitly recognizes that Parties may use market mechanisms through voluntary cooperation in the implementation of their nationally determined contributions to allow for higher ambition (Art. 6.1).

Art. 6.2 and 6.4 outline two different instruments for market mechanisms. From the genesis and approach Article 6.2 (cooperative approaches) and Article 6.4 (mitigation mechanism) of the Paris Agreement are separate and distinct instruments within market approaches. While **Article 6.2** may cover (national and linked) **emissions trading systems (ETS)** as well as **nationally elaborated and bilaterally or plurilaterally agreed bottom-up approaches**, **Article 6.4** outlines a **multilaterally elaborated and within a designated body agreed top-down approach**.

However, while being distinct instruments, both the cooperative approaches and the mitigation mechanism have to ensure avoidance of double counting and environmental integrity and promote sustainable development. Thus, the Paris Agreement explicitly states that voluntary cooperation in the implementation of NDCs should promote sustainable development and environmental integrity

(Art. 6.1). It also holds that Parties, when engaging in cooperative approaches that involve the use of internationally transferred mitigation outcomes, shall promote sustainable development, ensure environmental integrity and transparency, and shall apply robust accounting to ensure the avoidance of double counting. Moreover, the promotion of sustainable development and the ensurance of environmental integrity, of transparency and the avoidance of double counting shall be consistent with guidance developed by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (Art. 6.2). The Paris Agreement also stresses that the mitigation mechanism shall support sustainable development (Art. 6.4) and that double counting under the mitigation mechanism shall not be possible (Art. 6.5). The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement shall adopt rules, modalities and procedures for the mitigation mechanism (Art. 6.7).

Against that background and **to ensure the integrity of cooperative approaches as well as of the mitigation mechanism**, the EIG is of the view that **both approaches of voluntary cooperation have to adhere to three basic principles: no double counting, environmental integrity and sustainable development**. To emphasize the importance of consistent application of such core principles, which aim to safeguard the integrity of cooperative approaches and the mitigation mechanism, the submission of EIG covers agenda items SBSTA 11 (a) and (b) in one joint document.

3. Experience from market approaches under the Kyoto Protocol

The Clean Development Mechanism (CDM) has been the globally leading forerunner for project based market mechanisms since 2001. After some early problems, the mechanism became a global credible standard for baseline setting, additionality determination, methodologies, tools, procedures and accreditation of 3rd party validation and verification. The Mechanism induced close to 8'000 projects and programmes of emission reduction activities with public and private sector investment significantly over US \$100 billion.

Joint Implementation (JI) - not privileged by prompt start and intentionally designed with lighter oversight given the capped environment from both Parties involved - relied from the beginning heavily on selected, simplified products of CDM. After a promising start phase investment interest dried up rapidly for several reasons. Most important ones were the lack of assurance and predictability, including the issuance of the corresponding carbon asset – emission reduction units (ERUs). Since the beginning JI had been problematic due to the lack of sufficiently clear operational rules and the fact that guidance was interpreted differently and/or not rigidly operationalized and supervised by national and/or international bodies. This lax level of regulation lead to significantly lower standards with regards to baseline setting / additionality, methodologies/tools, procedures and accreditation of 3rd party conformity assessments (auditors, AIEs).

In conclusion, one had to observe integrity challenges in JI with regards:

- Additionality
- Verification
- Permanence and
- Real implementation of the project / program activity.

Based on the experience of CDM and JI, one may conclude:

Oversight of an international market mechanism by the host country alone is not sufficient to ensure environmental integrity and crediting mechanisms need to be carefully designed to ensure integrity while being attractive for investors. Basic principles should cover the following considerations:

- Crediting mechanisms should adopt project cycle procedures, which ensure full transparency and make all documentation publicly available.
- Only internationally accepted methodologies should be eligible for use.
- Auditors should be fully accountable for all their activities to the authority regulating the mechanism.
- A notification to the regulator prior than the project start date should be required and retroactive crediting should not be allowed.
- Investors should have reasonable certainty to receive the carbon asset.
- Avoidance of high verification costs that disincentivize project developers.
- Assurance of efficient time frames for procedural approvals.

4. Market approaches under Article 6 of the Paris Agreement (Art. 6.2. + Art. 6.4.)

In order to achieve their respective nationally determined contributions (NDC) Parties may use internationally transferred mitigation outcomes (ITMO's) resulting from Article 6.2 and/or emission reductions resulting from the Mechanism under Article 6.4. To ensure an equivalent level of the integrity, the **EIG is of the view** that the **following three core principles must be applied to Article 6.2 as well as Article 6.4.** It is also important to ensure progressive continuity of mitigation outcomes and emission reductions.

- **Assurance of no double counting / no double issuance:**

Avoiding double counting and double issuance of mitigation outcomes or emission reductions is a key policy concern to the EIG. Double counting or double issuance can occur not only directly, but also in rather indirect ways, which can be challenging to identify.

Double counting would also occur if financial resources used for acquiring internationally transferred mitigation outcomes would also be counted as support for developing countries.

And, double counting can also occur between the framework established by the Paris Agreement and frameworks established by other institutions such as ICAO. **Avoiding double counting and double issuance effectively requires national and international coordination arrangements at least in three areas: accounting of units, design of mechanisms that issue units, and consistent tracking and reporting on units.** While international agreement on principles for accounting and mechanism design is crucial to preventing double counting and double issuance, the governance arrangements for implementation and international oversight could vary. A clear and limpid transparency framework with basic rules in the accounting area is crucial to address double counting and double issuance in a post-2020 climate regime.

It is important to recognize the lack of capacity in some developing countries for robust accounting of GHG emissions. There is a need to further strengthen global efforts to enhance capacity for establishing GHG inventories and MRV frameworks for developing countries in need, which will be essential to avoid double counting at the global scale.

Against that background, the EIG is of the opinion that avoiding double counting of mitigation outcomes and emission reductions include:

- an agreement on international accounting rules, in line with the most recent IPCC Guidelines for National Greenhouse Inventories;
 - the coherent and comprehensive accounting where mitigation outcomes or emission reductions are not used to demonstrate achievement of the host Party's NDC if used by another Party to demonstrate its NDC;
 - the comprehensive recording of activities resulting in mitigation outcomes or emission reductions, with transparent, comprehensive and publicly available information.
- **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 the Setting of the Baseline, the Determination of the Additionality as well as Methodologies, Tools, Procedures and Accreditation of 3rd party validation and verification must be considered.

The guiding principles shall be the same for both approaches: Mitigation outcomes (including emission reductions) have to be additional, verifiable, permanent and real:

- **Real** mitigation outcomes, by setting credible reference levels for calculating mitigation outcomes or emission reductions, avoiding leakage and addressing fraud and inaccuracies from errors taking into account materiality;
- **Permanent** mitigation outcomes, by ensuring irreversibility, or in case of reversibility, measures to compensate for a possible reversal;
- **Verified** mitigation outcomes, by guaranteeing independent and competent verification, including reporting on all activities in a transparent way and to publish all information related to the activities on the internet.

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

- **Promotion and fostering of Sustainable Development:**

As for the issue of environmental integrity, the 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 with 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.

5. Next steps

The Paris Agreement makes clear that the use of market mechanisms shall increase ambition, ensure the avoidance of double counting, ensure environmental integrity and promote sustainable development. Therefore, the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement should develop rapidly binding rules for both, cooperative approaches according to Art. 6.2 and the mitigation mechanism according to Article 6.4, ensuring the same or similar core principles, standards and levels of integrity with regard to no double counting of mitigation outcomes or use of financial resources, environmental integrity and sustainable development.