Shaping the Paris Mechanisms Part II

An Update on Submissions on Article 6 of the Paris Agreement

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The Wuppertal Institute is carrying out the "JIKO"-project on behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety.

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April 2017

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Summary

Article 6 of the Paris Agreement established three approaches for countries to cooperate with each other: cooperative approaches under Art. 6.2, a new mechanism to promote mitigation and sustainable development under Art. 6.4, and a framework for non-market approaches under Art. 6.8. Detailed rules for these three approaches are currently being negotiated.

This paper summarises the views submitted by Parties in March 2017 to identify points of controversy and convergence. It builds on a previous paper which summarised views submitted in September 2016.

Compared to the 2016 round of submissions, some conceptual advances can be noted. However, a number of issues continue to be controversial with little indication of a convergence of views.

Raising Ambition

While the Paris Agreement mandates that Art. 6 should contribute to increasing climate ambition, not all submissions discuss this issue in detail. Nonetheless, compared to the last round of submissions there are substantially more views that raising ambition will need to be build into the system. Suggestions include:

- limiting eligibility for transfers to absolute emission reductions;
- making Art. 6.4 a tool for voluntary action by the private sector;
- requiring a discounting of reductions to achieve a global net reduction;
- reviewing Art. 6 transfers in the 5-yearly stocktake and excluding Parties where transfers have not contributed to increasing ambition from future participation;
- managing the supply of units to keep prices stable.

Promoting Sustainable Development

As in the past, there continues to be a split on whether the provisions on cooperative approaches and the new mechanism should include international provisions on the promotion of sustainable development, or whether these should be left to the host countries. The submissions do not show any level of conceptual advancement compared to the previous round of submissions.

Promoting Environmental Integrity

While some note that there is no clear, universally adopted definition of the term, most submissions converge on a view that environmental integrity means that one carbon unit represents one ton of CO_2e and is counted only once towards a commitment.

One submission posits that environmental integrity should also address potential areas of conflicts with other environment-related aspects, for example, the conservation of biodiversity.

Some Parties suggest that there should be limitations on the use of transfers to protect from risks to environmental integrity. Suggestions include limiting eligibility to sectors that are quantifiable and easy to measure and provide lasting emission reductions, automatic cancellation of units after some time, or limiting the share of target achievement that could be covered by transfers.

Accounting Emissions

Many submissions call for regular ongoing reporting and accounting to take place in the context of the broader accounting under Article 4.13 and the transparency framework under Article 13.

There still is controversy on whether participation in transfers should be limited to some types of NDCs. While some argue that participation should be open to all kinds of NDCs, others consider that countries wishing to participate in cooperative approaches and the new mitigation mechanism should be required to establish and quantify a budget of emission allowances or an annual trajectory of emissions towards their NDC objectives.

Only one submission highlights that there is a risk that countries may oversell emission reductions. The submission suggests that this risk should be addressed under Art. 15 on compliance.

Scope and Governance of Cooperative Approaches

In contrast to the previous round of submissions, few of the recent submissions discuss the nature of ITMOs. However, there continues to be a split on what cooperative approaches are. While some hold that the concept should include any kind of cooperation between two or more countries, others suggest that Art. 6.2 should be analogous to Art. 17 of the Kyoto Protocol and only provide for international transfers of mitigation surpluses for the achievement of NDCs.

There also continues to be a split on the question to what extent rule setting and enforcement for cooperative approaches should be done centrally, or be left to individual countries.

What Types of Activities under the Art. 6.4 Mechanism?

Compared to the last round of submissions, there seems to be a growing consensus supporting an "inclusive" approach in which projects, programmes of activities and sectoral approaches should all be eligible under the mechanism.

Only few submissions discuss governance and methodological issues on Art. 6.4. There is this little basis to identify convergence/divergence of views.

Transition from the CDM

A number of Parties argue that CDM projects and credits should be transitioned into the new mechanism. They urge not to lose ongoing mitigation activities and to not further erode trust in carbon markets. On the other side, some Parties require more clarity on Art. 6 before discussing transition issues or note that projects would need to be fully re-assessed before being transitioned to Art. 6.

Non-Market Approaches

The submissions on non-market approaches are in essence repetitions of the last round of submissions.

Further Process

A number of submissions make suggestions on what questions to prioritise, but these priorities differ. Two submissions suggest to first identify a list of headlines for the further discussions before moving into substantive negotiations.

1 Introduction

Art. 6.1 of the Paris Agreement recognizes "that some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contributions to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity."

Art. 6 subsequently establishes three approaches for countries to cooperate with each other:

- First, Art. 6.2 and 6.3 provides the option for Parties to directly engage in "cooperative approaches" and to use "internationally transferred mitigation outcomes" in achieving their NDCs. International supervision of these cooperative activities is not foreseen, but a work programme was agreed to develop guidance for Parties that want to engage in cooperative approaches.
- Second, Art. 6.4-6.7 establishes a new mechanism "to contribute to the mitigation of greenhouse gas emissions and support sustainable development", referred to by many as "sustainable development mechanism". In contrast to the cooperative approaches, this mechanism will be supervised by a body mandated by the Parties to the Paris Agreement. In addition, the Parties are to adopt rules, modalities and procedures which must be observed when implementing activities under Article 6.4.
- Third, Art. 6.8 and 6.9 provides for the use of non-market approaches. Just how these approaches are to work will be determined in the coming years with the development of a "framework for non-market approaches".

The task of developing the guidance for cooperative approaches, the rules, modalities and procedures for the new mechanism, and the framework for non-market approaches was mandated to the UNFCCC's Subsidiary Body for Scientific and Technological Advice (SBSTA).

SBSTA conducted discussions at its sessions in May and November 2016 and invited Parties and observers to submit views by 30 September 2016 and a second round of submissions by Parties by 17 March 2017.

This paper summarises the views submitted in the second round in March 2017 to identify points of controversy and convergence. It builds on a previous paper which summarised the views submitted in September 2016.[1]

This chapter will first synthesise the views on cross-cutting issues and subsequently move to the three individual approaches under Art. 6.

[1] Obergassel, Wolfgang (2016): Shaping the Paris Mechanisms - A Summary of Submissions on Article 6 of the Paris Agreement. JIKO Policy Paper 04/2016. Wuppertal Institute for Climate, Environment and Energy. Wuppertal. www.carbon-mechanisms.de/en/2016/shaping-the-paris-mechanisms

2 Cross-Cutting Issues

2.1 Overview

All three Art. 6 approaches need to adhere to the cross-cutting principles established in Art. 6.1:

- Participation is voluntary for countries.
- Use of the cooperation mechanisms is to allow for raising climate action ambition, increasing the effort in terms of climate change mitigation or adaptation.
- The mechanisms are to promote sustainable development.
- The mechanisms shall ensure environmental integrity.

Another cross-cutting issue is accounting and in particular double counting. Art. 6.2 requires "robust accounting to ensure, inter alia, the avoidance of double counting", and Art. 6.5 mandates that, "Emission reductions resulting from the mechanism referred to in paragraph 4 of this Article shall not be used to demonstrate achievement of the host Party's nationally determined contribution if used by another Party to demonstrate achievement of its nationally determined contribution."

2.2 Raising Ambition

Not all submissions discuss the issue of raising ambition in detail. Some posit that linking carbon pricing systems will by itself allow Parties to be more ambitious in their NDCs by making use of lower marginal abatement costs and/or foreign direct investment. However, compared to the last round of submissions there are substantially more views that raising ambition will need to be build into the system.

Brazil posits that Article 6 must always be read in **conjunction with the aims of the Paris Agreement**, as established in its Article 2. Therefore, Article 6 should contribute to the necessary ambition for achieving the temperature goal, to increasing resilience and to mobilizing finance

Brazil posits that Parties wishing to engage in the Art. 6.2 mechanism should **quantify their mitigation commitments** in terms of tCO_2e that they will be limited to emit annually from 2020 in accordance with their communicated NDC. To safeguard ambition, Brazil suggests a **mechanism similar to the Doha Amendment** to the Kyoto Protocol: In case the quantified tCO_2e allowance in the NDC's end year is higher than the average annual emissions during the years preceding the NDC's timeframe, this difference multiplied by the number of years in the given NDC time frame would be reserved for domestic use only and would not be eligible for international transfers.

In addition, any quantified units held in a Party's national registry that are not used for NDC achievement should in their view be transferred to a previous surplus reserve account for the subsequent NDC time frame. **Units carried-over from one NDC time frame to the next should not be eligible for trading.**

Regarding Art. 6.4, **Brazil** argues that a key difference to the CDM is the aim "to incentivize and facilitate participation (…) by public and private entities" – while the demand for CERs under the CDM was originally driven by Annex I Parties, in their view the reductions from the new mechanism could be used by any actor for any purpose. It could thus become a tool to enhance climate **action by state and non-state stakeholders**.

The **Environmental Integrity Group (EIG)** suggests that the **global stocktake** under Art. 14 may consider to include **reviewing** the **implementation of Art. 6 and further potentials to contribute to raising global ambition**.

The **Least Developed Countries (LDCs)** posit that any system developed under Article 6.2 must be consistent with the objectives of the Paris Agreement. To that end, in their view any arrangement for the use of ITMOs must result in a **net reduction in emissions**. To meet the net reduction requirement, all ITMOs must be **discounted**.

In addition, similar to Brazil, they argue that **only quantifiable absolute reductions shall be eligible** to be transferred. NDCs or sectors within NDCs that have non-quantifiable or relative targets, such as relative to BAU or relative to GDP, would not be eligible. Furthermore, Parties would need to establish a 5-year accounting system based on a 5-year quantified cap on emissions.

Furthermore, they argue that as part of the **5-yearly stocktake**, a centralized mechanism overseeing Art. 6.2 would **review a Party's transactions** over the previous 5-year period to determine whether the use of the ITMOs system has contributed to higher ambition. Those Parties not meeting the requirements of this review would not be eligible to use the ITMO system in the subsequent 5-year cycle.

Moreover, they envisage a centralized oversight mechanism which would, inter alia, **manage the supply of ITMOs** to prevent over-supply and price volatility, for example through a market stability reserve.

The individual activities under Art. 6 should in their view **promote actions that further economy and sector-wide transformation or paradigm shif**t. Art. 6 should not lead to investments that would lock-in fossil fuel technologies.

2.3 Sustainable Development

There continues to be controversy on whether there should be **international provisions** on the promotion of sustainable development, **or** whether these should be **left to the host countries**.

The **African Group of Negotiators (AGN)** suggests that **Parties involved** must **demonstrate** how the MRV system safeguards **environmental integrity and sustainable development**. In their view, **criteria** for sustainable development must be **defined at the national level and progress must be monitored and judged at the national level** through an appropriate designated national authority. An **international tool** like the CDM sustainable development tool could be used **on a voluntary basis**.

Similarly, **Brazil** posits that the promotion of sustainable development is a **national prerogative**. They note that the United Nations 2030 Agenda for Sustainable Development, reiterates government's primary responsibility for follow-up and review with respect to its implementation. In their view, it is therefore not appropriate for the climate regime to propose any international definition on sustainable development, nor to suggest how Parties should promote sustainable development domestically.

The **Arab Group and the like-minded developing countries (LMDCs)** call for preserving **national prerogatives** through rules, modalities and procedures that are impartial to NDC types and sustainable development priorities. At the same time, they call for **safeguards to identify and address negative social and economic impacts** arising from the operationalization of cooperative approaches.

The **EIG** calls for **standards to promote sustainable development**. As a minimum, activities should in their view be consistent with the Sustainable Development Goals, the sustaina-

ble development objectives and strategies of the Parties involved and be consistent with and represent no threat to human rights. In practical terms, this should in their view mean a **sufficient level of host country approval process and an international tool** to assist countries and participants on sharing information on sustainable development in their activities and the assessment thereof.

The **EU** suggests that **host parties will have to demonstrate how activities contribute to promote sustainable development and** how the host party respects, promotes and considers its respective obligations on **human rights** in line with the preamble of the Paris Agreement.

The **LDCs** suggest that each Party shall establish a system to ensure **local stakeholder consultations**, including Indigenous Peoples, in a manner that protects the right to full and effective participation of affected peoples and communities.

Japan and **New Zealand** suggest that **reporting** by Parties **under Art. 13** should include how their activities promote sustainable development.

2.4 Environmental Integrity

The Paris Agreement mandates that Art. 6 is to promote environmental integrity. While some note that there is no clear, universally adopted definition of this term, most submissions converge on a view that environmental integrity means that one carbon unit represents one ton of CO_2e and is counted only once towards a commitment. Some submissions highlight additional aspects.

Brazil outlines that under **Art. 6.2** environmental integrity is to be ensured by a **robust accounting framework**. For **Art. 6.4**, environmental integrity is to be ensured by its **centralized nature**, including a supervisory body and multilaterally-agreed rules, modalities, procedures and governance structures. Emission reductions will be monitored, verified, approved and certified in a process involving not only project developers, but also host Parties' national authorities, designated operational entities and the multilateral supervisory body, under the authority and guidance of the Parties.

Canada calls for ensuring that emissions reductions are **properly quantified, unique, verifiable, and estimated using conservative baselines**, and for ensuring that **transfers of ITMOs should not result in increased emissions**. Canada also highlights the need for safeguards to address the **risk of reversals** of mitigation outcomes.

The **EIG** highlights the need for **real mitigation outcomes based on credible reference levels, avoiding leakage and fraud, resulting in permanent mitigation outcomes**, whereby irreversibility is ensured or measures to compensate for a possible reversal are taken, with **independent and competent verification**, and **reporting** on all activities in a **transparent** way. They also call for setting the **reference** to calculate the emission reductions **well below BAU**.

The EIG also posits that environmental integrity **should also address potential areas of conflicts with other environment-related aspects**, for example, the conservation of biodiversity.

New Zealand highlights that principles to ensure environmental integrity include that the **transfer and use of ITMOs must not result in an increase of global emissions; emissions reductions must be real, measurable, verifiable, additional, permanent**; that there are **national systems for data management** and the provision of public information; that **consistent accounting** is used; that there are **transparent review processes**.

Some Parties suggest that there should be **limitations on the use of transfers** to protect from risks to environmental integrity.

The **LDCs** suggest that **eligibility of sectors** for both Art. 6.2 and Art. 6.4 should be **limited** to sectors that are quantifiable and easy to measure, provide lasting emission reductions, are beyond business as usual actions, and fulfil the necessary accounting system and requirements.

Venezuela suggests that

- ITMOs cannot be bankable
- ITMOs, if not used, should be automatically cancelled after a reasonable time. The time for cancellation is to be examined as part of the stocktaking process but should be no longer than 5 years.
- ITMOs can only be transferred once from the Party reducing emissions to the Party receiving the ITMOs for compliance with their NDC.
- ITMOs cannot be used for compliance of more than 20% of emission reduction targets contained in NDCs.

2.5 Accounting

2.5.1 General Accounting Issues

Many submissions call for regular ongoing reporting and accounting to take place in the context of the **broader accounting under Article 4.13** and the **transparency framework under Article 13**.

The **AGN** suggests that Parties would have to **report on ITMOs at the time of the exchange**. ITMO transfers would be subject to reporting guidelines **under Art. 13 and additional guidance** under Art. 6.2. ITMOs and transactions would be registered in a **centralised registry** operated by the UNFCCC Secretariat.

For **Brazil**, the 6.2 guidance should consist of an **additional "layer"** for the implementation of transparency commitments **under Article 13** and for NDC accounting under **Article 4.13**. **Brazil** maintains that **Art. 6.2 is analogous to Art. 17 of the Kyoto Protocol.** Therefore, Article 17 and related decisions should in their view serve as the basis for Art. 6.2 .

As noted above, Brazil posits that Parties wishing to engage in the Art. 6.2 mechanism should **quantify their mitigation commitments** in terms of tCO_2e that they will be limited to emit annually from 2020 in accordance with their communicated NDC. The quantified NDC would form a pool of quantified contribution units (QCU), each containing a unique serial number and other relevant information necessary for its identification and tracking.

The **Coalition for Rainforest Nations (CfRN**) posits that emission reductions or removals will need to be covered by a **national monitoring system**, be reported through a **national GHG inventory** (Article 13.7), and be accounted for through a **national registry** in order to qualify for international transfer under Art. 6.2.

The **EU** suggests that **accounting guidance** under Art. 6 should **build on the general accounting guidance to be elaborated under Art. 4.13, and on the reporting requirements under Art. 13**. The EU suggests that **Parties** wishing to use ITMOs toward their NDCs **should provide**, as part of their regular reporting under Art. 13:

- **Initial Information**, to enable Parties to address upfront how Article 6 guidance has been implemented domestically to provide an "accounting balance" as a basis of accounting;
- **Updated Information** to track progress on implementation and use of ITMOs, and to facilitate regular corresponding adjustment.
- **Final Information** regarding accounting, registries, issuance, transfer and holding of

ITMOs, and to settle 'corresponding adjustment' in respect of achievement of the relevant NDCs.

The **EIG** similarly notes that **NDC accounting and accounting of ITMOs** under Art. 6.2 and emission reductions under Art. 6.4 are **closely related**. Therefore, **consistency of methods and methodologies** for preparing national inventories and for calculating ITMOs under Art. 6.2 and emission reductions under Art. 6.4 is required. They highlight **compulsory use of tier 3** for estimating emissions from the sector as well as the reduced emissions.

The EIG also suggests that **Art. 15 on compliance** should **address** the risk that some Parties engaging in activities under Art. 6 may not fulfil their NDCs. The EIG's submission is thereby the only one that raises the risk of **overselling**.

Japan notes that the Art. 6.2 guidance should facilitate the **disclosure of information on the amount of credits/units which are issued, acquired and transferred, retired and cancelled** by Parties respectively. Such information should be made publicly available in a consolidated manner through the work of the UNFCCC secretariat. For this purpose, the development of a format and reporting procedure should be developed and implemented **in line with** the modalities, procedures and guidance of the transparency framework defined in **Article 13**.

New Zealand similarly suggests that accounting reports such as "**transfer records**" need to be included in **Biennial communications and / or National Inventory Reports**, recording ITMOs in tonnes transferred in or out, the Party to / from whom the transfer was authorised, by year, as well as recording the inventory emissions total and an "ITMO-adjusted emissions total" showing the transfer of ITMOs.

The accounting guidance would describe requirements for calculating and recording ITMO transfers, including definitions (e.g. ITMO), unit of measurement, requirements to describe / calculate the NDC basis, how to make corresponding adjustments, and how to calculate an "ITMO-adjusted emissions figure."

2.5.2 Accounting for NDC Diversity

Past discussions had a strong focus on the implications of the different forms and types of NDCs. These discussions included controversies on whether eligibility to participate in Art. 6 should be limited to some types of NDCs.

In the most recent submissions, the **AGN, the Arab Group and the LMDCs** posit that eligibility should be open to all types of NDCs.

The **EU** is somewhat non-committal, stipulating that guidance will need to cover cooperation between "Parties with a **range of NDC types**".

As noted above, **Brazil** argues to **tie eligibility** to engage in the Art. 6.2 mechanism **to a quantification of mitigation commitments** in terms of tCO_2e. The quantified NDC would form a pool of quantified contribution units (QCU), each containing a unique serial number and other relevant information necessary for its identification and tracking. A Party engaging in 6.2 would then be able to demonstrate achievement of its NDC by holding an amount of units equivalent to what it has emitted during the NDC time frame.

Similar to Brazil, the **EIG** argues that references contained in the **NDCs** regarding emissions and level of emissions to be achieved with the NDC **need to be or to include an absolute number in terms of tCO_2eq**. That is, for accounting purposes BAU-intensity or non-GHG targets would need to be translated into an absolute number in tCO_2eq that would accompany the NDC.

2.5.3 Corresponding Adjustments

The COP decision adopting the Paris Agreement in para 36 specifies that the guidance for cooperative approaches needs to include guidance "to ensure that double counting is avoid-

ed on the basis of a corresponding adjustment by Parties for both anthropogenic emissions by sources and removals by sinks covered by their nationally determined contributions under the Agreement".

Previous discussions clarified that there are several types of double counting risks, including double registration, double issuance, double usage and double claiming.

Brazil posits that the **quantification of NDCs** in terms of quantified contribution units will not only ensure comparability of tradable units, but also **provide a robust accounting framework** to ensure double counting is avoided.

Parties wishing to engage in Art. 6.2 activities should in their view be required to establish and maintain a **national registry** to ensure the accurate accounting of the issuance, holding, transfer, acquisition, cancellation and retirement of units. For Parties that wish to engage in 6.2 but do not want to maintain their own national registry, a "**multilateral registry**" should be made available by the secretariat.

The secretariat should also establish and maintain an **international transaction mechanism** to verify the validity of transactions, including issuance, transfer and acquisition between registries, as well as cancellation and retirement of units.

Corresponding adjustments should occur in every international transfer of mitigation outcomes towards NDC, by means of **additions and subtractions of tradable units** acquired and transferred, respectively.

Regarding Art. 6.4, Brazil argues that the **initial forwarding of units from the 6.4 registry to the 6.2 multilateral/national registry does not constitute an international transfer** and, therefore, the **corresponding adjustment is not applicable**. A corresponding adjustment will only apply when a Party that has acquired a unit from the Art. 6.4 registry later transfers that same unit to a third Party. The Art. 6.4 activities would nevertheless be required to demonstrate additionality in relation to the NDC of the host Party.

The **EIG** suggests that information necessary for corresponding adjustment in their view includes **clear and transparent information on the NDCs** of participating countries, including **scope and coverage** of the NDC; **emissions pathway** over the period corresponding to the NDC, such as definition of a multiyear GHG emissions budget; **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.

Each transfer of an ITMO shall be **reported through the biennial (update) reports** by the exporting and importing countries (**double entry bookkeeping**). The exporting country would add the quantity of CO2eq resulting from the activity to its reported emissions and the importing country would subtract the same quantity from its reported emissions in the inventory. This information would be provided separately from the inventory in the context of tracking progress towards the achievement of the NDC. At the end of the NDC period, the net transfer of ITMOs over the period is to be reported.

The EIG posits that government to government transfers do not necessarily require elaborated registries but only accounting formats and reporting procedures. However, **allowing transfers of ITMOs to other stakeholders would require registries**. 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**.

Japan holds that it is extremely important to avoid double counting and recalls that is has provided a **detailed discussion of options** in its previous submission.

The **LDCs** maintains that to avoid double counting all Parties that intend to transfer or acquire ITMOs must maintain a **national registry**. In addition, **all transactions must be approved and recorded by a centralized oversight mechanism**.

3 Cooperative Approaches

3.1 Overview

On Art. 6.2, two sets of issues continue to receive most attention: the scope of cooperative approaches and the scope of the guidance and governance.

3.2 Scope of Cooperative Approaches

In contrast to the previous round of submissions, few of the recent submissions discuss the nature of ITMOs. Those that do, **AILAC and EIG,** posit that ITMOs should be expressed in terms of **tonnes of CO_2 equivalent** (tCO_2e).

There continues to be controversy on the scope of cooperative approaches in terms of types of cooperation. A number of submissions posit that Art. 6.2 should be a bottom-up system **allowing for any kind of cooperation** between Parties. These include **AILAC, the AGN, Canada, the LMDCs and Panama**.

The **AGN**, however, also posits that **ITMOs should not be generally fungible and tradable**, they should only be used by Parties involved in the primary cooperation. Only the Art. 6.4 mechanism would result in generally fungible and tradable units.

Brazil maintains that **Art. 6.2 is analogous to Art. 17 of the Kyoto Protocol and should not include linkages between domestic, subnational or regional emissions trading schemes**. To maintain environmental integrity, including such linkages would require imposing multilaterally-agreed rules and governance structures on each of the existing and new schemes. This would limit Parties' policy space to develop their own schemes and require existing schemes to undergo significant changes to conform to the multilateral standards.

Therefore, as under the Kyoto Protocol, domestic, subnational or regional emissions trading schemes should in their view only be indirectly relevant to the international regime, as part of countries' domestic policies, to be reported in their National Communications

The **CfRN** recalls that Art. 5 of the Paris Agreement recognises that the existing REDD+ Framework will be implemented as set out in guidance and decisions already agreed under the Convention. In their view, the **existing REDD+ Framework** extensively addresses environmental and social integrity concerns. Therefore, once REDD+ results successfully complete the agreed process under the REDD+ Framework and are posted on the UNFCCC's REDD+ Information Hub, in their view those **outcomes should be fully eligible** for international transfer under Art. 6.2, subject to the avoidance of double counting.

The **Arab Group and the LMDCs** posit that cooperative approaches should not divert efforts from domestic efforts, which in their view are the primary focus of the Paris Agreement. Accordingly, in their view participation in **cooperative approaches should be subject to quantity limits**.

3.3 Scope of the Guidance and Governance to Ensure Environmental Integrity

There continues to be a split on the question to what extent rule setting and enforcement

should be done centrally, or be left to individual countries.

The **Arab Group and the LMDCs** posit that opportunities for cooperative approaches arise because of the diverse **national prerogatives** that ultimately define NDCs and sustainable development. Accordingly, in their view the manner in which these cooperative opportunities are fostered must preserve these prerogatives and offer **flexibilities** that reflect their diversity.

Similarly, **Japan** argues that it is the **prerogative of Parties to generate, transfer and use ITMOs**. The **scope of the international guidance should in their view be limited to the accounting** towards the achievement of NDCs, while promoting sustainable development and ensuring environmental integrity and transparency, should be carried out under the responsibility of the Parties engaging in the cooperative approaches.

By contrast, the **AGN** posits that governance of Art. 6.2 should involve a **supervisory board**. Governance would include responsibilities before and after implementation of activities, including oversight over third-party verification.

They suggest that for the sake of consistency, all the mechanisms of Art. 6 may have the same supervisory board with 3 windows having specific functions to be defined.

As noted above, **Brazil** also envisages **international rules and governance** to safeguard environmental integrity.

The **LDCs** similarly maintain that Art. 6.2 shall be operated by **centralized oversight**, which would be operated by the Secretariat under the guidance of a Board.

4 Article 6.4 Mechanism

4.1 Overview

Apart from cross-cutting issues as discussed in chapter 2, the points raised in the submissions on the 6.4 mechanism particularly relate to the following issues:

- Scope of the mechanism;
- Institutional Arrangements;
- Methodologies and accounting;
- CDM transition issues.

4.2 Scope of the Mechanism

AILAC suggests that the mechanism should consider the flexibility mechanisms of the **Kyoto Protocol as a basis**. They also propose that the mechanism's governing body could also **allow other international mechanisms** to generate mitigation outcomes, once they have gone through a process of periodic **certification**. In addition, cooperative approaches under 6.2 and the mechanism/s under 6.4 could be linked by transferring mitigation outcomes generated under the latter to cooperative approaches under 6.2.

They envisage that the mechanism could include a range of activities including **project-based, programmatic, sectorial and others**.

The **AGN** suggests that scopes of activities should be **project-based and PoAs** in all sectors as a **starting point**. More scopes could be assessed in the future for inclusion under the mechanism, such as REDD+ or policy crediting.

Brazil stipulates that the scope, elements and requirements of Article 6, paragraphs 4 to 6, and of paragraph 37 of Decision 1/CP.21 clearly indicate that the mechanism is **analogous to the CDM**.

The **CfRN** notes that according to Art. 5 of the Paris Agreement REDD+ is to be implemented according to guidance and decisions already agreed under the Convention. Therefore, in their view **REDD+ activities will likely not participate** under Art. 6.4 as any further decisions related to REDD+ would prejudice Art. 5.

The **EU** suggests that Art. 6.4 should facilitate participation by all Parties at the level of a **project, a programme or a sector.** It should be applicable to **various forms of cooperation**, which may include the use as an instrument for offsetting, for climate finance and the promotion of sustainable development. In addition, they suggest that Parties may wish to use the mechanism to assist in implementation of domestic instruments. In their view, this implies a more modulated architecture and different levels of supervision, assessment, validation and registration.

Venezuela opines that the mechanism could have many uses, and **no alternative** that any Party might deem of use **should be excluded**.

4.3 Institutional Arrangements

Brazil suggests that the **supervisory body** of the new mechanism should **succeed to the CDM Executive Board in virtually all aspects**, including, but not limited to, its rules of procedure, code of conduct and guidelines for panels/working groups. Similarly, the **modalities and procedures for the CDM** and other related decisions, including those adopted by the CDM-EB, **should be incorporated** into the

rules, modalities and procedures for the new mechanism.

The **EIG** highlights the following responsibilities for the governing body:

- Develop **tools and standards** for additionality, baselines, MRV, permanence, and others,
- 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.

Japan suggests that **membership** of the supervising body should ensure **better representation of all Parties** than was the case in the CDM. It should in their view not be based on the Annex I and non-Annex I Party categories.

Panama notes that the governance of Art. 6.4 is fairly well defined in the Paris Agreement and the adopting decision, but there are nonetheless a number of **issues for further discussion**, including: composition of the supervisory body; role of the supervisory body; responsibilities of the different bodies involved in the process; communication processes; any functions currently not fulfilled; relationship between the regulator and the other bodies for the different scopes of the mechanism; how to adapt a supervisory body to more than one scope.

4.4 Methodologies on Additionality and Baselines

The **AGN** suggests that MRV under the new mechanism should **build on the CDM project cycle** process and third party verification system.

Brazil suggests that Art. 6.4 activities would be required to demonstrate **additionality in relation to the NDC of the host Party**. In the context of article 6.4, a business-as-usual scenario is in their view a scenario in which Parties are expected to implement their NDCs and associated national policies.

The **EIG** outlines a number **of requirements for the demonstration of additionality**:

- 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**.
- Emission reductions shall be quantified in CO_2eq.
- **Conservative assumptions** shall be made when estimating the emission reductions.
- Baselines shall be set **well below conservative estimates of current efforts**.
- **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.
- Activities shall ensure **irreversibility**, or in case of reversibility, measures to compensate for a possible reversal shall be implemented.

The **EU** similarly outlines a list of requirements to ensure environmental integrity and ambition:

- **baselines are to be much more ambitious** from the beginning, e.g. by using best available technologies (BAT) or benchmarking;

- baselines may need to be **dynamically updated**, and **crediting periods will need to reflect NDC timelines** and enable progression of ambition and scope;
- rules implementing additionality requirements will need to be reconsidered and strengthened given experience to date, the presence of NDCs, national policies and allow for increasing of ambition.

The **LDCs** suggest that a **hybrid approach** should be applied in the establishment of the new mechanism: If a project activity is carried out in a sector outside the NDC, similar rules as in the **CDM** should apply; if a project activity is carried out in a sector within the NDC, rules similar to **Joint Implementation** should apply.

Similar to the EIG, they suggest that the Board may create a **positive list of activities that have a high likelihood of additionality**. Such projects would be the only ones eligible.

They also suggest that **crediting periods should be limited** and subject to review so as to account for the working life of technologies and changes in additionality due to technological progress through time. The Review should follow 5-year cycles, around the 5-year stocktake under Art. 14.

4.5 Transition from the CDM

A number of Parties argue that CDM projects should be transitioned into the new mechanism.

The **AGN** urges **not to lose mitigation activities** on the ground and their scaling up potential due to the regime change.

Brazil argues that the ability of the climate regime to ensure continuity and a smooth transition from the CDM to the new mechanism will be key to the **reputation** of the Convention. A smooth transition in their view entails assurance on (i) the use of existing CDM **methodologies** and the accreditation system under; (ii) the continuation of **issuance** to registered CDM projects; and (iii) **eligibility of existing CDM CERs**.

Panama similarly argues that not ensuring a smooth transition from the Kyoto mechanisms to the new Art 6.4 will certainly further erode **trust** in carbon markets.

The **EIG** is open to transitioning projects but notes that this may involve that **projects** are **adapted to the new rules and fully reassessed** if they fulfil the new requirements, especially regarding additionality, baselines and the application of the accounting rules of Art. 6.

The **EU** stipulates that the **mechanisms** defined under the **Kyoto** Protocol **shall not continue** after the second commitment period. Substantive **discussion of transitional arrangements** should in their view **only** occur **on the basis of agreement on the core elements of the implementing rules under Articles 6.4.**

5 Non-Market Approaches

The submissions on non-market approaches remain at a rather general level. They mostly revolve around defining non-market approaches and identifying possible ways forward for the discussion.

Most submissions define non-market approaches as cooperative approaches where **no transfer of units** occurs. These submissions include the **AGN, AILAC, AOSIS, the EIG, and the LDCs.**

The **AGN** suggests that the framework for non-market approaches must **enhance the linkages and synergies between existing mechanisms** without duplication and provide funding for developing countries' NDCs. They suggest to organise a process under a coordinating body to collect suggestions from Parties and accredited observers on where linkages and synergies can be promoted by the framework.

They opine that a **tracking and/or reporting mechanism** is needed because potential mitigation and adaptation outcomes will be used against Parties' NDCs.

AILAC suggest to **limit** the **work programme to initiatives** that are **not developed anywhere else under the UNFCCC**. They suggest that examples could be **development of NAMAs, reduction of black carbon and joint initiatives for the conservation of oceans and other ecosystems**.

AOSIS suggests that the work programme could **build on the outputs of the Technical Examination Process on Mitigation (TEM) and the Technical Examination Process on Adaptation (TEP-A).** Initial topics for the work programme could include progressing on the reduction, removal or reform of fossil fuel subsidies; increasing deployment of renewable energy technologies in power generation; or opportunities to phase out inefficient and polluting technologies.

The work programme modalities could **explore policy approaches Parties have undertaken or are planning** to take in implementing their NDCs, to leverage and generate mitigation and adaptation co-benefits. The outputs of the work programme may provide **input to the Green Climate Fund or to other initiatives**.

The **EIG** highlights that it is crucial that discussions under Art. 6.8 **do not duplicate other work** under the UNFCCC and in other multilateral fora. They suggest **examining concrete and relevant areas of cooperation** such as encouraging the use of international sustainability standards and global environmental labels, removal of inefficient fossil fuels subsidies and encouraging measures to lower climate-related risks .

The **EU** reiterates the proposal in its previous submission on **taking analytical steps to identify relevant non-market instruments, existing linkages and synergies and opportunities to increase linkages and synergies**. As others, the EU cautions **against duplicating work** under other provisions of the Paris Agreement.

The **LDCs list some approaches** that could be applied, such as appliance efficiency standards, fuel economy standards, feed-in tariffs, joint adaptation and mitigation activities such as planting trees on lands subject to the effects of climate change.

In their view, non-market approaches should **focus on capacity building and technology transfer**. It should be a system **of centres of**

excellence to assist Parties engage in low carbon economy technologies.

The **LMDCs** suggest to **develop a registry of needs identified by Parties** for the implementation of their NDC, complemented by **a facility to match the articulation of needs with finance, technology transfer and capacity building**. In addition, they suggest establishment of an **information-sharing process** for the development and implementation of non-market approaches **at the national, regional, and international levels**, including sharing of best practices and lessons learned.

Uganda proposes the establishment of an **Adaptation Benefits Mechanism (ABM).** They envisage the ABM as a **results-based mechanism to create incentives for the private sector** to finance the incremental costs of activities with the view to deliver adaptation, joint adaptation & mitigation and other benefits.

The ABM incentives will be in the form of measurable and verifiable units, for instance Adaptation Benefit Units (ABUs). ABUs would not be transferrable to third parties, but could only be forwarded from project owner to investor.

They envisage that investors will be incentivized by the prospect of receiving verifiable and credible ABUs in exchange for funding, which will help them justify, communicate or demonstrate how their investments are helping to meet the needs of affected communities.

6 Further Process

AILAC calls for **prioritizing** discussions on the **definition of ITMOs, accounting of ITMOs**, the **modalities of the 6.4 mechanism and the relationship between Articles 6.2 and 6.4**.

The **AGN** suggests to first work on **operationalization of overall mitigation** under Art. 6.2 and 6.4, operationalization of the **share of proceeds** under Art. 6.2 and 6.4, and options for **corresponding adjustments**.

The **Arab Group** maintains that the development of **Art. 6.8-6.9 should move together with and complement Art. 6.2 and 6.4**.

Canada suggests to **agree promptly on key elements of and timelines** for a Work Programme to make **Art. 6.2** operational. To this end, SBSTA 46 should **agree on issues that can serve as headings** for the development of guidance. Canada suggests:

- Maintaining Flexibility to Facilitate Bottom-up Approaches to Carbon Markets
- Quantifying and Reporting Emissions Reduction Units
- Ensuring Robust Accounting and the Avoidance of Double-Counting
- Ensuring Consistent Measurements of Mitigation Outcomes that will be Transferred Internationally
- Ensuring Transparency
- Ensuring Environmental Integrity

Canada also suggests to identify overlaps and interactions with articles 4 and 13, and their significance for work leading up to COP 24.

At COP23, in Canada's view Parties should agree on the scope of the guidance on Art. 6.2, agree on a **common understanding of what constitutes and does not constitute an ITMO**, address **ITMOs derived from reductions that are outside the scope of NDCs**, and **how to correspondingly adjust** to ensure that double-counting is avoided.

Canada also suggests a Work Programme develop underlying principles and a mandate for the Art. 6.4 mechanism and its supervising body. In Canada's view, **modalities and procedures for Art. 6.4 can be established later than COP24**.

The **EU** holds that **all decisions** related to the voluntary cooperation under Article 6 should be **finalised by COP24** in order to provide certainty for Parties and practitioners. Regarding Article 6.2, Parties should first focus on **reporting, accounting and governance arrangements** to secure robust accounting at national and international level. Regarding Article 6.4, the EU suggests focusing on governance and design features which maintain, facilitate and enhance ambition, and in particular how a host NDC is reflected in the mechanism, including through **baselines** and baseline approaches. Regarding Article 6.8, the EU suggests focusing on core elements such as listing existing approaches, identifying synergies and how to enable their potential enhancement.

Japan suggests to discuss and **identify the elements to be included in the guidance at SB46** in May 2017 and **decide on the elements** to be included in a draft decision on the guidance at SB47 in Bonn **in November 2017**. The draft guidance should be developed at SB48 in May 2018 and finalized at SB49 to recommend a draft decision for adoption at COP24 in November 2018.

Kuwait notes that so far there is no **clear definitive definition of the non-market approaches** and its framework. Kuwait therefore requests

the secretariat and the co-facilitators to raise this issue at SBSTA 46.

Similar to Canada, **Panama** suggests to focus on **headings** for the work programme to COP 24, and ensure that this programme is defined at the end of SB 46. Once the headings are defined, Parties can focus on substantive discussions and define options.

New Zealand suggests that next steps should include **synthesis reports and technical papers** prepared by the secretariat as well as **workshops** to develop elements of the guidance, and modalities and procedures.

7 Summary and Conclusions

Compared to the 2016 round of submissions, some conceptual advances can be noted. However, a number of issues continue to be controversial with little indication of a convergence of views.

Raising Ambition

Not all submissions discuss the issue of raising ambition in detail. Some posit that linking carbon pricing systems will by itself allow Parties to be more ambitious in their NDCs by making use of lower marginal abatement costs and/or foreign direct investment. However, compared to the last round of submissions there are substantially more views that raising ambition will need to be build into the system. The suggestions include:

- limiting eligibility for transfers to absolute emission reductions;
- making Art. 6.4 a tool for voluntary action by the private sector;
- requiring a discounting of reductions to achieve a global net reduction;
- reviewing Art. 6 transfers in the 5-yearly stocktake and excluding Parties where transfers have not contributed to increasing ambition from future participation;
- managing the supply of units to keep prices stable.

Promoting Sustainable Development

As in the past, the views on sustainable development mainly revolve around the question of whether the provisions on cooperative approaches and the new mechanism should include international provisions on the promotion of sustainable development, or whether these should be left to the host countries. In particular developing countries posit that sustainable development issues are a national prerogative and should therefore not be subject to multilateral analysis under the UNFCCC. Others suggest that the UN Sustainable Development Goals provide a universal definition of sustainable development that could be used for assessing activities.

The submissions do not show any level of conceptual advancement compared to the previous round of submissions.

Promoting Environmental Integrity

While some note that there is no clear, universally adopted definition of the term, most submissions converge on a view that environmental integrity means that one carbon unit represents one ton of CO_2e and is counted only once towards a commitment.

One submission posits that environmental integrity should also address potential areas of conflicts with other environment-related aspects, for example, the conservation of biodiversity.

Some Parties suggest that there should be limitations on the use of transfers to protect from risks to environmental integrity. Suggestions include:

- Limiting eligibility to sectors that are quantifiable and easy to measure and provide lasting emission reductions,
- ITMOs should not be bankable
- ITMOs, if not used, should be automatically cancelled after a reasonable time.

- ITMOs should only be transferred once from the Party reducing emissions to the Party receiving the ITMOs for compliance with their NDC.
- Limiting the share of NDC achievement that could be covered by ITMOs.

Accounting Emissions

Many submissions call for regular ongoing reporting and accounting to take place in the con-text of the broader accounting under Article 4.13 and the transparency framework under Article 13.

There still is controversy on whether participation in transfers should be limited to some types of NDCs. While some argue that participation should be open to all kinds of NDCs, others consider that countries wishing to participate in cooperative approaches and the new mitigation mechanism should be required to establish and quantify a budget of emission allowances or an annual trajectory of emissions towards their NDC objectives.

Most submissions emphasise the need for registries, with some suggesting that an international registry should be available for countries that do not wish or are not able to establish a national registry.

One submission highlights that there is a risk that countries may oversell emission reductions. The submission suggests that this risk should be addressed under Art. 15 on compliance.

Scope of Cooperative Approaches

In contrast to the previous round of submissions, few of the recent submissions discuss the nature of ITMOs. Those that do posit that ITMOs should be expressed in terms of tonnes of CO_2 equivalent.

However, there continues to be a split on what cooperative approaches are. While some hold that the concept should include any kind of cooperation between two or more countries seeking to transfer mitigation outcomes, others hold that Art. 6.2 should only provide for international transfers of mitigation surpluses for the achievement of NDCs. In their view Art. 6.2 is not to cover domestic, subnational or regional emissions trading schemes.

One submission posits that mitigation outcomes resulting from the REDD+ Framework under the Convention should be fully eligible for transfers under Art. 6.2.

Governance of Cooperative Approaches

There also continues to be a split on the question to what extent rule setting and enforcement for cooperative approaches should be done centrally, or be left to individual countries. Some countries propose to provide flexibility to "bottom-up" approaches, where Parties themselves would demonstrate environmental integrity. Other countries posit that oversight by the implementing countries alone is not sufficient to ensure environmental integrity. They maintain that integrity can only be ensured if rules and governance structures are multilaterally-agreed and accountable to all Parties to the Paris Agreement.

What Types of Activities under the Art. 6.4 Mechanism?

Compared to the last round of submissions, there seems to be a growing consensus supporting an "inclusive" approach in which projects, programmes of activities and sectoral approaches should all be eligible under the mechanism. Only one submission envisages the mechanism to operate only at the project level, with rules very similar to those of the CDM.

Only few submissions discuss governance and methodological issues on Art. 6.4. There is this little basis to identify convergence/divergence of views.

Transition from the CDM

A number of Parties argue that CDM projects and credits should be transitioned into the new

mechanism. They urge not to lose ongoing mitigation activities and to not further erode trust in carbon markets. On the other side, some Parties require more clarity on Art. 6 before discussing transition issues or note that projects would need to be fully re-assessed before being transitioned to Art. 6.

Non-Market Approaches

The submissions on non-market approaches are in essence repetitions of the last round of submissions.

The Like-Minded Developing Countries reiterate their suggestion that the framework should facilitate access to finance, technology transfer, and capacity building for mitigation and adaptation, and contributing to map and register needs of countries and assisting them in matching them with means of implementation.

Other countries reiterate their concern to avoid duplication of work with other processes under the UNFCCC. They suggest to focus discussions on possible synergies and coordination in non-market cooperation.

These countries also reiterate their suggestions for specific issues that could usefully be tackled under the new framework, such as fossil fuel subsidy reform, or phasing inefficient and polluting technologies.

Further Process

A number of submissions make suggestions on what questions to prioritise, but these priorities differ. Two submissions suggest to first identify a list of headlines for the further discussions before moving into substantive negotiations.

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