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Shaping the Paris Mechanisms Part III An Update on Submissions on Article 6 of the Paris Agreement

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Contents

Summary	II
1 Introduction	5
2 Cross-Cutting Issues	6
2.1 Overview	6
2.2 Raising Ambition	6
2.3 Sustainable Development	6
2.4 Environmental Integrity	7
2.5 Accounting	8
3 Cooperative Approaches	13
3.1 Overview	13
3.2 Scope of Cooperative Approaches	13
3.3 Scope of the Guidance and Governance	14
4 Article 6.4 Mechanism	17
4.1 Overview	17
4.2 Scope of the Mechanism	17
4.3 Institutional Arrangements	18
4.4 Overall Mitigation	19
4.5 Methodologies on crediting, additionally and Baselines	19
4.6 Transition from the CDM	20
5 Non-Market Approaches	22
5.1 Definition and elements of possible non-market approaches (NMAs)	22
5.2 Framework for NMAs	22
6 Synopsis	25

Summary

Article 6 of the Paris Agreement establishes 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 October 2017 to identify points of controversy and convergence. It builds on a previous papers which summarised views submitted in September 2016 and March 2017.

Raising Ambition and Promoting Environmental Integrity

While the Paris Agreement mandates that Art. 6 should contribute to increasing climate ambition and promote environmental integrity, many submissions do not discuss these issues in detail. Those that do exhibit a wide divergence of views, with calls for ambitious action on the one hand and calls to have only minimum requirements on the other.

The African Group of Negotiators (AGN), the EU and New Zealand put it into the context of environmental integrity.

The AGN considers it imperative that cooperative approaches result in an increase of ambition. Mitigation outcomes can in their view only be traded if the cooperation has resulted in a greater level of mitigation than would have occurred in the absence of the cooperation. Parties involved must in their view demonstrate how they safeguard environmental integrity and sustainable development; this reporting would be subject to expert review, and Parties would only be allowed to use ITMOs towards their NDCs in case of positive expert reviews.

Canada similarly suggests that environmental integrity means that the generation and use of ITMOs must reduce overall global emissions.

The EU and New Zealand posit that environmental integrity needs to be related to the Agreement's more general principles, in particular the long-term goal, the progression of NDCs over time, and the requirements that NDCs should reflect the highest possible ambition and move over time towards economy-wide emission reductions. New Zealand further specifies that long crediting periods or crediting against BAU are not compatible with the Agreement's requirements.

The Arab Group and the LMDCs have a diametrically opposite position. They declare that the special character of Art. 6.2 lies not in the production of mitigation outcomes, which is also addressed in other parts of the Agreement, but rather in their transfer. For this reason, environmental integrity should in their view be related to the transfer of mitigation outcomes while the mitigation outcomes themselves are the prerogative of Parties.

Thailand similarly wants to establish only minimum criteria on environmental integrity. No discount or exchange rates or similar approaches should be introduced.

Promoting Sustainable Development

The submissions that are so far available seem to indicate that the controversy on whether or not to have international provisions on sustainable development may be over. Most submissions that discuss sustainable development agree that the definition of sustainable development and the determination whether activities contribute to sustainable development is a national prerogative. At the same time, most

submissions suggest that Parties should be required to report on how their use of Article 6 is promoting sustainable development. The EU is the most specific on this issue, suggesting comparable reporting on the basis of the Sustainable Development Goals. A number of submissions also suggest that an international tool like the CDM sustainable development tool could be helpful to assess activities in a comparable manner, with use on a voluntary basis.

The EU and Tuvalu also discuss human rights in this context. The EU suggests that host Parties should confirm that activities are in conformity with their respective obligations on human rights, while Tuvalu proposes that all units traded under Articles 6.2 and 6.4 would need to include a certificate indicating that the units traded or received have not resulted in environmental harm and have not adversely affected any human rights.

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.

Most submissions maintain that Article 6 should have an inclusive approach, allowing participation of all countries irrespective of the types of their NDCs. However, Tuvalu posits that only Parties to the Paris Agreement that have quantified their NDCs should be eligible to trade emissions under Article 6.2 and to host activities under Article 6.4.

There is controversy on whether there is a need for corresponding adjustments if mitigation actions take place outside the host country's NDC boundary. Japan stipulates that the Art. 6.2 guidance should ensure incentives for Parties to increase the coverage of sectors under their NDCs. They therefore suggest that irrespective of whether credits are transferred or generated inside or outside a Party's NDC coverage, they

should in both cases be added to its emissions or deducted from its removals. By contrast, the AGN holds that corresponding adjustments would not apply if emission reductions are outside the scope of the transferring country's NDC, or if units are cancelled instead of being used for NDC compliance. In their view, the main reason why a sector is not included in an NDC is usually lack of quality data. Instead of penalising such sectors, Article 6 should in their view be used to improve data availability and thereby prepare integration in future NDCs.

Brazil continues to maintain the view that corresponding adjustment is only applicable in the context of Art. 6.2 and in the case of one Party transferring acquired Art. 6.4 units to another Party, but not to the initial forwarding from the Art. 6.4 registry to the 6.2 multilateral registry.

Scope and Governance of Cooperative Approaches

Consensus on what cooperative approaches are continues to be elusive. Many submissions hold that cooperative approaches should include any kind of cooperation between two or more countries. By contrast, Brazil's submission is not explicit on the issue, but the table of contents it proposes for the Art. 6.2 guidance suggests that it continues to see Art. 6.2 as analogous to Art. 17 of the Kyoto Protocol. The AGN similarly suggests that cooperation could take many shapes, but ITMOs are in their view a bookkeeping unit reflecting the net balance of trades and do not constitute carbon credits or a type of commodity. They posit that ITMOs are neither issued, nor can they be held, traded, cancelled, banked, or be used by private entities to fulfil commitments. Tuvalu similarly holds that use of cooperative approaches should be limited to trading emission reductions that are in excess of a Party's NDC. Units can in their view not be sold to other Parties after the first transaction, nor be traded in secondary markets.

Most of the submissions that are available so far are in favour of limited international oversight.

What Types of Activities under the Art. 6.4 Mechanism?

In contrast to the Kyoto Protocol, the Paris Agreement does not specify that the new “sustainable development mechanism” is about “projects”, raising the question of the level of aggregation of activities (projects, programmes and/or sectors). Most submissions suggest that the new mechanism should include all types of mitigation activities at all scales. By contrast, Brazil continues to maintain the view that the new mechanism should be similar to the CDM.

The AGN and New Zealand suggest staging the development of regulations for different types of activities. New Zealand proposes starting with project-based activities based on existing experience and then moving to other types.

Overall Mitigation of Global Emissions

While the Paris Agreement foresees that the new mechanism shall contribute to an overall mitigation of global emissions, only a few submissions discuss how to operationalise this objective. New Zealand notes that a definition of overall mitigation is so far lacking and suggests it should mean that not all the mitigation outcomes achieved by an activity are credited to the activity.

The EU, Japan and New Zealand consider that the concept needs to be reflected in accounting rules and methodologies, with Japan and New Zealand suggesting conservative baselines. By contrast, Brazil claims that the additionality requirement ensures that emissions are tackled at a level that goes beyond what would be achieved through the delivery of the host Party's and the acquiring Party's NDCs in aggregate.

Transition from the CDM

There is a controversy on whether to prioritise discussions on transition from the CDM. In par-

ticular the AGN and Brazil see this as a matter of urgency in order not to waste the mitigation potential of existing projects and to protect the credibility of international mechanisms. The Arab Group and Brazil also call for the transposition of rules, methodologies, infrastructure and accreditation.

By contrast, the EU, Japan and New Zealand are against easy transposition of regulations and activities. The EU and New Zealand maintain that CDM activities would need to be re-assessed against the new mechanisms regulations prior to adoption into the mechanism.

Non-Market Approaches

The submissions on non-market approaches do not indicate substantial conceptual advances.

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.

New Zealand suggests a novel idea for how to move forward. They propose to relocate the Technical Examination Process (TEP) and Technical Expert Meetings (TEMs) into the Article 6.8 work programme. They argue that the TEP and TEMs are established processes for considering policy approaches that fit well with the purposes of Article 6.8. In this way, Parties could cooperate on ambition, maintain an existing space where ideas and relationships are built, and expert advice is made available to all Parties.

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 has conducted discussions at various sessions and invited three rounds of submissions of views. This paper summarises the views submitted in the third round in October 2017 to identify points of controversy and convergence. It builds on two previous papers which summarised the views submitted in September 2016 and March 2017.¹

The paper 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. Wuppertal: Wuppertal Institute for Climate, Environment and Energy. www.carbon-mechanisms.de/en/2016/shaping-the-paris-mechanisms/
 Obergassel, Wolfgang (2017): Shaping the Paris Mechanisms Part II - An Update on Submissions on Article 6 of the Paris Agreement. Wuppertal: Wuppertal Institute for Climate, Environment and Energy. <http://www.carbon-mechanisms.de/en/2017/auswertung-der-art-6-submissions/>

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:

- 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

Canada suggests that in order to raise ambitions promptly the Parties should figure out how the accounting **guidance** could be **designed** in a way that **initiatives are enabled in the short term** while leaving room for continuing improvements in emissions inventories.

The **African Group of Negotiators (AGN)**, the **EU and New Zealand** discusses ambition in re-

lation to the concept of environmental integrity, see below.

2.3 Sustainable Development

The AGN posits that criteria for sustainable development must be defined at **national level** and that progress should be supervised at national level by a designated national authority. At the **international level, reporting** should be on a **voluntary** basis, with **reporting guidelines** that do not establish undue burdens on developing countries. Further, they suggest that a **tool** like the CDM sustainable development tool could as well be used voluntarily.

The submissions from the **Arab Group and the Like-Minded Developing Countries (LMDCs)** are nearly identical on this issue. They maintain that the definition of sustainable development is a **national prerogative**. They nonetheless suggest that **tools** for sustainable development could be developed under Art. 6.8 and then be applied to the other parts of Art. 6. They highlight in particular the relevance of potential negative impact of response measures.

Canada posits that it is the **prerogative of Parties** to determine in which way cooperative approaches add to sustainable development. Nevertheless, it suggests that **reporting requirements** could include requirements for Parties using ITMOs to describe how the cooperative approach promotes sustainable development.

The **EU** state that all approaches and activities in the context of the mechanisms under Art. 6 should be in accordance with the **Sustainable Development Goals**. The Parties should **report** in a comparable manner on how they promote

sustainable development. They suggest that a **tool** to assess the contribution of activities to the SDGs should be adopted, to define comparable standards and indicators. Host Parties should in their view also confirm that activities are in conformity with their respective obligations on **human rights**.

Thailand expresses that the determination of the sustainable development contribution from cooperative approaches is a **national prerogative**. Guidance should therefore respect national sovereignty and the fact that sustainable development is defined by national processes. Thailand nonetheless suggests that **guiding principles** should be developed in order to support parties in promoting sustainable development. These principles should consider the following aspects:

- Contribution to environmental, social and economic aspects of development;
- Provision of adaption co-benefits, including through a share of proceeds or other relevant approaches;
- Facilitation of technology development and transfer;
- Promoting access to financial resources;
- Strengthening capacity of developing countries.

Furthermore, Parties which use ITMOs achieving their NDC should demonstrate in their **reporting** how they are supporting sustainable development in the host country.

Tuvalu suggests that all units traded under Articles 6.2 and 6.4 would need to include a **certificate** indicating that the **units** traded or received have **not resulted in environmental harm and have not adversely affected any human rights**.

2.4 Environmental Integrity

The **AGN** consider it **imperative** that cooperative approaches result in an **increase of ambition**. Mitigation outcomes can in their view only be traded if the cooperation has resulted in a greater level of mitigation than would have occurred in the absence of the cooperation. Furthermore, it should be ensured that no perverse incentives are established. They suggest to apply the same standards to activities under Art. 6.2 as to activities under Art. 6.4 "if they are similar in nature". Parties involved must in their view demonstrate how they safeguard environmental integrity and sustainable development, this **reporting** would be **subject to expert review, and Parties would only be allowed to use ITMOs towards their NDCs in case of positive expert reviews**.

The Arab Group and the **LMDCs** declare that the special character of Art. 6.2 lies not in the production of mitigation outcomes, which is also addressed in other parts of Agreement, but rather in their transfer. For this reason, **environmental integrity** should in their view be **related to the transfer of mitigation outcomes** while the **mitigation outcomes themselves are the prerogative of Parties**.

Canada suggests that environmental integrity in relation to market mechanisms means that the generation and use of ITMOs must **reduce overall global emissions**. In their view it is therefore necessary to:

- Provide confidence in the integrity of ITMOs;
- Require robust tracking, reporting and accounting of ITMOs;
- Not undermine the integrity of NDC achievement.

The **EU** posits that ensuring environmental integrity reflects the **more general principles** established by Article 2 (on the long-term goal),

Article 3 (on progression over time) and by Article 4 (on NDCs and accounting). In order to ensure environmental integrity, it will be necessary that the guidance under Article 6(2) 'allows for higher ambition' (Article 6(1)), that each Party's successive NDC 'represent a progression' and 'reflect its highest possible ambition' (Article 4(3)), and that Parties 'move over time towards economy wide emission reductions' (Article 4(4)).

The EU suggests that **additional rules** may be needed to ensure that the **use of ITMOs does not result in higher global GHG emissions** than if the NDCs were achieved only through domestic mitigation actions.

New Zealand believes that the possibility for Parties to **share costs and opportunities** will result in greater climate action than if they were limited to their domestic options. **It also highlights** that effective robust accounting is needed to ensure environmental integrity. It goes into particular detail in its submission on Article 6.4 and takes a position very similar to the EU's. New Zealand highlights that achievement of real, measurable and long-term benefits, additionality, verification and certification are key to environmental integrity. Moreover, it stipulates that the **overall goals of the Paris Agreement** need to be taken into account. In their view, **long crediting periods or crediting against BAU are not compatible** with the Agreement's requirements for all Parties to make mitigation contributions and to demonstrate progression over time, alongside the goal of net zero global emissions in the second half of this century. New Zealand calls for this context to be reflected in the mechanism's approach to additionality, baseline setting and crediting length. Moreover, the mechanism should not disincentivise progression in the ambition of NDCs nor broadening the scope of NDCs over time.

Since ITMOs should fulfil a universal standard, **Papua New Guinea (PNG)** suggests introducing **UNFCCC-ISO certificates** for ITMOs. PNG

suggests four steps which projects or mitigation activities that want to provide ITMOs should follow.

- 1) Submission of a registration request through the Designated National Focal Point.
- 2) The focal point may subject the project/s to a UNFCCC Environmental Integrity Review process, which subjects the interested projects to the guidelines adopted by the CMA. Whether the project meets the standards would be assessed by specialised reviewers.
- 3) Projects which fulfil the required standards should have their units be compiled and registered in a national system as ITMOs.
- 4) When the transfers of ITMOs are taking place, then the ITMO receives an ISO-UNFCCC certified label.

Thailand wants to establish only **minimum criteria on environmental integrity**. Guidance should provide flexibility to respect special national circumstances and avoid undue burdens. **No discount or exchange rates or similar approaches** should be introduced.

2.5 Accounting

2.5.1 General Accounting Issues

According to the **EU**, robust accounting for activities under Art. 6.2 requires that:

- the participating Parties have reported
 - information on the scope and quantification of their NDCs in tonnes of CO₂ equivalent,
 - the information on the level of emissions and removals for the relevant year or _____ period,
 - the accounting balance for the relevant year or period, comprising emis-

sions and removals also covered by its NDC,

- the information on transfers and use of ITMOs by Party and by year,
- other relevant information;

- the reported information is being reviewed prior to its recording;
- the reviewed information is being recorded in a centralised accounting database.

The **EU** encourages establishing a **centralised registry or system of registries** which record the generation, transfer and use of ITMOs by Parties. It proposes to establish a **centralised accounting database** supervised by the Secretariat and defined and elaborated in the guidance. The purpose of a centralised accounting database would be to track progress and accounting for NDCs. This would include:

- The information on the scope and NDC quantity in CO₂ equivalent;
- The information on the Party's current level of emissions and removals covered by its NDC;
- The accounting balance determined in accordance with guidance on the basis of reported emissions and removals covered by each participating Party's NDC;
- The corresponding adjustments to the accounting balances of participating.

The EU as well states that accounting and transparency requirements need to be consistent and hints at inter-linkages with Art. 4.13 and Art. 13.7. Furthermore, further considerations of timing and the scope of information under Art. 13.7 are needed.

Apart from this, the modalities and procedures of Art. 6.4 should reflect the inter-linkages with Art. 4.3 and Art. 4.4. Furthermore, there is a need for coherence with related items like the transparency framework and accounting rules

under Art. 4.3. An additional inter-linkage exists with Art. 13.7.

The EU considers the avoidance of double counting as a central element within the context of environmental integrity. Suggested measures to avoid double counting are in their view:

- The quantification of NDCs through the reporting process;
- The quantification of an accounting balance based on actual emissions;
- The adjustment of the accounting balance in accordance with guidance on accounting and corresponding adjustment provisions;
- A centralised review system subject to common rules (either through a single centralised registry, or multiple registries operating as a system).

Japan clarifies that the credits/ units to quantify emission reduction should represent one metric tonne of carbon dioxide. Japan encourages developing a **common understanding of double counting** and preventive measures. Suggested categories are:

- Double registration
- Double issuance
- Double usage
- Double claiming

Japan also suggests a template for reporting date on issuances, transfers and use of units under Article 6.

PNG wants to establish a common accounting framework that promotes environmental integrity. To avoid double counting, the ISO-UNFCCC certified units could also be used in schemes related to ICAO and IMO. Only the names would differ.

Thailand states that transfers and acquisition of ITMOs should be recorded in a **registry** to track

progresses. It points to the inter-linkages between Art. 6, 4 and 13. For that reason, guidance on the matter of accounting should ensure consistency and avoid duplication and prejudice.

Tuvalu states that all traded units should receive a **reference code** and should be recorded in a **national registry**. All reference codes should be recorded under the Art. 6.2 registry. They suggest that Parties would need to calculate a **“NDC Limitation Quotient”** (NLQ), meaning the total emissions reduction defined within a Party’s nationally determined contribution relative to the reference year or base year and expressed as tonnes of carbon dioxide equivalent. Units that are sold should be subtracted from the Party’s NLQ, whereas units that are bought should be added to the Party’s NLQ.

Tuvalu maintains that the participation in the trade of emissions requires a **national designated authority** to oversee the trade and the establishment of a national registry. The national designated authority should approve all trading and authorise all entities engaged in trading. The national registries should provide:

- Publicly accessible information;
- A calculation of “the total emission reduction defined within a Party’s NDC”;
- A reserve of traded units;
- A description of entities that are eligible to trade in units.

Apart from this, it should be subject to technical assessments in accordance with Art. 13. The UNFCCC secretariat should maintain an **international registry** to record all transfers, which should be easily and publicly accessible.

2.5.2 Accounting for NDC Diversity

The **AGN** maintains that all Parties to the Paris Agreement with **all types of NDCs** can engage in cooperative approaches.

The **Arab Group** and the **LMDCs** likewise stipulate that Article 6 should have an **inclusive approach**, accommodating all types of NDCs.

The **EU** stresses that different types of NDCs should result in **different rules**.

Japan suggests three approaches to use emission reductions towards the achievement of NCDs with **single-year targets**.

- 1) Cumulative: The emission reductions generated during the NDC period could be used for the achievement of the point-year target.
- 2) Same vintage: The vintage year of emission reductions will be used for the achievement of the point-year target.
- 3) Average: the emission reductions generated during the NDC period could be averaged by the NDC period and this averaged amount of emission reductions could be used for the achievement of the point year target.

Tuvalu states that units should be quantified in terms of tonnes of carbon dioxide equivalent. Only Parties to the Paris Agreement that have **quantified their NDCs** should be **eligible** to trade emissions under Article 6.2 and to host activities under Article 6.4.

2.5.3 Corresponding Adjustments

The **AGN** suggests that “ITMOs should be added or subtracted from a Party’s NDC if emissions reductions are inside the transferring Party’s NDC and be subject to reporting guidelines under Art. 13 and additional guidance from Art. 6.2.” Corresponding adjustments would **not apply if emission reductions are outside the scope of the transferring country’s NDC, or if units are cancelled instead of being used for NDC compliance**. In their view, the main reason why a sector is not included in an NDC is usually lack of quality data. Instead of penalising such sectors, Article 6 should in their view

be used to improve data availability and thereby prepare integration in future NDCs.

If a transfer of mitigation outcomes does not require corresponding adjustments, the Parties should nevertheless report on internationally transferred units in their biennial communications. To ensure that corresponding adjustments are equal, Parties that are involved in a bilateral scheme should agree on the amount of ITMOs each of them reports.

Brazil states that **corresponding adjustment is only applicable in the context of Art. 6.2 and in the case of one Party transferring its acquired Art. 6.4 units to another Party**. By contrast, a corresponding adjustment is in their view not applicable to the initial forwarding from the Art. 6.4 registry to the 6.2 multilateral registry. In their view, establishing corresponding adjustments at the initial transfer is not possible and even harmful because of three aspects:

- First, corresponding adjustment in the context of Art. 6.4 would infringe the legal text of the Paris Agreement as corresponding adjustments are mentioned only in relation to the guidance under Article 6.2 but not in relation to Article 6.4. Moreover, a corresponding adjustment at the initial forwarding would in their view violate the provision of Article 6.4(c) according to which the host Party is to benefit from emission reductions.
- Second, Brazil has technical objections. The CERs would be located in the Art. 6.4 registry and not in national accounts. Therefore, Brazil considers it as illogical to subtract units from the national account of the host Party if it did not participate in the first transaction. Moreover, the host Party's ability to reach its NDC would be restricted, which would constitute a disincentive

for countries to allow mitigation activities within their territories.

- Third, Brazil sees no danger of double counting within Art. 6.4 because it is prevented by Art. 6.5. In their view there also is no danger of double claiming due to different calculation procedures: The IPCC Guidelines for National Greenhouse Gas Inventories for actual emission levels relating to the NDC versus counterfactual estimations approved by the Executive Board for SDM/CDM mitigation.

Moreover, according to Brazil the concept of additionality leads to irrelevance of the question whether the SDM activity is within the scope of the NDC or not, as additionality requires that reductions go beyond what would be achieved through the NDC. Thus, in neither case a corresponding adjustment is required.

Canada suggests that corresponding adjustments are comparable to **double-entry bookkeeping**. This means that appropriate reporting instruments should make clear that both Parties that are relevant for the corresponding adjustment are included in the accounting for NDCs of all Parties.

Canada suggests that further discussions on cases where ITMOs are generated outside the scope of a Party's NDC are not an immediate priority and should be left for the future.

According to the **EU**, ITMOs and emission reductions resulting from mechanisms under **Art 6.4** should be subject to corresponding adjustment.

Japan stipulates that the Art. 6.2 guidance should ensure **incentives for Parties to increase the coverage of sectors under their NDCs**. Therefore, irrespective of whether credits are transferred or generated inside or outside a Party's NDC coverage, they should in both cases be added to its emissions or deducted from its removals.

Japan also states that emission reductions resulting from Art. 6.4 should be subject to corresponding adjustment in line with the guidance of Art. 6.2. The emission reductions should be reported in the registry of the Art. 6.4 mechanisms.

New Zealand includes proposed elements for the 6.2 guidance in its submission. They suggest that Parties shall provide **ITMO accounting tables in a standard electronic format**. Corresponding adjustments shall be made by subtracting from/adding to “inventory total” emissions of the relevant NDC year,

Thailand posits that simplicity should be maintained in how the corresponding adjustment is performed and that the national determination of NDCs must not be undermined.

3 Cooperative Approaches

3.1 Overview

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

3.2 Scope of Cooperative Approaches

The **AGN** explains that cooperative approaches can take “a **variety of shapes**”, for example linkage of emission trading schemes, operation of bilateral crediting mechanisms and other forms of government-to-government cooperation. The AGN define **ITMOs as “bookkeeping unit** to keep track of the exchange of mitigation outcomes between two Parties”. They are the **net balance of trades** and relate to cooperation between two or more Parties that resulted in mitigation outcomes. ITMOs do not constitute carbon credits or a type of commodity. “They are **neither issued, nor can they be held, traded, cancelled or banked**. Because of their bookkeeping nature, ITMOs cannot be used by private entities to fulfil commitments.”

The submissions by the **Arab Group and the Like-Minded Developing Countries** are nearly identical on this issue. They interpret the Article 6 mechanisms as bottom-up approaches that should **be inclusive** and consistent with national prerogatives. In their view, useful mitigation areas are mitigation co-benefits from adaptation actions as well as activities leading to emission avoidance. They emphasize that a **full spectrum of mitigation opportunities** includes various mitigation metrics like energy

efficiency and renewable energy certificates, which would in their view need to be accommodated.

Canada understands cooperative approaches in the sense of using ITMOs towards NDCs and ITMOs as being quantified in terms of carbon dioxide equivalents (tCO₂e).

Canada note that the Paris Agreement is a bottom-up approach and accordingly “Article 6, paragraph 2 is intended to create a **flexible, evolving space** that encourages the development of new and innovative bottom-up approaches and experimentation with a variety of methods”, including participation of non-Party actors.

The **EU** considers ITMOs to be amounts in CO₂ equivalents, intended for the use towards a Party’s NDC. An ITMO is used when a corresponding adjustment is duly recorded in a centralised accounting database.

New Zealand stipulates that Party to Party cooperation may take place in a **number of ways**, including linked emissions trading schemes, trading in emission reductions, Article 6.4 unit trading and government to government arrangements.

PNG emphasizes that Art. 6.2 does not evaluate existing establishments but that cooperative approaches obviously constitute a market mechanism in order to trade with ITMOs. PNG stresses that it is the sovereign **prerogative of Parties to choose and determine which mitigation measure** they wish to implement or use.

Thailand expresses the view that cooperative approaches should result in cost-effective mitigation actions and co-benefits like the promotion of sustainable development. It understands

cooperative approaches as voluntary cooperation between Parties to the Paris Agreement which is formalized through bilateral or multi-lateral agreements. ITMOs should be quantified in terms of tCO₂e and should include internationally transferred emission reductions from mechanisms under Art. 6.4 as well.

Tuvalu states that units should be quantified in terms of tonnes of carbon dioxide equivalent. In their view, use of cooperative approaches should be limited to **trading emission reductions that are in excess of a Party's NDC. Units cannot be sold to other Parties after the first transaction, nor be traded in secondary markets.**

3.3 Scope of the Guidance and Governance

According to the **AGN**, guidance should include **accounting rules for ITMOs as well as rules underlying the generation of mitigation outcomes** if not covered by Art.6.4. Furthermore, guidance under Art. 6.2 should include **an expert review** to which the Parties' reports are subjected. The guidance should define how different types of NDCs are dealt with in the context of accounting and transferring mitigation outcomes. The governance should include a technical check to ensure the similarity between the corresponding adjustments. The report on ITMOs should happen at the time of exchange, it should be subject to conforming rules and the modalities and guidelines under Art. 6.2 and related robust governance. The CMA should be the supreme body that oversees cooperative approaches. Once a year it should decide about additional guidance building on experiences.

As noted above, the **Arab Group** and the LMDCs declare that the special character of Art. 6.2 is not the production of mitigation outcomes but rather their transfer. The guidance

should therefore **focus on the transfer of mitigation outcomes while the mitigation outcomes themselves are the prerogative of Parties.**

Brazil posits that the guidance should provide rules and infrastructure for generating, transferring and accounting tradable units. Brazil suggests that the guidance constitutes an additional layer for the implementation of transparency commitments under Art. 13 and for NDC accounting under Art. 4.13. Brazil also suggests a table of contents, covering participation requirements, national systems, registries and international transaction log, quantification of NDC permitted emissions and issuance of NDC permitted emission units, limitations on trading, transfers, reporting and accounting.

Canada posits that guidance under Art. 6.2 relates to robust accounting to avoid double counting and at the same time to promoting sustainable development, environmental integrity and transparency. In its view this accounting guidance should be consistent with the general accounting rules under Art. 4, but should **relate to special risks of double counting when using ITMOs.** The guidance under Art. 6.2 should show how to produce figures for the "net inflow/outflow of ITMOs transferred/used". These figures would be used in the general accounting framework, which should include an account of all ITMOs transferred to and from the Parties plus a reference to all ITMOs applied towards the Party's NDC in the applicable years.

The **EU** states that the guidance under Art. 6.2 should be inclusive, applying to all Parties which participate in cooperative approaches and use ITMOs to reach their NDCs. The reporting and review requirements should be coordinated with the guidance under Art. 13 and Art. 4.3.

The EU elaborates on multilevel governance concerning:

- The Parties that should indicate their approval under Art. 6.3 and fulfil substantive and reporting requirements;
- a centralised accounting database;
- the reporting and review system to be elaborated under Art. 13;
- the facilitative compliance system to be elaborated under Art. 15.

The EU suggests that the guidance should include reporting obligations in respect of:

- authorisation of use of ITMOs by Parties as specified under Art. 6.3;
- information on the cooperative arrangement in respect of which ITMOs are transferred;
- reporting for the purpose of robust accounting;
- reporting for the purpose of ensuring environmental integrity and promoting sustainable development.

Japan reiterates its position that it is the **prerogative of Parties to generate, transfer and use credits/units**. They therefore suggest that the guidance referred to in Art. 6.2 should be limited to the accounting of the progress of NDCs to ensure transparency. Nonetheless, Parties should be encouraged to report on the promotion of sustainable development and ensuring environmental integrity via the transparency framework under Art. 13. Japan suggests that the format and reporting procedure should be established in accordance with the transparency framework under Art. 13.

New Zealand notes that there is **no mandate to develop rules or recommendations for a supervising body** for Article 6.2. The guidance should in their view focus on robust accounting but they express acceptance on the issue that Parties need guidance on other matters, too.

New Zealand states that governance by the Parties should be performed by a robust and

transparent system of reporting, review and multilateral consideration. Similar to Japan, New Zealand suggests that **governance should be exercised through the transparency framework**. This means:

- a) The CMA overseeing the provision of information;
- b) Technical review of Parties' reporting on use of cooperative approaches;
- c) Parties exercising the opportunity to ask questions about Parties' use of cooperative approaches through the multilateral consideration process;
- d) The CMA receiving the annual report of the Art. 15 Committee.

In their view, Parties must provide information on the requirements of Article 6.1 in their biennial communications. New Zealand therefore calls for the development of reporting guidelines in addition to the accounting guidance. Reports on robust accounting should include ITMO accounting tables.

PNG considers existing governance structures that guide the role of market mechanisms such as the governance structure of the CDM as useful. Again, PNG states the reporting should happen in accordance with the transparency framework under Art. 13. Apart from that PNG suggest that the guidance developed in the context of Art. 6.2 could also be established under Art. 6.4.

Since PNG considers the question whether there should be one global mechanism or rather a framework including regional and national schemes as still open, it makes clear that it does not favour one centralized oversight mechanism, instead it suggests:

- a) The use of existing national ETS mechanisms as long as the existing accounting rules used by the national ETS mechanisms are compatible with any

new guidance developed by parties and approved by the CMA

- b) The use of existing regional ETS mechanisms as long as the existing accounting rules used by the national ETS mechanisms are compatible with any new guidance developed by parties and approved by the CMA.
- c) The use of new and emerging ETS mechanisms with the same approach applied in (a) and (b) with regards to the guidance approved by the CMA.
- d) The development of new bilateral ETS-type mechanisms if no existing arrangements such as (a), (b) and (c) are in place to accommodate the choice from Parties who wishes to participate in any voluntary cooperative approaches.
- e) The development of issue-specific ETS-type mechanisms if possible.

Thailand suggests that the Art. 6.2 guidance should

- Provide flexibility due to different national circumstances;
- Be respectful of national sovereignty;
- Avoid the creation of undue burdens especially on developing countries;
- Take into account experiences from already existing mechanisms.

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;
- Overall Mitigation;
- Methodologies and accounting;
- CDM transition issues.

4.2 Scope of the Mechanism

The **AGN** considers the purposes of the Art. 6.4 mechanism to be enhancing ambition by enabling additional mitigation action by public and private actors and to provide a “globally vetted framework for the certification of real, measurable and long-term benefits of mitigation action as a result of global cooperation.” In contrast to the cooperative approaches it deals with the **certification of individual activities**. They argue that this mechanism is especially important for countries that are not able to develop own approaches. In their view, the mechanism could include **different classes of activities, rules for which could be developed at different speeds**. The units generated under this mechanism could be used for different purposes either by Parties or by private sector actors.

The Arab Group suggests that the modalities and procedure of the **CDM** as well as its reforms should **constitute a basis** for the modalities

under Art. 6.4. The mechanism should be applicable to **all types of mitigation activities in all sectors**. They in particular see opportunities to raise adaptation ambition by incorporating mitigation co-benefits of adaptation actions and economic diversification plans.

Brazil claims that based on the Paris Agreement the scope of the new mechanism is **similar to the scope of the CDM**. Brazil envisages the new mechanism as the ultimate international mechanism to certify climate action and issue credits.

The **EU** suggests that the **host Party should define the scope of activities** covered by the mechanism and identify their proposed contribution to the mitigation object. By that the mechanism would promote mitigation and the host party could benefit from credited activities. The EU emphasizes that the surplus (non-credited) part of the emission reduction should remain with the host Party. In this context it states that **only activities inside the scope of the NDC should be credited**, keeping in mind that an NDC can be updated any time.

PNG considers that the **implementation scope should allow flexibility** for the host parties to decide in which jurisdictional implementation scope they wish to engage as long as it does not conflict with the principles of accounting and transparency under Art. 6.5.

New Zealand considers that the mechanism should be designed to support **various types of emission reductions** with environmental integrity, like projects, programmes of activities and sectoral approaches. New Zealand states that since the full development of regulations for all types of activities is time-consuming **“staging the development”** could be useful to operationalize the mechanism for some activi-

ties as soon as possible. The SBSTA should first focus its work on developing regulations that are generally applicable or related to project-based activities. Other types of activities should be developed secondary and with the expertise of the supervisory body.

Tuvalu states that the Art. 6.4 mechanism should be **applicable to actions within and outside a Party's NDC**. Nevertheless, different accounting rules are necessary for the different cases and Parties that act outside their NDC should be encouraged to quantify their NDC. Units cannot be sold to other Parties after the first transaction, nor be traded in secondary markets.

4.3 Institutional Arrangements

The **AGN** argues that since the SDM is similar to the CDM, it should be **orientated on processes, institutions, methodologies and experiences** from the CDM. The negotiations should focus on issues that differ from the CDM, which in their view relate to the scope of the mechanism, governance, operationalization of overall mitigation of global emissions and the relationship between crediting and NDCs.

Brazil suggests that all certified emission reductions units issued by the Executive Board should in the first instance be registered in a "SDM registry". Units within this registry could be used by a Party towards its NDC or a non-state stakeholder towards voluntary climate strategies. In the latter case, the units should be cancelled from the registry. In the case of a Party that acquires units, these units should be transferred to the Party's national account within the multilateral registry. The multilateral registry should follow the guidance under Art. 6.2.

The **EU** suggests that the **governance** of the mechanism should include the following issues:

- A supervisory body under the authority of the CMA;

- Parties using the mechanism on a voluntary basis;
- Parties authorising participation of public and private entities;
- Designated operational entities verifying and certifying emission reductions resulting from mitigation activities.

The supervisory body should have a **strategic role** and could be assisted by technical panels. Modalities and procedures should ensure the transparency of decision-making processes at all levels, local stakeholder consultations, the right of directly affected entities to hearings prior to decision-making, that issues linked to human rights are promptly referred to relevant UN bodies, and timely decisions. The modalities should reflect the Parties' obligations concerning human rights.

Japan demands that the **membership** of the supervising body should ensure a better representation of all Parties. For that reason, the member selection should differ from that of the CDM within the Kyoto Protocol.

New Zealand similarly suggests that the Paris Committee on Capacity Building and the Article 15 Committee should function as an ideal for **membership** within the supervisory body, meaning two representatives from each UN regional group, one from Small Island Developing States and one from Least Developed Countries.

The supervisory body should be able to develop its own rules of procedures. In general, the decision-making process should be a process of finding a consensus. If this fails, decisions should be made by supermajority. The functions should include a publicly available and transparent database of all activities and a publicly available and transparent register of all emission reductions credited.

PNG considers a centralised oversight structure as plausible. It should in their view also be con-

sidered to introduce sub-set structures at the regional level in order to guarantee a smooth management the processes.

Tuvalu favours the establishment of a national designated authority to oversee the governance of Art. 6.4 activities. Tuvalu also suggests the establishment of a Board to oversee the approval of mitigation activities and on that basis authorise the transfer of units. The Board should:

- maintain an international registry;
- establish verification and certification procedures for all activities;
- ensure that a certificate is created which ensures environmental integrity and human rights;
- ensure that all activities under Art. 6.4 are voluntary, real, measurable, have long term benefits, and are additional.

4.4 Overall Mitigation

Brazil claims that the **additionality** requirement ensures that emissions are tackled at a level that goes beyond what would be achieved through the delivery of the host Party's and the acquiring Party's NDCs in aggregate. Corresponding adjustments are therefore in their view not needed to achieve overall mitigation.

The **EU** notes that the determination and assessment of overall mitigation needs clarification. They consider that this concept expresses support for the application of **accounting rules**, for provisions to ensure an **own contribution by the host Party**, and for a **potential net-benefit** for the atmosphere.

Japan suggests that to achieve overall mitigation, **methodological approaches** should be different from the CDM. Possible ways of implementation are **conservative reference lev-**

els below business-as-usual (BaU) levels or **high default values** to calculate project emissions.

New Zealand suggests to define overall mitigation as **emission reductions achieved by an activity exceeding the emission reductions actually credited to the activity**. To achieve this aim, **conservative baselines** or reference levels are useful.

4.5 Methodologies on crediting, additionally and Baselines

Brazil explains that **additionality** refers to projects that are only possible due to the 6.4 mechanism. It warns that some activities might lose their status as being additional in the course of the progressive implementations of the Paris Agreement.

Brazil suggests that current CDM methodologies should also be applicable to the SDM.

The **EU** suggests several principles relating to the crediting of activities:

- The scope and nature of the activities covered must be defined by the host party.
- The baseline approaches should be based on **ambitious benchmarks reflecting best available technologies (BAT)** and enable the host Party to contribute to its mitigation objectives while also allowing the emission reduction credited to be used by another Party to fulfil its NDC. Baseline approaches derived from historic or projected emissions could in their view undermine a host Party's ability to meet its own NDC, by generating an expectation of crediting levels inconsistent with that Party's NDC and overall mitigation strategy.
- The crediting approaches should ensure the permanence of emission re-

ductions and avoid technological lock in.

- The crediting periods should also enable Parties to ensure alignment of crediting periods with mitigation objectives, in particular with the timescale of their NDC, in order to avoid disincentives to higher ambition or progression.

As noted in the section on environmental integrity, **New Zealand considers long crediting periods or crediting against BAU as inappropriate** in the context of the Paris Agreement.

4.6 Transition from the CDM

According to the **AGN** it is necessary to discuss the transition of activities under the CDM to the SDM as a **matter of urgency** in order to use the mitigation potential of existing projects and to protect the credibility of international mechanisms. An eligibility check should be established to identify registered CDM activities that could be transformed without revalidation. The special circumstances of African countries should be taken into account.

The Arab Group claims that the transition should **cover rules, methodologies, infrastructure, accreditation and activities** under the current CDM.

Brazil posits that the **SDM will succeed the CDM** and demands a **smooth transition**, which is in their view especially important to keep participants from the private sector motivated to engage in mitigation actions. For the process of transition the following aspects should be taken into account:

- It should be possible to use CDM CERs towards NDCs;
- CDM methodologies should still be valid in the context of the SDM;

- The issuance of SDM CERs for CDM registered projects;
- Migration of the CDM accreditation system to the SDM.

The **EU** posits that the mechanisms established in the Kyoto Protocol should not continue after the second commitment period. It notes that there is **no provision for transition within the Paris Agreement**. Transition arrangements for ongoing mitigation activities resulting from the Kyoto Protocol mechanisms can be established only if core elements of the implementing rules under Art. 6.4 are agreed upon and function as a basis. **All existing and ongoing activities should be re-assessed** in order to be credited under Art. 6.4.

Similarly, **Japan is not in favour of orientating the 6.4 mechanism on the CDM**. Rather, Parties should learn from existing mechanisms and approaches. Japan declares that this does not only include mechanisms from the Kyoto Protocol but also other approaches under the Convention.

Also **New Zealand** expresses the view that decision 1/CP.21 does **not entail the transition of Kyoto Protocol activities**. They identify several differences between Art 6.4 mechanism and JI and CDM:

- Under the Paris Agreement all Parties make mitigation contributions;
- Art. 4.3 requires progression and highest possible ambition contributions; and
- Art 4.4 encourages developing countries to move towards economy-wide emission reductions or limitation targets.

They nevertheless concede that the concern to transfer CDM projects is understandable and suggest that **CDM activities could be adopted if they are reassessed**.

PNG suggests beginning the process of establishing governance with considering and assisting aspects of transition. Issues that contain forms of assistance for transition should be discussed and decided on and adopted by the CMA. As long as all Parties agree, PNG is open for any solution in this context.

5 Non-Market Approaches

5.1 Definition and elements of possible non-market approaches (NMAs)

The **EU** suggests that NMAs are defined by their holistic, integrated and balanced non-market nature. As already stated within Art. 6.8 the EU notes that NMAs have three aims: **promoting mitigation and adaptation ambition, enhancing public and private sector participation and enable opportunities for coordination** across instruments and relevant institutional arrangements. According to the EU, NMAs should fulfil all three aims.

Possible further important features of NMAs are the **non-tradable nature** of the outcomes of NMAs, the request to avoid duplication of work and the recommendation of guidance on transparency and reporting when the Parties use a NMA under the framework.

PNG defines NMAs as approaches to promote mitigation and adaptation of more than one Party **without the use of ITMOs but through financial support, technology transfers or capacity building** within a cross-fora environment. PNG proposes some examples of non-market approaches:

- Payment for Eco-System Services (PES)
- International Economic Diversification Options in the Fossil Fuel Industry. Parties whose economy is dependent on the fossil fuel industry should be allowed to implement economic diversification options in other Party's territory. This could include investing in adaptation activities that promote mitigation co-benefits.

Further, PNG proposes non-market approaches to increase the role of non-party stakeholders beyond borders, such as:

- Sister-city collaborations
- Bilateral and multilateral implementation platform for NAZCA members
- Using international events (sports, cultural activities, festivals) to launch emission reduction initiatives
- Designating high-profile persons such as politicians or celebrities as NDC ambassadors

5.2 Framework for NMAs

The **AGN** express that the framework for NMAs should take into account **linkages and synergies** between existing mechanisms **without duplication** and that it should provide funding for developing countries' NDCs. NMAs are defined as approaches that do not relate to trading activities.

Topics that should be considered in the further negotiations are:

- Clarification on the function of the framework;
- Typology of activities should be defined;
- Policies, strategies, projects and programmes that do not result in tradable units/ITMOS;
- Process for identifying linkages and synergies across existing UNFCCC instruments and institutions and identification of existing gaps in this context;

- Avoidance of duplication concerning finance, technology, capacity building support;
- Importance of adaptation activities with mitigation co-benefits and high sustainable development impacts should be stressed;
- How should non-state actors be involved within the framework?

The AGN also states that an **entity** that is coordinating and overseeing the progress of the framework's work programme and a tracking and/or reporting mechanism is necessary.

According to the **EU**, the work programme on accomplishing the function of the framework referred to in Art. 6.9 should follow five steps:

- 1) Identify relevant existing non-market instruments;
- 2) Identify existing linkages, synergies, coordination and implementation;
- 3) Identify opportunities for the enhancement of existing linkages, creation of synergies, coordination and implementation of NMAs;
- 4) Assess the results of the previous steps and draw conclusions on how to enhance existing linkages and create synergies;
- 5) Proceed to the practical enhancement of linkages and creation of synergies through some relevant governance of the framework for non-market approaches while avoiding duplication.

The LMDCs demand a work program under the framework to identify and enhance linkages and create synergies between mitigation, adaptation, finance, technology transfer and capacity-building and to facilitate the implementation and coordination of NMAs. Key issues are in their view:

- Development of instruments to facilitate cooperation between Parties;

- Development of guidance for incorporating NMAs in the cooperation of Parties;
- Development of a registry of needs for the implementation of NDCs through NMAs, complemented by a facility to match needs and means of implementation;
- Establishment of institutional arrangements to allow the articulation of NMAs;
- Establishment of an information-sharing process for the development and implementation of NMAs, including best practices and lessons learned.

New Zealand suggests that the aims of the work programme to enhance linkages and synergies would best be served by regular meetings with experts and stakeholders to share information, best practices and lessons learned. To this end, they propose to **relocate the Technical Examination Process (TEP) and Technical Expert Meetings (TEMs) into the Article 6.8 work programme**. They argue that the TEP and TEMs are established processes for considering policy approaches that fit well with the purposes of Article 6.8. In this way, Parties could cooperate on ambition, maintain an existing space where ideas and relationships are built, and expert advice is made available to all Parties.

PNG expresses the view that the framework functions as an alternative to the market mechanisms within Art. 6. PNG identifies four features of a framework for NMAs:

1. Participation by more than one party;
2. Non-market measures under Art. 6.8 including the involvement of Non-Party stakeholders;
3. ITMOs are not involved;
4. No use of market mechanisms or emission trading schemes.

PNG suggests that there is **no need of creating a new body** that operationalizes NMAs. Instead, elements under Art. 6.8 and Art. 6.9 could be integrated into the work program of **existing operational committees**, such as the Adaptation Committee or the Standing Committee on Finance. PNG suggests that the TOR regarding programme priorities of existing committees should be expanded to include implementation of Art. 6.8. This would allow existing committees to streamline implementation while avoiding duplication of work.

Tuvalu argues that NMAs should not be quantified by units and should encourage international cooperation. They should be nationally determined, which means that the **governance structure lies within a Party's responsibility**. The Parties should try to provide best practices and case studies of NMAs and the Secretariat should maintain a clearing house of NMAs to identify opportunities of cooperation. They suggest to encourage all Parties to develop a work programme on NMAs and to include these in their biennial reports, as appropriate.

Uganda envisages that the NMA Framework will help Parties to transparently account and credibly transfer financial support for mitigation, adaptation, technology transfer and capacity-building actions. They assert that the framework should be dynamic and flexible to cover a range of mechanisms and new elements like the promotion of mitigation and adaptation ambition, the enhancement of public and private sector participation in the implementation of NDCs and the enablement of opportunities for coordination across instruments and relevant institutional arrangements. The framework should promote non-transferrable and/or non-tradable outcomes without the commoditization of outputs. The Framework should be under the guidance and authority of the CMA.

They reiterate their demand to establish an **Adaptation Benefit Mechanism (ABM)** as a com-

ponent of the framework for NMAs. The ABM would quantify adaptation benefits according to approved methodologies which Parties and private sector actors could use to demonstrate the adaptation impacts of financing commitments and instruments.

6 Synopsis

Article 6 of the Paris Agreement establishes 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 summarised the views submitted by Parties in October 2017 to identify points of controversy and convergence.

Raising Ambition and Promoting Environmental Integrity

While the Paris Agreement mandates that Art. 6 should contribute to increasing climate ambition and promote environmental integrity, many submissions do not discuss these issues in detail. Those that do exhibit a wide divergence of views, with calls for ambitious action on the one hand and calls to have only minimum requirements on the other.

The African Group of Negotiators (AGN), the EU and New Zealand put it into the context of environmental integrity.

The AGN considers it imperative that cooperative approaches result in an increase of ambition. Mitigation outcomes can in their view only be traded if the cooperation has resulted in a greater level of mitigation than would have occurred in the absence of the cooperation. Parties involved must in their view demonstrate how they safeguard environmental integrity and sustainable development; this reporting would be subject to expert review, and Parties would only be allowed to use ITMOs towards their NDCs in case of positive expert reviews.

Canada similarly suggests that environmental integrity means that the generation and use of ITMOs must reduce overall global emissions.

The EU and New Zealand posit that environmental integrity needs to be related to the Agreement's more general principles, in particular the long-term goal, the progression of NDCs over time, and the requirements that NDCs should reflect the highest possible ambition and move over time towards economy-wide emission reductions. New Zealand further specifies that long crediting periods or crediting against BAU are not compatible with the Agreement's requirements.

The Arab Group and the LMDCs have a diametrically opposite position. They declare that the special character of Art. 6.2 lies not in the production of mitigation outcomes, which is also addressed in other parts of the Agreement, but rather in their transfer. For this reason, environmental integrity should in their view be related to the transfer of mitigation outcomes while the mitigation outcomes themselves are the prerogative of Parties.

Thailand similarly wants to establish only minimum criteria on environmental integrity. No discount or exchange rates or similar approaches should be introduced.

Promoting Sustainable Development

The submissions that are so far available seem to indicate that the controversy on whether or not to have international provisions on sustainable development may be over. Most submissions that discuss sustainable development agree that the definition of sustainable development and the determination whether activities contribute to sustainable development is a national prerogative. At the same time, most

submissions suggest that Parties should be required to report on how their use of Article 6 is promoting sustainable development. The EU is the most specific on this issue, suggesting comparable reporting on the basis of the Sustainable Development Goals. A number of submissions also suggest that an international tool like the CDM sustainable development tool could be helpful to assess activities in a comparable manner, with use on a voluntary basis.

The EU and Tuvalu also discuss human rights in this context. The EU suggests that host Parties should confirm that activities are in conformity with their respective obligations on human rights, while Tuvalu proposes that all units traded under Articles 6.2 and 6.4 would need to include a certificate indicating that the units traded or received have not resulted in environmental harm and have not adversely affected any human rights.

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.

Most submissions maintain that Article 6 should have an inclusive approach, allowing participation of all countries irrespective of the types of their NDCs. However, Tuvalu posits that only Parties to the Paris Agreement that have quantified their NDCs should be eligible to trade emissions under Article 6.2 and to host activities under Article 6.4.

There is controversy on whether there is a need for corresponding adjustments if mitigation actions take place outside the host country's NDC boundary. Japan stipulates that the Art. 6.2 guidance should ensure incentives for Parties to increase the coverage of sectors under their NDCs. They therefore suggest that irrespective of whether credits are transferred or generated inside or outside a Party's NDC coverage, they

should in both cases be added to its emissions or deducted from its removals. By contrast, the AGN holds that corresponding adjustments would not apply if emission reductions are outside the scope of the transferring country's NDC, or if units are cancelled instead of being used for NDC compliance. In their view, the main reason why a sector is not included in an NDC is usually lack of quality data. Instead of penalising such sectors, Article 6 should in their view be used to improve data availability and thereby prepare integration in future NDCs.

Brazil continues to maintain the view that corresponding adjustment is only applicable in the context of Art. 6.2 and in the case of one Party transferring acquired Art. 6.4 units to another Party, but not to the initial forwarding from the Art. 6.4 registry to the 6.2 multilateral registry.

Scope and Governance of Cooperative Approaches

Consensus on what cooperative approaches are continues to be elusive. Many submissions hold that cooperative approaches should include any kind of cooperation between two or more countries. By contrast, Brazil's submission is not explicit on the issue, but the table of contents it proposes for the Art. 6.2 guidance suggests that it continues to see Art. 6.2 as analogous to Art. 17 of the Kyoto Protocol. The AGN similarly suggests that cooperation could take many shapes, but ITMOs are in their view a bookkeeping unit reflecting the net balance of trades and do not constitute carbon credits or a type of commodity. They posit that ITMOs are neither issued, nor can they be held, traded, cancelled, banked, or be used by private entities to fulfil commitments. Tuvalu similarly holds that use of cooperative approaches should be limited to trading emission reductions that are in excess of a Party's NDC. Units can in their view not be sold to other Parties after the first transaction, nor be traded in secondary markets.

Most of the submissions that are available so far are in favour of limited international oversight.

What Types of Activities under the Art. 6.4 Mechanism?

In contrast to the Kyoto Protocol, the Paris Agreement does not specify that the new “sustainable development mechanism” is about “projects”, raising the question of the level of aggregation of activities (projects, programmes and/or sectors). Most submissions suggest that the new mechanism should include all types of mitigation activities at all scales. By contrast, Brazil continues to maintain the view that the new mechanism should be similar to the CDM.

The AGN and New Zealand suggest staging the development of regulations for different types of activities. New Zealand proposes starting with project-based activities based on existing experience and then moving to other types.

Overall Mitigation of Global Emissions

While the Paris Agreement foresees that the new mechanism shall contribute to an overall mitigation of global emissions, only a few submissions discuss how to operationalise this objective. New Zealand notes that a definition of overall mitigation is so far lacking and suggests it should mean that not all the mitigation outcomes achieved by an activity are credited to the activity.

The EU, Japan and New Zealand consider that the concept needs to be reflected in accounting rules and methodologies, with Japan and New Zealand suggesting conservative baselines. By contrast, Brazil claims that the additionality requirement ensures that emissions are tackled at a level that goes beyond what would be achieved through the delivery of the host Party's and the acquiring Party's NDCs in aggregate.

Transition from the CDM

There is a controversy on whether to prioritise discussions on transition from the CDM. In particular the AGN and Brazil see this as a matter of urgency in order not to waste the mitigation

potential of existing projects and to protect the credibility of international mechanisms. The Arab Group and Brazil also call for the transposition of rules, methodologies, infrastructure and accreditation.

By contrast, the EU, Japan and New Zealand are against easy transposition of regulations and activities. The EU and New Zealand maintain that CDM activities would need to be reassessed against the new mechanisms regulations prior to adoption into the mechanism.

Non-Market Approaches

The submissions on non-market approaches do not indicate substantial conceptual advances.

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.

New Zealand suggests a novel idea for how to move forward. They propose to relocate the Technical Examination Process (TEP) and Technical Expert Meetings (TEMs) into the Article 6.8 work programme. They argue that the TEP and TEMs are established processes for considering policy approaches that fit well with the purposes of Article 6.8. In this way, Parties could cooperate on ambition, maintain an existing space where ideas and relationships are built, and expert advice is made available to all Parties.

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