



**CARBON
MECHANISMS
DIALOGUE**

Aligning the Agendas

Discussing synergies between ambitious and transformational Art. 6 activities and sustainable development impacts

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The Wuppertal Institute is carrying out the project “Market mechanisms coordination unit” on behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety.

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February 2021



Cover Photo: Wastewater Treatment with Biogas System in Palm Oil Mill at Saikhueng, Surat Thani, Thailand by Andreas Wallin Karlsen / CDM 4491 / UNFCCC Photo Contest 2012

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Report on the joint SDI/WI webinar series
in November / December 2020

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with contributions from Karen Holm Olsen, UNEP DTU

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1 Introduction

According to the IPCC, sustainable development (SD) has the potential to function as an enabler of the fundamental societal and systems transformations required to limit global warming to 1.5°C above preindustrial levels (IPCC, 2018). In fact, more synergies than trade-offs can be harnessed between GHG mitigation actions consistent with 1.5 degree pathways and sustainable development impacts. This applies also to market-based international cooperation, where aligning sustainable development and NDC ambition raising in the design and implementation of international carbon markets can support transformational change.

However, more work is needed to align carbon market tools and approaches for SD and NDC ambition raising with the definitions and frameworks of the UN and other initiatives. This includes, for example, the Enhanced Transparency Framework (ETF) of the Paris Agreement, the Agenda 2030, the 'Race to Zero' campaign, the Taskforce on Scaling Voluntary Carbon Markets and similar initiatives. Such alignment will provide consistency and add legitimacy for mainstreaming of sustainable development and transformational change in carbon markets.

Against this background, the Sustainable Development Initiative and Wuppertal Institute jointly held a series of two webinars in November and December 2020, respectively, in order to broaden the understanding and discuss ways how Article 6 of the Paris Agreement can make use of transformative, science-based pathways to achieve the global goals and ensure environmental integrity in international market-based cooperation. The two webinars were:

1. Guidance for the Interim – Discussing the San José Principles and bilateral agreements to promote sustainable development and integrity in carbon markets

This event took place on 18- Nov 2020, 15.00 – 16.30 PM CET. It discussed options on how to ensure high ambition and integrity of future carbon markets in the absence of a global 'rule-book' for carbon markets. One point of departure was the so-called San Jose Principles, which describe how some Parties envision a fair and robust carbon market to be developed for high ambition and environmental integrity.

Moreover, the workshop discussed the recent agreement between the governments of Peru and Switzerland on the cooperative implementation of mitigation activities in Peru. Party representatives, pilot programme managers and practitioners shared outcomes and views on a high-level event on the San Jose principles hosted by Costa Rica, 30 October 2020 as well as the principles that guided the negotiations of the Article 6 agreement between Peru and Switzerland.

The workshop further identified and discussed ideas and opportunities to form a community of practice, which may evolve from the San Jose Principles and the agreement of Peru and Switzerland to guide ongoing pilot work by practitioners and inform a final outcome for an Article 6 rulebook expected at COP26 in Glasgow, 2021.

2. Transformative design of Article 6 programs for Net Zero emissions by 2050 (15 Dec 2020, 15.30 - 17.00 PM CET).

This webinar explored ways of how to integrate transformational change into Article 6 activity design and discussed what needs to be done to translate this into practice. Transformational

change and its integration into climate change mitigation activities in effect mainstreams sustainable development, the former so-called ‘co-benefits’ of mitigation activities, into outcomes at scale contributing to net zero emissions by 2050.

This is because transformative climate and sustainable development outcomes at scale and sustained over time are interlinked in a way, where assessment of impacts enable that synergies are promoted and negative trade-offs are mitigated or avoided. Therefore, advancing the concept of transformative Article 6 activity design supports the Sustainable Development Initiatives (SDI) for Article 6 of the Paris Agreement goal of promoting sustainable development in Article 6.

The workshop addressed practitioners from Parties active in Article 6 pilot activities, scholars and consultants working in the field. Conceptually, these ideas may also influence voluntary carbon markets, as they increasingly align with Article 6 provisions.

In the following, the presentations and discussions at the two webinars will be summarized, followed by a short conclusion and an outlook.

2 Webinar reports

Guidance for the Interim – Discussing the San José Principles and bilateral agreements

The event began with a presentation by Felipe de León, the Ministry of environment and Energy of Costa Rica, who gave an update on the San José Principles process and Costa Rica’s activities in this regard. Mr De Leon underlined Costa Rica’s intention to further develop and implement the Principles, which had been agreed upon in 2019 at the COP in Madrid, through collaborative work and regular conversations. He explained that the newly formed San José Principles Coalition aims to hold monthly meetings of the signatories that discuss ways to develop high-ambition

solutions and a robust multilateral framework for international carbon markets. Mr de León highlighted the recently adopted Peru / Switzerland agreement as a very good example of Parties that embark on implementing the principles. This led over to the presentation on the bilateral Article 6 agreement between Peru and Switzerland introduced by Lorenzo Alejandro Eguren Ciurlizza, the Ministry of Environment of Peru.

In this speech, Mr Eguren underlined that both signatories aim at establishing a solid framework to regulate the international transfers of mitigation outcomes between Peru and Switzerland, while promoting sustainable development and guaranteeing environmental integrity, especially with regard to prohibiting double accounting of mitigation

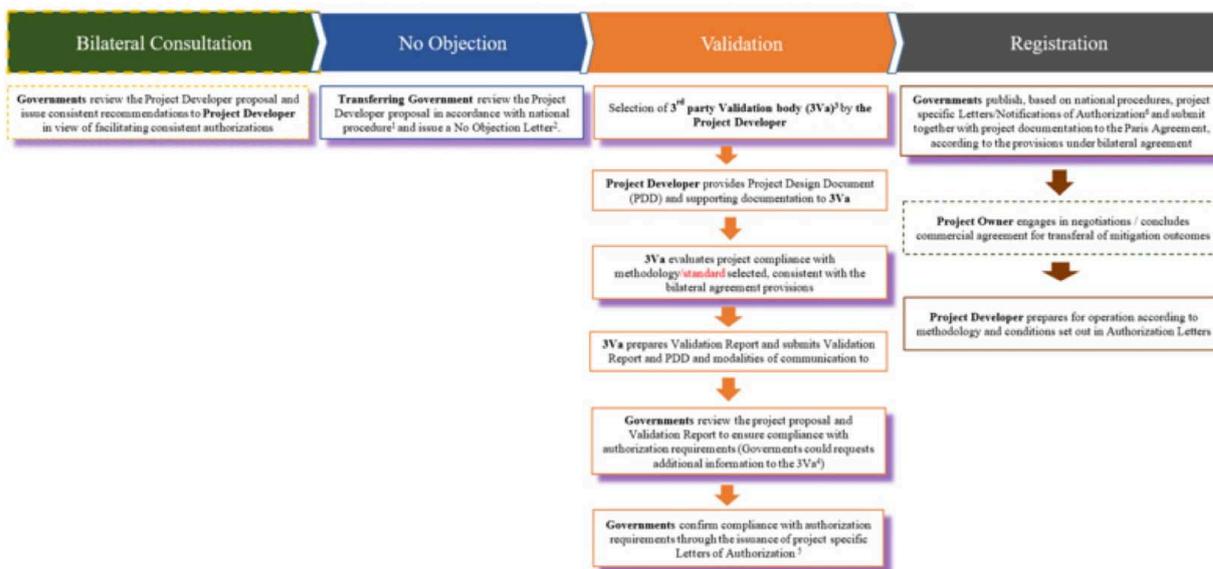


Figure 1:Operational steps in the cooperation between Peru and Switzerland; Source: Presentation by L. Eguren

outcomes from the outset. Mr Eguren presented further commitments that the signatories agreed upon and elaborated on the operational steps necessary for implementing mitigation activities under the agreement.

Sharing of Views and Discussion

Following the presentations, a range of reactions and views of selected experts in the field was obtained. Virender Kumar Duggal (Asian Development Bank), Axel Michaelowa (Perspectives Climate Change) and Owen Hewlett (The Gold Standard) commented on whether they thought the San José Principles support the negotiations or whether they see them as a "fallback option" in case COP26 in Glasgow will not be successful. The panelists agreed that the San José Principles are a very good testing ground, especially in the interim period until the Glasgow COP. Some conceded the principles could also be a fallback option should the COP not be able to deliver satisfactory results. It was generally agreed that the principles need more elaboration in detail and application in practice. At the example of "additionality determination" and "baseline methodologies", one panelist demonstrated the scope of interpretation – ranging from newly developed stringent methodologies taking the long-term temperature goal of the Paris Agreement seriously to a continued application of methodologies that stem from the CDM era. This spectrum of options, he argued, was also mirrored in the current Art. 6 pilot activities, where even Parties that have signed the San José principles, make use of CDM style methodologies.

On the principle stating that "all use of markets toward international climate goals is subject to corresponding adjustments," the question was raised as to what this might mean for participants in the voluntary market in each country. Will governments ask all voluntary market players active in the respective transferring countries to carry out CA? This was

seen as a rather courageous ask, but also used to show that more operationalization of the principles is needed – an observation that was also applied to the concept of "overall mitigation in global emissions" (OMGE), which none of the signatory states had yet presented an implementation concept.

In terms of "capacity building", panelists agreed that there was some movement in this regard. At the example of the Asian Development Bank's work in the Asia Pacific region, it was discussed that the region, while experienced with market-based cooperation in principle, is still in need of expertise and in-depth experience with regard to the yet-to-build policy frameworks and the new institutional arrangements, which is needed to build, inter alia, the infrastructure for registries. The San José Principles were seen as good inputs to this process in the sense that they provide an advanced indication of what countries need for their market readiness. This input was perceived as an element of support helping designing pilot activities and to road-test technical options, which in turn can also feed back into the negotiations.

Ideas and options to form a community of practice

Following the discussion, **Karen Olsen from UNEP DTU** presented an outline of a "Community of Practice" on fostering sustainable development and enabling ambition raising through the San Jose Principles. This activity of the Sustainable Development Initiative aims at supporting the development of the carbon market outside official UNFCCC negotiations through development and use of SD tools and approaches, sharing of piloting experiences and good practice examples in the form of a learning partnership or 'club'.



Figure 2: Participants ideas to the question: "How can a CoP best promote sharing of knowledge and experience?"

During an interactive poll, participants of the webinar were asked to provide their views on the possible organisation and mode of work for such a partnership. While participants underscored that stakeholder participation, biodiversity, gender equality, human rights and ensuring no-harm done are among the top priorities to promote sustainable development, the results of the poll suggested that sharing of knowledge and experience in a SD "community of practice" should be based on communication, transparency, stakeholder consultations and pilot activities taking an informal, transparent approach.

All presentations as well as a video recording of the webinar are available at <https://bit.ly/3tzF1GG>.

Transformative Design of Article 6

The webinar was introduced and moderated by Christof Arens of Wuppertal Institute. In the first presentation, **Karen Olsen (UNEP DTU Partnership)** laid out the basics for the event, i.e. what is meant by transformational change in the context of the Paris Agreement, and

what the role of transformational characteristics in Article 6 activities can be.

The presentation began by highlighting the synergies between the 2015 Paris Agreement and the 2030 Agenda with its Sustainable Development Goals. According to the IPCC SR 1.5°C (2018), a "systemic, deep, rapid, and society-wide transformation" is needed to achieve the global goals. In order to achieve transformative change, emissions reductions and sustainable development must be considered side by side, i.e. the SDGs and the 1.5°C limit have to be seen as mutual enablers.

How is transformational impact created? The basic conceptual framework of transformational impact, as presented by Karen Olsen, is two-dimensional: one dimension are the outcomes such as greenhouse gas reductions and the SDGs. For transformational change, these outcomes must be at scale and sustained over time. The second dimension is the process of change itself, the drivers and barriers. These are categorized as technology, incentives, agents, and norms. Most relevant characteristic in the category of technology, Ms Olsen explained, is digitalization, while Governments and the private sector are

central in the category of agents. The most important central incentive can be characterized as carbon pricing, and dynamic baselines are considered an important feature in terms of norms.

Ms Olsen highlighted that these considerations are to be regarded as tentative as they are taken from ongoing research will yield in refined results over time and subsequently published in a report on Article 6 incentive structure for transformative change as well as NDC briefings highlighting the concept of transformation and potential increases in ambition.

In the second presentation, **Fenella Auane (GGGI)** presented GGGI's approach to Art. 6 piloting, which has a dedicated focus on transformative and scalable activities. The envisaged strategic outcomes of GGGI's programs feature, inter alia, green job creation, increased access to sustainable service, and improved air quality. Based on these, Ms Auane developed several possible interlinkages between sustainable development and Art. 6 activities, p.ex. a possible link to additionality

criteria, the need for clear metrics for attainments (such as jobs created, time saved etc.), a binary or a qualitative link to ITMO transaction as well as tying the demonstration of SD benefits to authorization (be it ex-ante or ex-post).

At the example of a mitigation activity in Nepal Ms Auane showed the benefits of an up-scaled commercial and municipal biogas program. where long term transformational change and its opportunities become apparent. This activity incentivizes large biogas operators to integrate both primary and secondary waste streams into their digestors and plants. By supporting the activation of a market driven approach to sustainable waste management through putting a value on secondary feedstocks, the activity displays remarkable transformation change potential, Ms Auane underlined.

The Architecture for REDD+ Transactions (ARTREDD) was presented subsequently by **Jessica Orrego (Winrock International)**. ARTREDD is an initiative to promote environmental and social integrity as well as ambition of

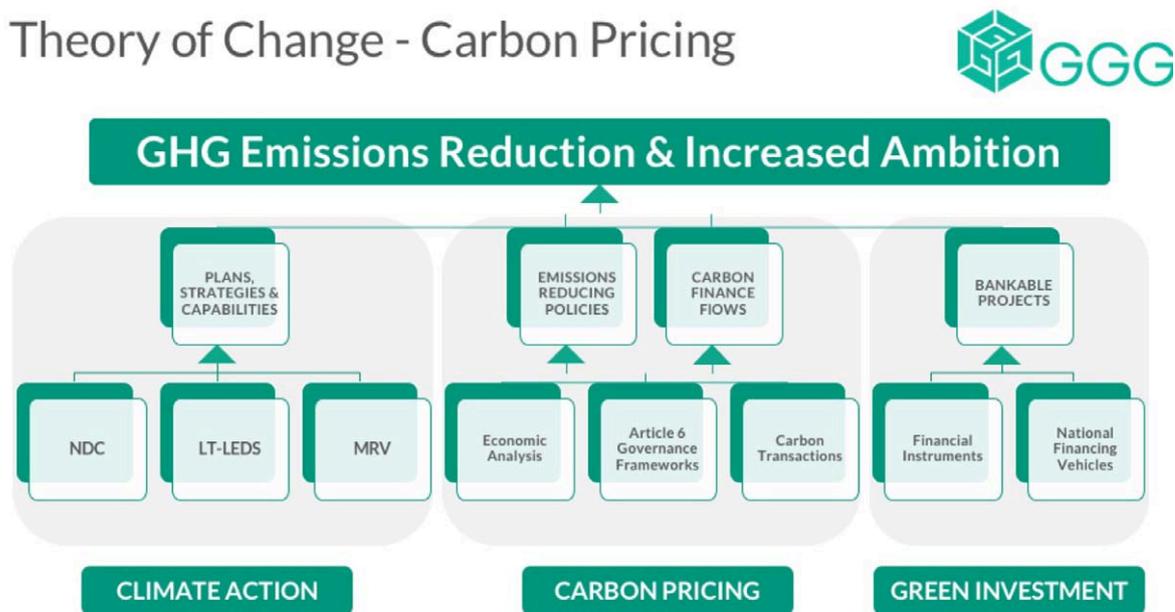


Figure 3: Theory of change applied by GGGI In its carbon pricing activities

carbon emission reductions from the forest and land use sector. It was designed to develop a crediting program that aligns with the Paris goals and includes market elements that increase confidence in results, such as standardized, conservative baselines, mitigation of leakage, reversal risks, independent verification and avoidance of double counting.

Ms Orrego inter alia presented the programme's Environmental Excellence Standard (TREES), which comprises a pre-defined crediting level, provisions for reversal mitigation and dealing with leakage, validation and verification requirements, and a registry. On double counting, Ms Orrego underlined that the standard requires the standard requires corresponding adjustments for all internationally transferred units.

In the last presentation held by **Klaus Oppermann (World Bank)**, the presenter laid out early experiences gained from the World Bank's Transformative Carbon Asset Facility (TCAF). Mr Oppermann explained that transformational change (TC) is part of the program selection and is also a vital component of the MRV provisions of the selected TCAF activities. TC is defined through four criteria, i) size, ii) sustainability, i.e. continuation after the TCAF support ends, iii) a positive effect on NDC ambition, iv) a contribution to carbon pricing. Mr Oppermann also laid out the baseline and additionality approach chosen by the program and underlined that TCAF established clear rules to exempt mitigation outcomes which are enabled by other sources of international support (and the respective conditional NDC targets) by a dedicated attribution model.

Mr Oppermann also explained about ongoing design processes for sectoral and jurisdictional crediting programs, which work with a fixed ex-ante baseline, which is then compared against the actual sector-performance. Examples includes a sectoral renewable energy program, a waste sector program, an

inventory-based city-level program as well as an island-state program at a very early state. The policy crediting initiatives TCAF envisages cover, for example, fossil fuel subsidy removal, carbon taxation, and a mandatory industrial energy efficiency standard. The main difference here is the baseline determination here needs to be based on ex-post macro-economic modelling, i.e. observed key macro-economic data. As in the case of sectoral crediting, the baseline is reviewed in case the NDC is updated.

All presentations can be viewed at <https://bit.ly/3qY920T>.

Discussion and main takeaways from the break-out sessions

In three break-out sessions, the webinar participants had the opportunity for in-depth discussions on selected sub-topics of the subject matter. A short summary of the report-backs to the plenary of the webinar is presented in the following.

The first group discussed the **definition of transformation for Article 6**. The main question in this discussion was how the framework presented by Karen Olsen was perceived by the participants. The group felt that the framework was lacking specificity and appeared too general in nature.

The question of alignment of climate and co-benefits respectively also came up. Would it be risky to treat sustainable development goals and climate change goals in the same way, and could this discourage good climate change projects from going forward? Should there be minimum standards for co-benefits or their measurement? Should there be weighing?

Karen Olsen answered that regarding specificity, this was deliberately not part of the conceptual framework, as it is generic and intended to be applicable to all types of policies and measures in all sectors. That was the

priority of this exercise. This changes when the framework is applied in practice – the specificity comes with the application.

The second break-out group dealt with the **Governance of upscaled activities that yield outcomes at scale**. The discussion started with the provocative question of why Article 6 is a challenge for host countries, given that the CDM-related infrastructure and years of experience are available in host countries. On this, all participants agreed that the NDCs make the difference compared to the “Kyoto world” and the corresponding adjustments will impact the achievement of the NDCs. It is challenging for host countries to assess the impact of these individual activities – LoAs will this look quite different from what they looked like for CDM activities.

Participants also touched upon the issue of overselling and felt that it will be essential for host countries to be confident they can actually achieve their unconditional target. This requires that they link the individual local activities on the ground with their NDC.

Finally, the group discussed that sustainable development will also be relevant in the authorization process for countries and additional capacity will also be required here.

Thus, the challenges are not limited to the NDC complex, the corresponding adjustments and how activities affect NDC achievement, but also about sustainable development and the transformative impact these activities have.

The last group discussed **Baseline setting and additionality**. Lukas Hermwille explained that transformation and additionality are often contrasted, but participants felt they can also complement each other: whereas additionality demonstrates that an activity goes beyond current “business as usual”, the concept of transformation carries the notion of how an activity or policy can contribute to achieve net zero emissions and sustainable development. Moreover, transformation can also help ensuring that mitigation measures are maintained even when funding is no longer available.

While the group felt that there is no trade-off between transformation and additionality, there may be a trade-off between short-term efficiency and transformative change: most transformative activities are often not the most cost-effective ones in the short term. Yet markets tend towards the latter, which is why some see it as challenging to get market-



Figure 4: Participants in the final wrap up of the December event

based instruments to contribute to transformative change.

Finally, the group discussed narratives and ways to promote transformational activities. One thought the group developed is that it will help to convince host countries to agree to have corresponding adjustments if the activity can be presented as transformative, it will make it easier for the host country to agree to corresponding adjustments because it is obvious that the activity will actually lead to more, to lead to long-term results benefiting the host country.

3 Conclusions and Outlook

Building on the discussions outlined above, the following observations and recommendations are drawn:

Align NDC and SDG policies

Promoting high quality and ambitious Art. 6 activities is highly interlinked with achieving sustainable development outcomes at scale. This applies in particular when the activity is designed as a transformative action where synergies can be harnessed between mitigation options consistent with 1.5 degree pathways and sustainable development impacts. It is therefore essential when embarking on Art. 6 activities that the transferring country's policy goals in both the climate (NDC) and the SDG policy are analysed and the sectors with the highest synergies are identified.

This is supported by growing awareness of the SDG impacts and / or costs of interventions. The advent of reporting requirements such as the Voluntary National Review (VNR) for the 2030 agenda, has helped to shape understanding among host countries as well as donors for SD impacts and wider societal impacts of mitigation actions. These insights can support the selection process of ambitious, high quality mitigation actions that foster SDG achievement and transformational change.

When these impacts are considered from the early design stage on, synergies can be maximized regarding the reporting of both GHG mitigation and SD benefits. Ideally, SDG monitoring and data collection would be integrated within the national MRV system for GHG inventories and NDC tracking of progress.

Explore SD benefits of large-scale activities

Many see Article 6 as a means to get away from the project-by-project approach and to arrive at upscaled mitigation actions, possibly covering entire sectors of the economy. Yet in the past many Gold Standard and other activities with high a SD benefit score featured in the former category. Experience with large-scale programmes or policy-based measures is lacking to date and should be further explored in the context of piloting activities. Possible application cases are renewable energy, water management or land-use and forestry.

Initiatives like the Carbon accounting at the landscape level project of the Gold Standard are a good starting point in this regard. More forward-looking, the possible use of negative emission technologies in the context of market-based climate action might also warrant attention.

Gain experience through piloting

As can be seen from the discussion of the Peruvian/Swiss pilot, but also other programmes such as the Swedish Energy Agency activities, there is an appetite to consider SD benefits in Art. 6 piloting. Various tools and supporting material is available for a pre-screening of activities, for example the Good Practices Preliminary Assessment Guidance developed by the Sustainable Development Initiative or the latest SDG impact tool by the Gold Standard. In the webinar series discussions, stakeholder participation, biodiversity, gender equality, human rights and ensuring no-harm done featured among the top priorities to promote sustainable development in future Art. 6 activities. As suggested above, piloting should be conducted in close relation to the Agenda

2030 process and the relevant reporting obligations.

Further accompany and support the political process

While UNFCCC negotiations on Art. 6 will be taken up again once the official negotiation process starts anew, action to promote SD in market-based climate action should be taken also outside the official UNFCCC space.

The SDI, for example, has embarked on a strategic engagement programme with Parties and partners to form a community of practice with the aim to promote sustainability transition and ambition raising in international carbon markets.

Elements discussed at the workshop series and further refined in the SDI work comprise tools and guidance material for SD as well as transformational change, a networking and knowledge sharing component and country programmes on the design of Article 6 programmes, used to road test tools and approaches and foster country readiness for carbon markets.

In parallel, initiatives to further advance SD provisions in the Art. 6 rulebook should not come to a halt. The formation of the San Jose Principles Coalition late 2020 can be seen as one possible gateway in this regard. Another strong signal could be declarations by piloting programmes or a group of potential buyer countries that they intend to apply robust SD provisions of their future carbon market activities.

