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Governing Paris Article 6.4 What Roles and Functions for the Article 6.4 Supervisory Body?

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Governing Paris Article 6.4

What Roles and Functions for the Article 6.4 Supervisory Body?

Wolfgang Obergassel

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Summary

The new mechanism under Article 6.4 of the Paris Agreement is to be supervised by a body designated by the Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement (CMA). However, so far there is no clarity what role exactly the supervisory body (Body) is to play.

The paper first reflects the objectives of the new mechanism and on what the role of the mechanism as a whole should be, especially in comparison to the two other approaches established under Article 6, cooperative approaches and non-market approaches. The paper then summarises what has already been agreed on the functioning of the mechanism in the Paris Agreement and Decision 1/CP.21 and elaborates what steps will be needed to generate transferrable emission reductions under the Article 6.4 mechanism. On this basis, the paper develops criteria for how to decide what role the Body should have, and then discusses what role the Body and the other actors that are involved in the mechanism could have in each of the steps of the activity cycle.

The paper considers the functions DOE accreditation, development and approval of methodologies, authorisation and registration of activities, issuance of emission reductions, promotion of an equitable geographical distribution of activities, strategic review of the mechanism's operation, and registry maintenance. Going through the functions reveals that except for their role in maintaining the registry, the role of the Body and its support structure is generally not yet clear. By contrast, the roles of Parties and DOEs are already relatively well-defined. No responsibility whatsoever has so far been assigned for the functions DOE accreditation, methodology

development/approval, geographical distribution and strategic review.

On this basis, the Body may be assigned vastly different roles:

- It could merely be a notary, with the operation of the mechanism being left to Parties.
- It could be a supervisor of Parties' operations
- It could act as guardian, undertaking the operation of the mechanism by itself.
- Or it could be a promoter, not just operating the mechanism but taking active action to shape use of the mechanism by Party and non-Party actors.

The paper elaborates how the role of the Body could be defined in each of these models and considers pros and cons of each model on the basis of the following criteria:

- Achievement of the overarching objectives according to Article 6.1 (raising ambition, sustainable development and environmental integrity);
- Party ownership;
- Facilitation of participation for countries with low capacity;
- Administrative feasibility and transaction costs.

The following table illustrates the assignment of functions to the four models. One '+' denotes a minor role whereas three '+' denote a major role. It bears noting that these are prototypical

models. Functions could also be combined differently.

While weighing the different criteria that speak in favour of the different models includes a degree of subjectivity, the authors consider that achievement of the objectives of the Paris Agreement should be the paramount criterion. The history of in particular JI Track 1 has shown that environmental integrity may be breached severely without international oversight. From this perspective, the ‘notary’ model seems out of the question.

Weighing the ‘guardian’ and the ‘supervisor’ models, the integrity of DOEs and the reliability and transparency of methodologies are particularly central pillars of maintaining environmental integrity. If DOE accreditation and methodology approval are centralised under the Body, one might consider dispensing with having the Body assess individual activity proposals and issuances.

While the ‘notary’, ‘guardian’ and ‘supervisor’ roles are mutually exclusive, the ‘promoter’ is

rather a complementary role which could be added to any other role. For example, even if the Body is only made a ‘notary’ in the operation of the activity cycle, it might still be given the task to develop methodologies or to promote equitable geographical distribution of activities.

Whatever role is chosen, the history of the Kyoto mechanisms shows that regular review of the operation of the new mechanism will be crucial to safeguard its contribution to the Paris objectives. In addition to regular reflection by the Body and the CMA, implementation of the Article 6.4 mechanism could also be examined under the Global Stocktake.

	Notary	Guardian	Supervisor	Promoter
DOE accreditation	+	+++	++	+
Methodology development		+++	++	+++
Authorisation & Registration	+	+++	++	+
Issuance	+	+++	++	+
Geographical distribution				+++
Strategic Review		+++	+++	
Registry	+++	+++	+++	+++

Table 1: Prototypical Models for the Role of the Body

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” (ITMOs) in achieving their nationally determined contributions (NDCs). International supervision of these cooperative activities is not foreseen, there is to be only 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”. In contrast to the cooperative approaches, this mechanism will be supervised by a body designated by the Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement (CMA). In addition, the Parties are to adopt rules, modalities and procedures (RMP) 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”.

This paper focuses on the governance of the Article 6.4 mechanism. In particular, so far there is no clarity what role exactly the supervisory body (Body) is to play. While the Paris Agreement and the decision adopting the agreement (Decision 1/CP.21) delineate to some extent what role Parties should play and also envisage a role for Designated Operational Entities (i.e. independent third-party auditors), there are no detailed provisions for the work of the Body. The role and functions of the Body are therefore among the key topics to be resolved at the 2018 CMA in Katowice.

This paper aims to develop options in this regard. The paper first reflects the objectives of the new mechanism and on what the role of the mechanism as a whole should be, especially in comparison to the two other approaches established under Article 6, cooperative approaches and non-market approaches. The paper then summarises what has already been agreed on the functioning of the mechanism in the Paris Agreement and Decision 1/CP.21 and elaborates what steps will be needed to generate transferrable emission reductions under the Article 6.4 mechanism. On this basis, the paper develops criteria for how to decide what role the Body should have, and then discusses what role the Body and the other actors that are involved in the mechanism could have in each of the steps of the activity cycle.

Several prototypical models can be envisaged from the role of the Body:

- It could merely be a notary, with the operation of the mechanism being left to Parties.

- It could be a supervisor of Parties' operations
- It could act as guardian, undertaking the operation of the mechanism by itself.
- Or it could be a promoter, not just operating the mechanism but taking active action to shape use of the mechanism by Party and non-Party actors.

The paper will elaborate how the role of the Body could be defined in each of these models, consider pros and cons of each model and ultimately develop recommendations on how to take Article 6.4 governance forward.

2 Operational Details of the Article 6.4 Mechanism

2.1 Objectives of the Mechanism

The Article 6.4 mechanism is to serve different objectives. These can be derived from Article 6.4 itself and from Article 6.1, which serves as a chapeau for all Article 6 activities. Building on these two paragraphs, the following five objectives can be discerned.

Promote climate change mitigation

- Promote environmental integrity (Art. 6.1);
- Promote the mitigation of greenhouse gas emissions (Art. 6.4 (a));
- Deliver an overall mitigation in global emissions. (Art 6.4 (d)).

Assist Parties' NDC implementation

- Allow Parties to cooperate in the implementation of their NDCs (Art. 6.1);
- To contribute to the reduction of emission levels in the host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfil its nationally determined contribution (Art. 6.4 (c)).

Allow for higher ambition

- Allow for higher ambition of Parties' mitigation and adaptation actions (Art. 6.1).

Promote sustainable development

- Promote (Art. 6.1) and foster (Art. 6.4) sustainable development.

Incentivize public and private entities

- Incentivize and facilitate the participation of public and private entities (Art. 6.4 (b)).

2.2 Potential Roles of the Article 6.4 Mechanism and its Supervisory Body

A key question for the governance of Article 6.4 is what role the mechanism as such should have. A main aspect here is what is the distinction between the mechanism and the other two approaches for cooperation established under Article 6?

According to the Paris Agreement, the Article 6.4 mechanism is to generate emission reductions that can be used by Parties other than the originating Party to fulfil their nationally determined contributions (NDCs). The role of the mechanism can thereby easily be distinguished from the non-market approaches provided for in Article 6.8-6.9, which will not generate transferrable emission reductions.

However, the distinction between the new mechanisms and the "cooperative approaches" provided for in Article 6.2 is not so clear. Both, "cooperative approaches" and the Article 6.4 mechanism, have the function to allow recipient Parties the use of emission reductions achieved on the territory of other Parties.

The key distinction of the two approaches is their governance. International supervision of "cooperative approaches" is not foreseen, only the adoption of guidance for Parties that want

to engage in cooperative approaches. By contrast, the Article 6.4 mechanism is to be governed internationally, on the basis of RMP adopted by the Parties and supervised by a body mandated by the Parties.

Some submissions have therefore proposed that Article 6.4 is especially for less developed Parties that do not have the capacity to participate in Article 6.2. In this vision, Article 6.2 would be the space for large-scale cooperation between Parties with high levels of technical capacity, e.g. through linking of emissions trading schemes or cooperation with respect to the implementation large-scale programmes or policies. Article 6.4, in turn, would be the space for Parties that do not have the capacity to establish and properly account for such large-scale cooperation (Obergassel 2016).

Further discussions revolve around the issue of what role the Body should have inside the mechanism. The current negotiating document (UNFCCC 2018) envisages two core options:

- A "centralised system" where the Body has a strong regulatory and approval function;
- A "host Part-led system" where Parties do most things on their own

The document also envisages a "dual system", where the mechanism would be operated by the Parties and the Body would assess their national processes rather than individual mitigation activities.

2.3 Current Status of the Negotiations on the Operation of the Mechanism

Before discussing the governance of the new mechanism in detail, it is necessary to establish how the mechanism is supposed to operate. The Paris Agreement and the decision by the Conference of the Parties adopting the

Agreement (Decision 1/CP.21) contain only few elements in this regard:

- The mechanism is established under the authority and guidance of the CMA (Art. 6.4 PA).
- The mechanism shall be supervised by a body designated by the CMA (Art. 6.4 PA).
- Emission reductions resulting from the mechanism shall not be used to demonstrate achievement of the host Party's NDC if used by another Party to demonstrate achievement of its NDC (Art. 6.5 PA). That is, there is to be no double counting.
- Use of the mechanism by Parties is voluntary (Art. 6.4 PA).
- Emission reductions resulting from mitigation activities need to be verified and certified by designated operational entities (DOEs) (Decision 1/CP.21 para 37 (d)).

According to the current negotiating text (UNFCCC 2018) a mitigation activity will need to complete the following steps in order to be registered and able to generate transferrable emission reductions.

1. **Design:** This will be the task of activity proponents; core elements are the description of the proposed activity, the demonstration of additionality, the establishment of a baseline scenario and an activity scenario to calculate the expected emission reduction, and a monitoring plan. The question is whether the Body will be given the mandate to develop/approve respective templates and methodologies.
2. **Authorisation:** The proposal will need to be authorised by a participating Party.
3. **Validation:** The proposal will probably need to be validated by a DOE. If the validation has a positive result, the DOE submits the proposal for approval and registration.
4. **Registration:** The activity will need to be registered by the Body. The question is

whether or not the Body will be given the authority to review and if necessary reject proposals.

5. **Implementation and monitoring:** The proponents implement the activity and will need to monitor the implementation and the emission reductions that are achieved.
6. **Verification and certification:** The monitoring will need to be verified and certified by a DOE. The DOE will then request issuance of A6.4 emission reductions.
7. **Issuance:** Units will be issued based on the reductions achieved. The question is whether or not Parties and/or the Body will be given the authority to review and if necessary reject issuance requests.
8. **Forwarding/transfer of units:** Units will be forwarded/transferred out of the mechanism registry in accordance with the instructions of the activity participants.

Based on the above, implementation of Article 6.4 activities will as a minimum involve the following actors:

- Activity proponents (i.e. public and/or private entities);
- Parties;
- DOEs;
- The Body;
- The Secretariat;
- Potentially further support bodies under the Body.

On the basis of the activity cycle, the following core functions will need to be performed to operate the mechanism:

- Development, standardization and approval of methodologies;
- Accreditation of DOEs;
- Authorisation and registration of activities;
- Monitoring of and reporting on activities and subsequent issuance of units;

- Registry development and maintenance.

In addition, a key function is arguably to ensure and periodically review whether the mechanism contributes to the purpose of the Paris Agreement. Critics argue that the Kyoto mechanisms may actually have increased global emissions by issuing credits for emission reductions that were actually not additional (Cames et al. 2016; Kollmuss, Schneider, and Zhezherin 2015). The objective of Article 6 goes even further than the objective of the Kyoto mechanisms. It is not just to facilitate compliance but to help increase ambition and achieve an overall atmospheric benefit. Therefore, there is not only a need to police the rules of the mechanism, but also to periodically question and review whether the mechanism as a whole including all of its rules is making a real and meaningful contribution to mitigation.

As noted above, some actors also have the objective to facilitate the use of the mechanism by countries with low domestic capacity. Promotion of an equitable geographical distribution of activities may therefore be another function to be performed.

The current negotiating text also envisages other functions such as promoting public awareness and facilitating dialogue. As these functions do not touch the core operation of the mechanism, they will not be discussed in the following.

3 Division of Labour in Article 6.4 Governance

3.1 Criteria for the Division of Labour

The following section will develop a list of criteria to guide the discussion on which roles to assign to which actors.

The controversy of whether to have a centralised or a Party-led system highlights that Parties have different criteria in their positions on how to design the new mechanism. As Schneider et al. note, there is a trade-off to be made. While centralised governance would facilitate comparability, consistency and thereby a minimum assurance of environmental integrity, such a system might be less adaptable to local circumstances. By contrast, decentralised governance would allow to better reflect local circumstances, but run the risk of failing to ensure a minimum level of environmental integrity (Schneider et al. 2016). The same consideration holds for the other objectives laid down in Article 6.1, raising ambition and promoting sustainable development.

Decentralised governance can nonetheless not be dismissed out of hand due to the strong role Parties are to play in the implementation of Article 6. Article 6.1 stipulates that "Parties may cooperate"; this is a very different orientation compared to the Kyoto mechanisms (notably the Clean Development Mechanism and Joint Implementation), where the host Parties often did not involve themselves very much in the implementation of measures.

As noted above, some actors also have the objective to facilitate the use of the mechanism by countries with low domestic capacity.

Another key distinction when deciding whether to have a centralised or a decentralised system is administrative feasibility and transaction costs.

The paper will therefore use the following criteria for the discussion of which roles to assign to which actors:

- Achievement of the overarching objectives according to Article 6.1 (raising ambition, sustainable development and environmental integrity);
- Party ownership;
- Facilitation of participation for countries with low capacity;
- Administrative feasibility and transaction costs.

3.2 Prototypical Governance Models

Given that no decision whatsoever has so far been taken on the role of the Body, it may be assigned vastly different roles, depending on what criteria to maximise for. At least four different prototypical models for the role of the Body may be envisaged:

- The Body could mainly be a "notary" - this is the "host Party-led model" which maximises

design of the mechanism toward the criterion Party ownership

- At the other end of the spectrum, the Body could be the "guardian of Paris objectives" - this is the "centralised system" where all registrations and issuances are subject to getting green light from the Body.
- An intermediate model is to have the Body act as "supervisor". This is the "dual system", where Parties have the main role in operating the mechanism but their actions are supervised by the Body.
- The Body may be made a "promoter of mitigation and sustainable development". In this role, the Body provides strong support to promote activities in less developed countries, e.g. through top-down development of methodologies.

The following will go through the functions needed to operate the mechanism and discuss what the governance of Article 6.4 could look like with each of these models.

3.3 "Functions and Division of Labour"

3.3.1 Accreditation of DOEs

Options

While in theory a Party-led model would not necessarily need to use DOEs, decision 1/CP.21 clearly establishes that emission reductions need to be verified and certified by DOEs. However, the decision does not specify who should have the competence to accredit the DOEs.

In the CDM, this function is performed by the CDM Executive Board. Similarly, the JI Supervisory Committee performs this function for JI Track 2. Under JI Track 1, Parties have had the option to accredit auditors nationally.

In the "guardian" model, the Body and its support structure would perform this function similarly to the CDM Executive Board and to the Joint Implementation Supervisory Committee. The Body would establish accreditation requirements and assess whether applicant entities fulfil these requirements. Furthermore, the Body would monitor the quality of the DOE's work and require re-accreditation at regular intervals.

However, doing the technical assessment work is beyond the capacity of the Body itself. In the CDM and JI Track 2 this work is therefore undertaken by the governing bodies' support structure. Both the CDM Board and the JISC established accreditation panels for this purpose; a further strong role is played by the Secretariat.

In the "notary" model, accreditation of DOEs would be left to the Parties. The Body could be mandated to make a list of all accredited DOEs publicly available.

In the "supervisor" model, accreditation of DOEs would also be done by Parties, but the Body would define core requirements. These requirements would need to cover not only the qualification and performance of the DOEs but also the national accreditation processes of Parties. The Body would also need to have the mandate so suspend or even completely withdraw the accreditation of DOEs if the Parties who accredited them are found to not comply with the quality requirements for their national processes.

A further option is a combination of Body accreditation, Party accreditation and use of other accreditation systems. For example, the Japanese-led Joint Crediting Mechanisms relies on entities accredited under the CDM or under ISO standard 14065 (Kachi, Sterk, and Tänzler 2013). In this option, Body accreditation could effectively serve as backstop to make sure that a some number of accredited DOEs is available globally. Here as well the Body could be

mandated to make a list of all DOEs accredited by Parties or other systems publicly available.

Discussion

An advantage of a Party-led system could be that it would open Article 6 for entities that would not be otherwise able to participate in a centralised system. The unequal geographical distribution of DOEs has been a concern under the CDM. This option would therefore maximise the criteria Party ownership and facilitation of participation for countries with low capacity.

However, such an approach would raise concerns regarding achievement of the goals of the Paris Agreement. Without centralised accreditation and supervision, the quality of work of different DOEs might deviate substantially from each other. Differing quality levels have been a concern under the CDM, so a centralised system is no guarantee for comparable high-level quality. But nonetheless the chances of maintaining high quality are higher than under a decentralised system. There is indeed an example of one DOE that performed normally under the CDM but had strong questions raised on its performance under JI Track 1 (Kollmuss, Schneider, and Zhezherin 2015).

The “supervisor” model would contain this risk to some extent. However, the supervision of national processes could hardly be as effective as the direct supervision of the DOEs themselves, especially if the Body is also not given a mandate to assess the individual activities. In such a setup, the Body would never have any direct contact with the work of the DOEs.

As for administrative feasibility and transaction costs, operating an accreditation process requires substantial resources. It seems questionable how many individual Parties would make this effort. This hypothesis is underlined by the example of the Joint

Crediting Mechanism (JCM) of Japan, which has no own accreditation system but uses CDM and ISO accreditation. Transaction costs would also be higher in the “supervisor” model due to the risk that the entirety of DOEs accredited by a country might be suspended or nullified if the national accreditation process of the country is found to not adhere to the international quality requirements.

At the same time, the resources for accrediting DOEs need to be mobilised somewhere. The administratively most feasible option therefore seems to be to mandate the Body with accrediting DOEs and to make Parties collectively responsible for funding this work.

3.3.2 Methodology Development and Approval

Options

The demonstration of additionality, establishment of baselines and development of monitoring plans requires some form of methodology. Under the CDM, project proponents have been able to develop methodologies, but these needed to be approved by the Executive Board. The Board and its support structure have also done some “top-down” methodology development and consolidation on their own. By contrast, under JI there are only criteria for baseline setting and monitoring, there is no requirement to have full methodologies approved.

In the “notary” model, oversight of how to determine baselines and how to monitor projects would be completely left to Parties. In the “supervisor” model, there could be international guidance on additionality, baseline setting and monitoring which Parties would need to adhere to when approving activities, and the Body would have the mandate to ensure that Parties adhere to the guidelines. This model might or might not

contain a separate step of national methodology development and approval. If there was such a separate step, the Body could supervise the national approval process. Otherwise, it would be limited to supervising the national processes for the authorisation of activities (see next section).

The “guardian” model would in principle work similarly to the CDM, but the content of this work might differ strongly. Under the CDM, the process of additionality demonstration, baseline setting and monitoring gave rise to frequent complaints about its complexity and associated high transaction costs (CDM Policy Dialogue 2012). Michaelowa and Butzengeiger propose that BAU projections, one of the key determinants for the calculation of baselines, should be established and regularly updated internationally by the Body, not at activity level (Michaelowa and Butzengeiger-Geyer 2017). This would be a further step along the methodology standardisation process that was started under the CDM with the establishment of standardised baselines.

A further question is what should be the role of the Body and its support structure in relation to policy-based activities. While it was not possible to register national policies under the CDM or JI, it is likely that this will be possible under Art. 6.4. The CDM Executive Board had substantial difficulties dealing with policy-related questions. For example, it was unable to agree on a revision of its original decision that climate policies do not need to be taken into account in baseline setting. It also failed to clarify whether national climate policies need to be taken into account in the demonstration of additionality (Cames et al. 2016).

It can be expected that in relation to Article 6 such fundamental questions will also need to be answered by the Parties, not the Body. However, if the fundamental question whether and how to take policies into account can be resolved by the Parties, there seems no reason

why the Body could then not engage in the more technical work on developing methodologies to determine the additionality of policies and to quantify their mitigation impact.

Finally, this function could also entail the development of methodologies and tools to assess whether and to what extent activities promote sustainable development, as called for in Article 6.1.

Discussion

Again, leaving the questions of baseline setting and monitoring to Parties would maximise Party ownership of the mechanism, but at the expense of comparability and transparency, and thereby create the risk that the objectives of the Paris Agreement are not achieved.

Having a centralised methodology development would facilitate transparency and comparability and thereby achievement of the Paris Agreement’s objectives. A centralised process could also be particularly important to promote the participation of countries with low capacity. The Body could use this function to adapt methodologies to the needs of such countries. The CDM Board already did work in this regard, including top-down development of methodologies, development of standardised baselines and special rules for small-scale and micro-scale projects.

In the “supervisor” model, transparency and comparability would be greatly enhanced if there was a requirement to use approved methodologies. However, having each host Party have its own methodology approval process would mean higher transaction costs. A centralised approval process under the Body would have lower transaction costs. Having no requirement to use approved methodologies would mean no transaction costs for the approval process. But a lack of approved methodologies also means more work in the

activity design phase, and more work for Parties, DOEs and the Body when assessing activity proposals.

3.3.3 Authorisation and Registration of Activities

Options

Activities will need to be authorised by the Parties involved. Given the changed framework conditions under the Paris Agreement, host Parties will need to play a substantially more prominent role in activity approval than under the CDM. As they will have to account for any transfers, they will need to make sure that all activities on their territory are aligned with their NDCs and actually achieve additional emission reductions (assuming their NDCs are ambitious and built on robust data).

The question is whether there should in addition be an international registration process with some form of assessment of proposals by the Body. Under the CDM and JI Track 1, the Board and the JISC have the mandate to conduct reviews if there seem to be deficits in project proposals, and have the option to reject registration requests if the deficits are not remedied. Under JI Track 1, there is no such international process; projects are only approved by the Parties involved.

The “guardian” model would follow the example of the CDM and JI Track 2. The “notary” model would follow JI Track 1, with the Body simply keeping track of the authorisation decisions made by Parties. In the “supervisor” model, the Body would have the mandate to supervise Parties’ national authorisation processes. However, for cases where a national process is found to be deficient, the Body would also need to have a mandate to review individual activities and to withdraw their registration if they are found to not conform to requirements.

Discussion

Having no assessment function for the Body would maximise Party ownership. One may also posit that the validation of proposals by the DOEs would be sufficient to ensure environmental integrity (Bürgi et al. 2017). Not having an additional layer of scrutiny at Body level would also minimise transaction costs.

However, Parties with weak NDCs do not necessarily have an incentive to ensure the environmental integrity of Article 6.4 activities (Schneider et al. 2017; Hermwille and Obergassel 2018). Moreover, it is worth noting that the registration process has changed over the history of the CDM. At the beginning, the expectation was that validation of proposals by the DOEs would be sufficient and that reviews by the Board would be the exception. However, over time the Board came to the opinion that the work of the DOEs was not sufficient. There was also criticism that these deficits were in-built as the DOEs are hired and paid by the project proponents; critics therefore saw a systemic conflict of interest (Kreibich and Fechtner 2013; Michaelowa and Buen 2012). The Board therefore established additional scrutiny by the Secretariat, a completeness check and an information and reporting check to determine whether the registration request is complete and contains all necessary information.

Again, a key question is whether the Body may have a role in assessing policy-based activities. One may posit that such an assessment would infringe on the sovereignty of Parties. However, use of Article 6.4 is voluntary, no Party is forced to make use of the new mechanism. Given the high risk that unsupervised transfers could result in transfers of ‘hot air’ (Schneider et al. 2017), one might posit that use of Article 6 should be a privilege for Parties that are willing to subject themselves to international review.

Apart from the question of environmental integrity, under the CDM Parties also did not

have a flawless record in screening out projects with negative impacts on sustainable development. Accusations of severe human rights violations have been made on a number of projects (Oberghassel et al. 2017). Having an international assessment of projects would facilitate achieving the sustainable development part of the Article 6.1 objectives.

Having an international assessment of registration requests would entail higher transaction costs at this stage. However, without such an international process buyers may see a need to conduct their own assessment of the robustness of activities. No international assessment would therefore mean less transaction costs at the international level and on the side of activity proponents, but possibly more transaction costs on the side of buyers.

3.3.4 Issuance

Options

For the issuance of A6.4ERs there again is the question whether the Body should be involved in assessing whether the mitigation outcomes claimed by the project proponents have actually been achieved. Again, the mechanism could follow the JI Track 1 model of no international assessment or the JI Track 2/CDM model of having the Body and its support structure review and if necessary reject deficient issuance requests.

In either case, the Body would have the function to execute issuances, even if it did not have a role in assessing them.

A further question is whether it is necessary or desirable for Parties to have a role in the approval of issuances.

Discussion

The arguments for whether or not the Body should have a mandate to assess issuance requests are essentially the same as for the question of registration requests. Body scrutiny would mean a better guarantee of achieving the objectives of the Paris Agreement, higher transaction costs internationally and on the side of activity proponents, but possible lower transaction costs on the side of buyers. Ex-post scrutiny can be especially important for the sustainable development aspect of Article 6.1, as problems may become visible only during the implementation stage.

Whether host countries should have a role in approving issuances is a double-edged question. On the one hand, host countries need to make sure that issuances are aligned with their NDCs. On the other hand, requiring host country approval would give host countries the opportunity to rescind authorisation decisions through the back door and keep emission reductions for themselves. To minimise uncertainty and associated transaction costs, the role of host Parties should therefore arguably be limited to the authorisation stage.

3.3.5 Promotion of Mitigation and Equitable Geographical Distribution

Options

The question for this function is whether the Body should have the mandate to actively support the use of the new mechanism in countries with low capacity.

The Body could build on the work conducted under the CDM. The Board established a loan scheme to establish projects in underrepresented countries. It also established regional collaboration centres in the Caribbean, East Asia, and Western and Eastern Africa to support local project development. The Board

also established a mechanism to financially support the development of standardized baselines in a particular country.

The Body could potentially also work as “matchmaker” between host countries and buyer countries, collecting proposals for activities from less developed countries and trying to stimulate interest among buyer countries.

Discussion

Performance of this function is not so much a question of integrity, but rather of maximising participation for countries with low capacity. The main question is therefore whether the Body should be endowed with the necessary resources to carry out this work. For the foreseeable future, such work would need to be funded by Parties.

3.3.6 Strategic Review

Options

The modalities and procedures of the Kyoto mechanisms included provisions on scheduled reviews. The CDM Executive Board and the JI Supervisory Committee contributed to these reviews by reflecting on their experience and providing recommendations. The CDM Executive Board even established a High-Level Panel of outside experts and commissioned a research programme in order to have a thorough reflection of future pathways for the mechanism (CDM Policy Dialogue 2012).

Conducting such reviews would be a part of both the “supervisor” and the “guardian” model. By contrast, the “notary” Body would not exercise such a function.

Discussion

Article 6 defines ambitious objectives but at the same time constitutes substantial trade-offs and perverse incentives. Instead of raising their ambition, host Parties may be tempted to keep their NDCs weak and inflate their emission baselines in order to maximise the amount of emission reductions they can sell. Acquiring Parties may be tempted to overly rely on the use of Article 6, neglecting domestic action and thereby locking in high-emission development pathways. Whether the CDM contributed to sustainable development has also been a matter of controversy.

Regular strategic reviews of the performance of the Article 6.4 mechanism therefore seems called for in order to safeguard the mechanism’s contribution to the achievement of the Paris Agreements’ objectives. In this function, a strong role of the Body would arguably not conflict with the criterion of Party ownership, as any changes to the core rules of the mechanism would need to be adopted by the CMA. In addition to the core objectives of the Agreement, strategic reviews could also cover issues of geographical distribution and transaction costs.

3.3.7 Registry Development and Maintenance

The Article 6.4 register is the core technical infrastructure needed to keep track of the activities registered under the mechanism and of the achievement and transfer of emission reductions. It is very likely that the Body and its support structure will have this function in any case, it will therefore not be discussed in further detail in this paper.

4 Discussion

This paper has aimed at elucidating what functions the Article 6.4 supervisory body could have. The paper elaborated on what steps the mechanism’s activity cycle will likely include, and on this basis discussed what functions the Body could have in each of the steps. The following table summarises what assignment of roles is possible and which assignments have already been decided. An ‘X’ denotes that the Paris Agreement or Decision 1/CP.21 have already stipulated that an actor should have a particular role, while an ‘(X)’ denotes options that still need to be decided on.

- The role of the Body and its support structure is generally not yet clear. There has not yet been a decision on its role in any of the functions.
- By contrast, the roles of Parties and DOEs are already relatively clear.
- No responsibility has so far been assigned for the functions DOE accreditation, methodology development/approval, geographical distribution and strategic review.

Given that no decision whatsoever has so far been taken on the role of the Body, it may be assigned vastly different roles, depending on

This overview reveals the following aspects:

	CMA	Parties	Body	Secretariat	Other support bodies	DOE	Proponents
DOE accreditation	(X)	(X)	(X)	(X)	(X)		
Methodology development		(X)	(X)	(X)	(X)		(X)
Authorisation & Registration		X	(X)	(X)	(X)	(X)	
Monitoring, Reporting & Issuance		(X)	(X)	(X)	(X)	X	X
Registry		(X)	(X)	(X)			
Geographical distribution	(X)	(X)	(X)	(X)			
Strategic Review	(X)	(X)					

Table 1: Functions and Actors in the Operation of the Article 6.4 Mechanism

what criteria to maximise for. This paper has identified four prototypical models that could be followed. The below table illustrates the assignment of functions to the four models. One '+' denotes a small role whereas three '+' denote a strong role.

It bears repeating that these are prototypical models. Functions could also be combined differently.

While weighing the different criteria that speak in favour of the different models includes a degree of subjectivity, the authors consider that achievement of the objectives of the Paris Agreement should be the paramount criterion. The history of in particular JI Track 1 has shown that environmental integrity may be breached severely without international oversight. Schneider et al. found that the current NDCs contain a considerable amount of 2.2 to 3.5 Gt CO₂-eq. of 'hot air' (Schneider et al. 2017). From this perspective, the 'notary' model seems out of the question.

Weighing the 'guardian' and the 'supervisor'

models, the integrity of DOEs and the reliability and transparency of methodologies are particularly central pillars of maintaining environmental integrity. If these functions are centralised under the Body, one may consider dispensing with having the Body assess individual activity proposals and issuances.

While the 'notary', 'guardian' and 'supervisor' roles are mutually exclusive, the 'promoter' is rather a complementary role which could be added to any other role. For example, even if the Body is only made a 'notary' in the operation of the activity cycle, it might still be given the task to develop methodologies or to promote equitable geographical distribution of activities.

Whatever role is chosen, the history of the Kyoto mechanisms shows that regular review of the operation of the new mechanism will be crucial to safeguard its contribution to the Paris objectives. The risk of misuse by countries with low ambition looms large.

In addition to regular reflection by the Body,

	Notary	Guardian	Supervisor	Promoter
DOE accreditation	+	+++	++	+
Methodology development		+++	++	+++
Authorisation & Registration	+	+++	++	+
Issuance	+	+++	++	+
Geographical distribution				+++
Strategic Review		+++	+++	
Registry	+++	+++	+++	+++

Table :2 Prototypical Models for the Role of the Body

implementation of the Article 6.4 mechanism could also be examined under the Global Stocktake. The process under the Global Stocktake might have less of an insider perspective and might therefore be better able to discern unwelcome developments within the mechanism.

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