Caribbean Community Climate Change Centre

CARICOM

# CARICOM Article 6 Negotiations Handbook

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# Purpose of the Guidebook

With the adoption of the Paris Agreement in 2015, the rules governing the international carbon markets will be fashioned in a bottom-up manner and transition from the top-down architecture of the market mechanisms under the Kyoto Protocol. The voluntary market-, and non-market-based mechanisms, of the Paris Agreement aim to facilitate ambition in mitigation and adaptation, and foster sustainable development and poverty eradication, which are among the objectives of the Agreement.

The market-, and non-market -based mechanisms in the Paris Agreement are defined in its Article 6. Under Article 6.2 (also called 'cooperative approaches' ), Parties can voluntarily participate in bilaterally governed cooperative approaches to generate and trade carbon credits, while under Article 6.4 (also known as the sustainable development mechanism), Parties can similarly voluntarily participate on a multilateral basis to generate and trade carbon credits, with an associated multilateral governance structure. The multilateral approach in Article 6.4 is specifically aimed at fostering sustainable development. In addition, a framework for non-market-based approaches under Article 6.8 will allow Parties to engage in cooperation that does not involve the transfer of emission reduction credits, but rather holistic non-market approaches that are aimed at assisting in sustainable development and poverty eradication. However, Parties are yet to agree on the rules for operationalizing the three Article 6 approaches. The COVID-19 pandemic caused a delay in negotiations as the COP to be postponed from 2020 to 2021. If Parties can agree on the details of the rules, an international framework on Article 6 will be adopted at COP 26 in Glasgow on 31st October – 12th November 2021. There are many issues that need to be resolved in order to arrive at consensus on rules, including how the provisions of Articles 6.2 and 6.4 can be reconciled given the interests expressed by Parties, as well as how to treat with credits generated under the Kyoto Protocol market mechanisms in the new Paris Agreement cooperative approaches

With these outstanding issues needing resolution, it is important that negotiators engage constructively and meaningfully to contribute to the negotiations to finalize Article 6. This guidebook therefore aims to (i) facilitate understanding of the issues under negotiation in a simplified yet comprehensive manner and (ii) contribute to strengthening negotiation skills based on this understanding, including through mobilizing support for the CARICOM positions. The Caribbean Community Climate Change Centre (CCCCC) therefore, that coordinates the CARICOM region's response to climate change, was able to secure funding via the Government of the United Kingdom to modify this handbook and provide it as a reference guide to aid CARICOM negotiators and policymakers on Article 6 of the Paris Agreement. This handbook is adapted from the Article 6 negotiators handbook published for East African negotiators by GIZ and Perspectives, and has been produced in a more simplified and generalised manner. It briefly summarizes the history of the Article 6 negotiations and the architecture of Article 6 (sections 2.1 and 2.2) before presenting the key outstanding negotiation issues. Chapter 3 discusses a selection of specific practical implications of the

Article 6 framework, namely the transition of CDM activities and Article 6 pilots. In chapter 4, strategic approaches for eliciting support for negotiation positions are outlined. In the Annexes, readers will find key resources that delve further into the topics presented throughout the handbook.

***It is recommended that this handbook be read in conjunction with the Article 6 Training Modules[1] prepared for CARICOM, which provides essential background material.***

[1] Training Modules available here

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## Abbreviations

| | |
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| A6TER | Article 6 Technical Expert Review |
| A6.4ER | Article 6.4 Emission Reductions… |
| ABM | Adaptation Benefit Mechanism |
| BTR | Biennial Transparency Report |
| CA | Corresponding Adjustment |
| CARP | Centralized Accounting and Reporting Platform |
| CCXG | Climate Change Expert Group |
| CDM | Clean Development Mechanism |
| CDM EB | Clean Development Mechanism Executive Board |
| CER | Certified Emission Reduction |
| CMA | Conference of the Parties serving as meeting of the Parties to the Paris Agreement |
| CMM WG | Carbon Market Mechanisms working group |
| CMP | Conference and Meeting of the Parties to the Kyoto Protocol |
| COP | Conference of Parties |
| DNA | Designated National Authority |
| DOE | Designated Operational Entity |
| ECBI | European Capacity Building Initiative |
| ERCST | European Roundtable on Climate Change and Sustainable Transition |
| ETF | Enhanced Transparency Framework |
| ETS | Emission Trading Scheme |
| FVA | Framework for various approaches |
| GHG | Greenhouse gases |
| IET | International Emissions Trading |
| IETA | International Emissions Trading Association |
| ITMO | Internationally Traded Mitigation Outcome |
| JCM | Joint Crediting Mechanism |
| JI | Joint Implementation |
| KP | Kyoto Protocol |
| LDC | Least Developed Country |
| LULUCF | Land Use, Land Use Change and Forestry |
| MPG | Modalities, Procedures and Guidelines (of the ETF) |
| NAMA | Nationally Appropriate Mitigation Action |
| NDA | Nationally Designated Authority |
| NDC | Nationally Determined Contribution |
| NMA | Non-market-based approach |
| NMM | New market mechanism |
| OMGE | Overall mitigation in global emissions |
| PA | Paris Agreement |
| PoA | Programme of activities |
| SB | Supervisory Body |
| SBSTA | Subsidiary Body for Scientific and Technological Advice |
| SCF | Standardized Crediting Framework |
| SIDS | Small island developing states |
| SOP | Share of proceeds |
| UNFCCC | UN Framework Convention on Climate Change |

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## 1. Introduction

The Paris Agreement requires all Parties to define *Nationally Determined Contributions* (NDCs) with mitigation targets; most developing countries also define adaptation actions in their NDCs. NDCs are to be submitted every five years with a view to increasing ambition in their NDC targets. As it stands, the sum of the mitigation commitments in the current NDCs is inconsistent with an emissions path to achieve the PA's goal of containing climate change "well below" 2°C and pursuing efforts to limit the temperature increase further to 1.5°C. The market-, and non-market-based mechanisms under Article 6 can not only assist countries to raise their mitigation ambition through international cooperation, as market mechanisms can lower the cost and increase the flexibility of achieving mitigation outcomes, but also increase of adaptation ambition by Parties, including through provisions in the 6.4 mechanism relating to share of proceeds. Article 6 establishes three avenues for voluntary cooperation between Parties:

- **Article 6.2: Cooperative approaches,** provides for the bilateral or multilateral international trading of what are referred to as 'mitigation outcomes'. The rules governing Article 6.2 is determined by Parties but being consistent with international guidance, and reporting and transparency requirements.
- **Article 6.4: The mechanism for mitigation and sustainable development** (sometimes called 'sustainable development mechanism') provides for a multilaterally governed mechanism and is seen by some countries as the successor of the Clean Development Mechanism (CDM) under the Kyoto Protocol (KP).
- **Article 6.8** recognizes the importance of integrated, holistic and balanced non-market approaches to promote mitigation and adaptation ambition and Article 6.9 defines a **'framework for non-market approaches to sustainable development '(NMAs),** which aims to enhance collaboration in the context of sustainable development and poverty eradication.

While the broad contours of these approaches are outlined in the Paris Agreement, Parties still need to finalize the rules and guidance for operationalizing Article 6, as Parties were unable to reach an agreement on the "Guidance for cooperative approaches" for Article 6.2, "Rules, modalities and procedures" for the Article 6.4 mechanism as well as the "Framework for NMA" of Article 6.8 at COP24 and COP25. At the latter in 2019, the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) concluded with a procedural decision referencing three different proposals by the COP Presidency for the Art.6 decision texts as a basis for further negotiations at COP26 (see decision 9/CMA.2).

In light of the challenges posed by the Covid-19 pandemic, where in 2020, for the first time since the UNFCCC[2] entered into force, neither COP nor subsidiary body meetings were held, COP26 in Glasgow

[2] The UNFCCC entered into force on March 21, 1994

on 31 October – 12 November 2021 hosted by the UK is expected to bring resolution to the outstanding issues.

One aspect of the negotiations includes how to treat with credits generated under the Kyoto Protocol market mechanisms. A significant number of CDM projects and *Programmes of Activities* (PoA) have been registered in various host countries (UNEP DTU 2020). How these activities may be eligible, and transition to the Paris Agreement context remains unclear. The Doha Amendment to the Kyoto Protocol defines a second commitment period or the period in which Kyoto Protocol Parties are expected to meet their targets. Although the Doha Amendment came into force at the very last possible moment, it means the second commitment period of the Kyoto Protocol still becomes relevant and could generate demand for CDM credits until the end of the 'true up' period or 'additional period for fulfilling commitments' in 2023. The absence of decisions by Parties in relation to the Article 6.4 mechanism and whether CDM activities can transition to it has led to uncertainty for stakeholders. This uncertainty is compounded by the absence of a decision of the Conference and Meeting of the Parties to the Kyoto Protocol (CMP) in relation to CDM activities in 2020 due to the postponement of the COP because of the COVID-19 pandemic. That has meant that the CDM EB, has been required to address the question of what to do with CDM activities relating to the post 2020 period during 2021 before the CMP meets in Glasgow(see detailed discussion in section 2.3.3). Additionally, some Parties have already started piloting concrete Article 6 activities around the world. This allows for inputs from practical experiences from regional piloting activities into the negotiations that will ensure that Art. 6 rules reflect the circumstances and priorities of CARICOM SIDS and Least Developed Countries (LDCs), including preventing barriers to participation. Finally, market mechanisms can generate contributions to adaptation finance (e.g., through a share of proceeds to the Adaptation Fund under the CDM).

Even though negotiations have been postponed, the discussion on Article 6 rules has continued in different informal virtual fora such as roundtables hosted by the European Roundtable on Climate Change and Sustainable Transition (ERCST), the climate change expert group (CCXG) of the OECD, virtual carbon market pavilion of the International Emissions Trading Association (IETA), and the Carbon Market Mechanisms Working Group (CMM WG) convened by Perspectives. In addition, in 2020 and 2021, there were informal technical expert dialogues and informal sessions convened by the COP presidencies and the Subsidiary Body for Scientific and Technological Advice (SBSTA)[3].

[3] https://unfccc.int/process/the-paris-agreement/cooperative-implementation

Against this backdrop, this guidebook on Article 6 negotiations has two main objectives:

1) To facilitate understanding of Article 6 negotiation matters in an comprehensive yet simplified manner, and
2) To contribute to strengthening negotiation skills based on this understanding, including through mobilizing support for the CARICOM positions.

This handbook is adapted from a recent publication[4], and draws on relevant publications (pocket guides) of the European Capacity Building Initiative (ECBI)[5]. These and other useful resources that provide introductions and overviews to climate negotiations are listed in **Annex I**.

[4] Article 6 Negotiations Handbook for Eastern Africa

[5] https://ecbi.org/pocket-guides

# 2. Review of negotiations on Article 6 of the Paris Agreement

## 2.1. Historical evolution of Article 6 negotiations

**Key messages of section 2.1**

- The market mechanisms under the Kyoto Protocol, in particular the CDM serve as source of experience on issues negotiated under Article 6.
- Lessons can also be drawn from the historical carbon market experience. Carbon markets underwent several 'ups' and 'downs'. The carbon market crash of 2011 shows the importance of sufficient, reliable demand and policy certainty for functioning carbon markets.
- Market mechanisms are complex in climate negotiations.
- While their adoption was initially scheduled for 2018, the 'rulebook' for the three Article 6 approaches are still being negotiated. The delay of UNFCCC negotiations due to the COVID-19 crisis has led to further delay in finalizing Article 6 rules. However, a group of 32 countries has agreed on common "San Jose principles" for Article 6 activities in order to avoid delaying implementation.
- The key differences of the Paris mechanisms to the Kyoto mechanisms are (i) the commitment of all Parties to mitigation objectives posing challenges for accounting and additionality, (ii) limited international oversight of Article 6.2 approaches and (iii) the introduction of new types of carbon market cooperation such as the crediting of sectoral measures and policy instruments.

### 2.1.1. Brief summary of negotiations leading to Article 6

Cooperative mechanisms are not new to the international climate change regime. They were already introduced under the Convention as Activities Implemented Jointly (AIJ)[6] and market mechanisms under the Kyoto Protocol,[7] where Parties established three mechanisms: Joint Implementation (JI); Clean Development Mechanism (CDM), and International Emissions Trading (IET). The CDM is a multilaterally governed baseline and credit mechanism. It enables developed countries to achieve part

[6] By its decision 5/CP.1, the Conference of the Parties (COP), at its first session, decided to establish a pilot phase for activities implemented jointly (AIJ) among Annex I Parties and, on a voluntary basis, with non-Annex I Parties that so request

[7] Even before the adoption of the KP, so-called Activities Implemented Jointly were piloted under the UN Framework Convention on Climate Change. This program was crucial for the emergence of the Kyoto mechanisms.

of their objectives under the KP by purchasing carbon credits (Certified Emission Reductions, CERs) resulting from mitigation projects in developing countries that also contribute to sustainable development. Over time, the CDM has been reformed, e.g., by introducing programmatic approaches and simplified methodologies. It continues to evolve to this day, often with the objective to increase access by underrepresented countries. JI is a baseline and crediting mechanism for developed countries and those in transition with emissions targets under the KP. IET covers trading of 'Assigned Amount Units' under developed countries' KP commitments.

The Kyoto mechanisms serve as sources of experience on issues negotiated under Article 6. Since their inception, the use of market mechanisms has had ups and downs. Lessons can also be drawn from observed carbon market dynamics, such as the carbon market crash from 2011 onwards, which was caused by a reduction of demand and an increase in supply and a high degree of uncertainty about what international climate policy regime would succeed the Kyoto Protocol.

In international climate negotiations, market mechanisms are often complex issues. It is often challenging to identify technical solutions for competing political objectives among Parties. Such complexities are also included in the negotiations of the three main components of Article 6 (cooperative approaches, multilateral mechanism, non-market approaches).

These discussions have been evolving since the early days of the Kyoto Protocol. In 2007 at the Bali Conference, Parties decided to establish a new approach to enhance the domestic mitigation contribution by developing countries, so-called Nationally Appropriate Mitigation Actions (NAMAs). When negotiating the successor agreement to the KP, Parties pursued negotiations on market mechanisms in two tracks: the so-called 'new market mechanism' (NMM) and the 'framework for various approaches' (FVA) for bilateral cooperation and non-market-based initiatives.

### 2.1.2. Brief summary of Article 6 negotiations since COP21 until today

While the PA defined high-level principles for Article 6, the technical details to its operational guidance still required negotiation, which is still ongoing. Historically, the same happened under the KP with the detailed rules for the Kyoto mechanisms enshrined in the 'Marrakech Accords' of 2001. Parties continue to discuss 'Guidance for Article 6.2' and 'Rules, Modalities and Procedures' for Article 6.4, as well as the framework for non-market approaches. These Article 6 rules were initially scheduled to be adopted at CMA1 in 2018 in order to become operational in 2020.[8] Although Parties have made considerable progress in fleshing out Article 6 rules, critical outstanding issues remain to be resolved. During COP24, the Subsidiary Body for Scientific and Technological Advice (SBSTA) developed draft decision text. In the high-level segment during the second week of negotiations, the Polish COP

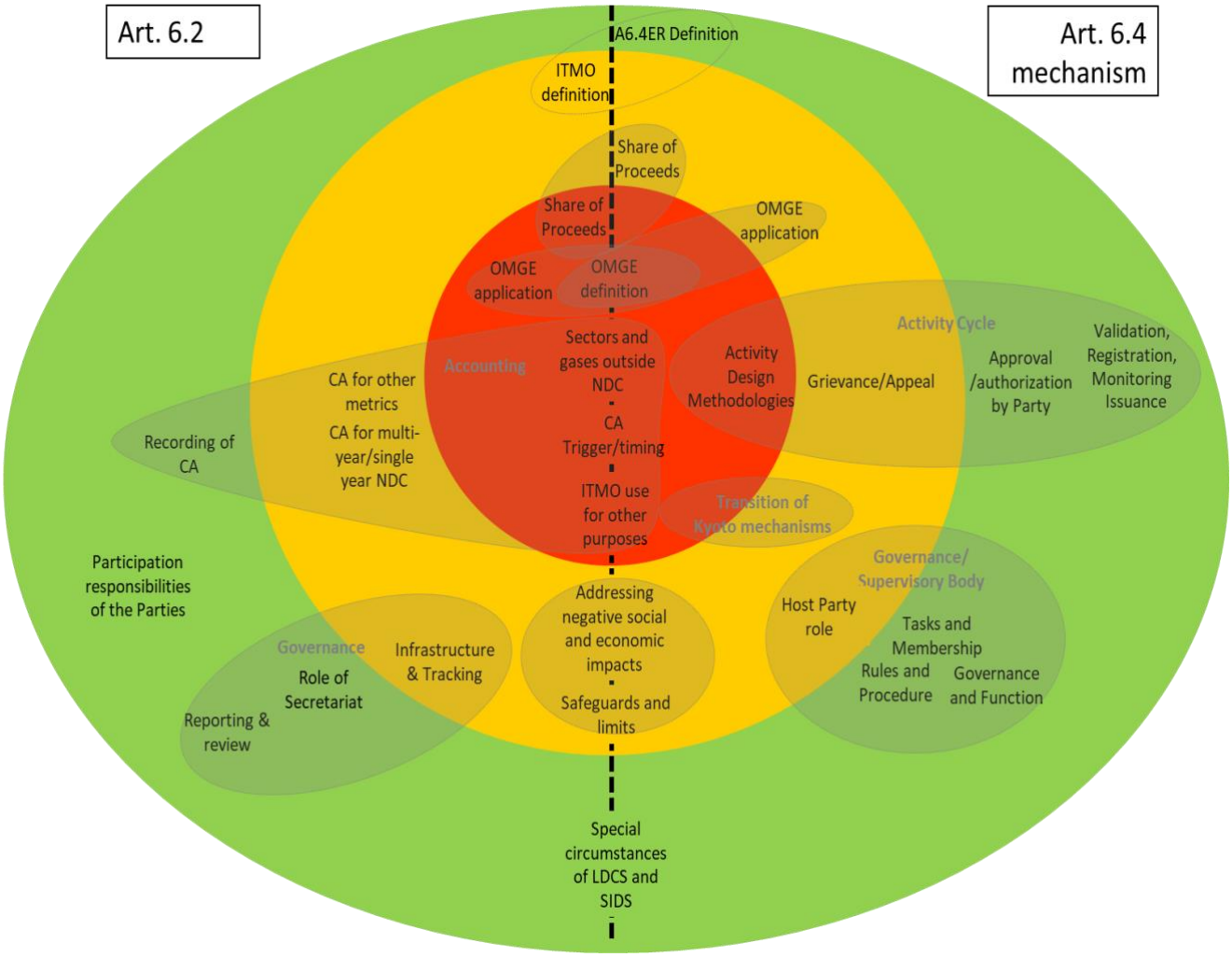
[8] For a complete year by year summary, please refer to the archives of the Earth Negotiations Bulletin (ENB), which can be accessed online (in English and French) or the Negotiation Guide published by the Institut de la Francophonie pour le Developpement Durable on its website (in French and English).

presidency circulated different draft texts seeking to identify solutions for contentious points in the negotiations and suggestions to reduce the number of brackets in the text. However, Parties could not come to an agreement and deferred the decision to COP25 based on three draft decision texts, one for Art. 6.2, 6.4 and 6.8 (Decision 8/CMA.1; Pouffary et al. 2019).

Although substantive work and considerable progress on critical issues was made by the SBSTA, and as it was already a priority for COP25 in 2019 to finalize Article 6, negotiations were pursued on the political level through Heads of Delegations meetings in parallel to the technical work in SBSTA. In the high-level segment during the second week of negotiations, the Chilean COP Presidency convened informal roundtables to produce compromise negotiation text. Still, key contentious issues (see below) could not be resolved despite record 'overtime' of negotiations lasting almost two days beyond the official schedule. The CMA took a procedural decision that merely referenced three different versions of decision texts by the COP Presidency. Figure 2 and Figure 3 show the development of contentious negotiation issues. The grey circles show overarching negotiation 'topics' (e.g., accounting) associated with specific negotiation issues. It shows which negotiation issues were moved to a green 'compromise zone' between COP24 and COP25 and which ones are still highly contested (in the red circle). Pending issues which might emerge as controversial are located in the yellow circle.

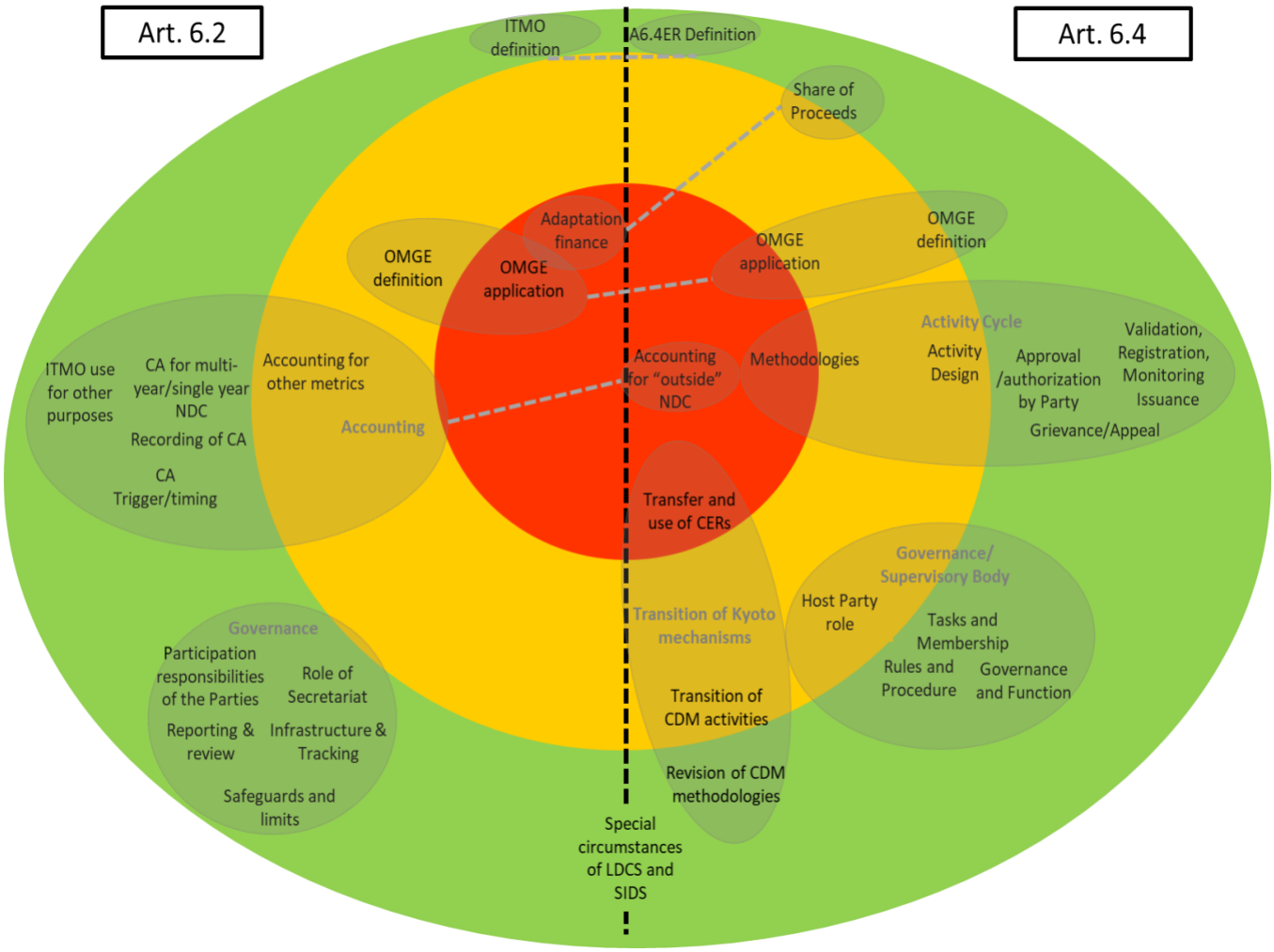
As is generally valid in climate negotiations, if there is no agreement on all issues, any issue can be reopened ("Nothing is agreed until everything is agreed"). As there was no resolution on Article 6 at COP 25, a group of 32 countries led by Costa Rica and Switzerland proposed common principles, the so-called "San José Principles", for the use of Article 6 mechanisms (DCC 2019) which were published before the end of COP25.

*Figure 1: Contentious negotiations issues at COP24*




*Source: Michaelowa et al. 2019*

*Figure 2: Contentious issues after COP25*




*Source: Vivid Economics and Perspectives 2020*

### 2.1.3. Key differences to the Kyoto Protocol

The PA carbon markets show some key differences from the Kyoto mechanisms:

- Contrary to the KP, in which only industrialized country Parties committed to mitigation targets, all countries have agreed to make national contributions to reaching the mitigation target of the Paris Agreement. The targets are defined in countries' NDCs which are developed bottom-up and differ from each other in many features (e.g., different metrics such as renewable energy or reforestation targets, as well as different target years and timeframes). The implementing provisions for Article 6 instruments therefore need to take this diversity into account. This poses significant technical complexity regarding accounting for mitigation outcomes and additionality. Moreover, since all

countries have NDCs, substantive interactions between Article 6 and the Enhanced Transparency Framework (ETF), for which the Modalities, Procedures and Guidelines (MPG) have been adopted in 2019, need to be considered. While the MPG include flexibility provisions for developing countries, in particular LDCs and SIDs, all countries need to account for the implementation of their NDCs.

- While the multilateral Article 6.4 mechanism will be governed through a Supervisory Body (SB), cooperative approaches under Article 6.2 are also subject to international oversight. Consequently, accounting, transparency and reporting processes are central for ensuring the environmental integrity of Article 6.

## 2.2. Architecture of Article 6

The following subsections introduce key features, elements of convergence and open issues for each component of Article 6.

**Key messages of section 2.2**

- Article 6 has three main components: cooperative approaches (Art. 6.2), a sustainable development mechanism (Art. 6.4) and a framework for non-market-based approaches (Art.6.8).
- Cooperative approaches include the voluntary exchange of Internationally Traded Mitigation Outcomes (ITMOs) between Parties. These approaches offer flexibility in design and implementation by Parties consistent with guidance from the Paris Agreement Parties. Key principles are to apply robust accounting, avoid double counting of mitigation outcomes, promotion of sustainable development, and ensure environmental integrity and transparency. The international accounting and reporting framework is the cornerstone of the guidance for cooperative approaches that needs to be adopted at COP26. Accounting for transactions will be operationalized through so-called corresponding adjustments. While the basic principle is clear, the details of how Parties perform corresponding adjustments still need to be agreed.
- The multilateral mechanism will generate carbon credits for mitigation activities authorized by host countries, which can be used towards the domestic NDC target or transferred internationally. The mechanism will be overseen by a Supervisory Board under multilateral oversight. The activity cycle will likely be similar to the CDM. In order to participate, host countries must have communicated a NDC and a DNA as focal point with potentially expanded oversight functions compared to CDM.
- The framework for non-market based approaches under Article 6 does not define a mechanism or financing instrument and instead will combine approaches which do not involve the transfer of mitigation outcomes through market-based approaches. These could refer to mitigation, adaptation, finance, technology transfer, and capacity-building approaches.

### 2.2.1. Cooperative approaches

Article 6.2 guides voluntary exchanges of Internationally Traded Mitigation Outcomes (ITMOs) between Parties to facilitate achieving NDCs, the so-called cooperative approaches. These approaches will need to be consistent with the guidance adopted by the CMA and are characterised by considerable flexibility in the design and implementation. They may include a broad range of activity types, ranging from bilaterally governed crediting mechanisms such as the Japanese Joint Crediting Mechanism (JCM)[9] to mitigation policies (such as carbon taxes, emissions trading schemes (ETS), or renewable energy auctions) that have an international component with another Party. International guidance will be limited to the accounting, reporting, and review of transactions.

Article 6.2 lays out key principles for cooperative approaches (see Box 1). *Double counting,* i.e., using or selling the same emission reduction towards two or more mitigation contributions, is a key risk to the environmental integrity of cooperative approaches. Hence, a robust international accounting and transparency framework is the cornerstone of the Article 6.2 guidance.

*Box 1: Article 6.2, Paris Agreement*

"Parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred mitigation outcomes towards nationally determined contributions, **promote sustainable development** and **ensure environmental integrity and transparency**, including in governance, and shall **apply robust accounting** to ensure, inter alia, the **avoidance of double counting** consistent with guidance adopted by the [CMA]."

However, the differences among NDCs regarding objectives, metrics used, timeframes, and sectors covered make developing standard accounting rules extremely challenging. Nevertheless, points of convergence have emerged from the negotiations:

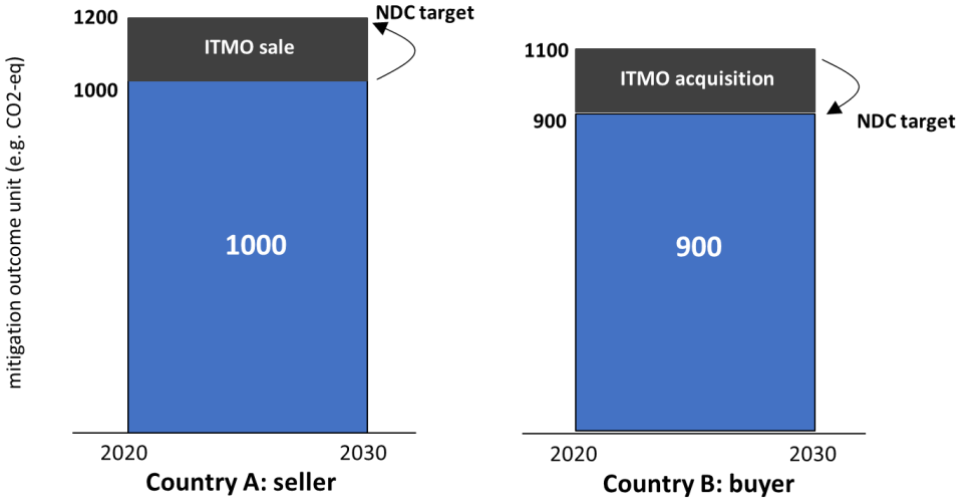
(1) In the current negotiation text, ITMOs are defined as emission reductions resulting from an A6.2 approach or an A6.4 approach if they are internationally traded. A number of criteria will apply: ITMOs need to be real, verified, additional and represent mitigation from 2021 onwards.

(2) Parties using ITMOs need to account for them through so-called *corresponding adjustments (CA*), which are applied to an annual emissions balance. The annual emissions balance is developed based on the data of the national inventory and the NDC. This means that parties selling mitigation outcomes internationally must subtract this mitigation outcome from the progress towards their own mitigation objectives (Michaelowa et al., 2019). The Party purchasing the ITMO can account it towards its target. Figure 4 illustrates the general principle of performing CA to the NDC target for seller and buyer countries. However, crucial

[9] Most partner countries are Asian, but the JCM is also being used in Ethiopia and Kenya. These activities are presented in more detail in section 2.6.

questions such as when to apply CA and how to account given diverse NDCs still remain to be solved (cf. section 2.3.1).

*Figure 3: Corresponding adjustments for sellers and buyers of internationally transferred mitigation outcomes*




*Source: adapted from Michaelowa et al. 2019*

(3) The reporting provisions under the Article 6.2 guidance are closely linked to the ETF under Article 13 of the PA. Parties have achieved significant progress on the reporting and review cycle at COP25 (see section 2.3.2).

### 2.2.2. Sustainable Development Mechanism (Article 6.4)

Article 6.4 establishes a multilaterally governed mechanism, which may emerge as the successor to CDM. This mechanism will generate carbon credits (tentatively called *Article 6.4 Emission Reductions*, or A6.4ER) for mitigation activities authorized by host countries, which can be used towards the domestic NDC target or transferred internationally, which would make them ITMOs.

At the UNFCCC level, the mechanism will be overseen by the SB, whose role is likely to include, inter alia, registering projects, and overseeing and approving the issuance of credits. Furthermore, it may have to approve eligible methodologies, in particular regarding the calculation of baselines and determining additionality.

The activity cycle will likely be similar to the CDM. Host countries must approve the activities, independent auditors, accredited by UNFCCC (so-called Designated Operational Entities, *DOE*), must validate those activities. Emission reductions will also have to be monitored and verified by independent auditors and issued to the developers' accounts in a UNFCCC registry.

Both public and non-governmental stakeholders can implement activities as long as they obtain the host country's approval. The host country must explain how its Article 6.4 activities relate to its NDC and promote sustainable development (Michaelowa et al. 2019).

*Box 2: Article 6.4, Paris Agreement*

"A mechanism to **contribute to the mitigation of [GHG] emissions** and **support sustainable development** is hereby established under the authority and guidance of the [CMA] for use by Parties on a voluntary basis. It shall be supervised by a body designated by the Conference of the Parties serving as the meeting of the Parties to this Agreement, and shall aim:

(a) To promote the mitigation of greenhouse gas emissions while fostering sustainable development;
(b) To incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party;
(c) 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; and
(d) To deliver an overall mitigation in global emissions."

Furthermore, Parties have agreed on levying a share of proceeds (SOP) for the purposes of maintaining the SB and its support structure (administrative SOP) and for financing adaptation (e.g., contribution to the Adaptation Fund). While this is in principle agreed, it is not clear yet how the SOP will be operationalised (cf. section 2.3.4). In contrast to the CDM, a grievance and appeals process will be established.

The multilateral activity cycle and infrastructure (e.g., registry) ease pressure on host countries to build domestic capacity and infrastructure to deliver the same functions. Nevertheless, which governance functions are to be provided by the multilateral and the national level during implementation remains

an open question. Special circumstances of LDCs and SIDS need to be considered in the operationalisation of the rules, such as more flexibility in developing baselines or testing additionality.

### 2.2.3. Framework for non-market approaches

Article 6.8 and 6.9 (see Box 3) establish a framework for non-market-based approaches (NMA). Article 6.8 highlights the importance of "integrated, holistic and balanced non-market approaches" to assist Parties in implementing their NDCs. NMAs can take various forms and refer to mitigation, adaptation, finance, technology transfer, and capacity-building approaches (Michaelowa et al., 2019). Importantly, there is no clearly defined mechanism or financing instrument. Instead, Parties are negotiating a work programme to implement the framework, which is to be adopted at COP 26 as part of the 'Article 6 package'. Compared to negotiations on Articles 6.2 and 6.4, there is relatively high convergence in the negotiations. Still, issues can be reopened at any time and/or used as tactical 'negotiation chips'.

*Box 3: Article 6.8 and Article 6.9, Paris Agreement*

"8. Parties recognize the **importance of integrated, holistic and balanced non-market approaches** being available to Parties to assist in the implementation of their [NDCs], in the context of sustainable development and poverty eradication, in a coordinated and effective manner, including through, inter alia, mitigation, adaptation, finance, technology transfer and capacity-building, as appropriate. These approaches shall aim to:

(a) Promote mitigation and adaptation ambition;

(b) Enhance public and private sector participation in the implementation of nationally determined contributions; and

(c) Enable opportunities for coordination across instruments and relevant institutional arrangements.

9. A framework for non-market approaches to sustainable development is hereby defined to promote the non-market approaches referred to in paragraph 8 of this Article."

The main controversy surrounding Article 6.8 concerns its institutional character. Some Parties fear that a robust framework might duplicate existing efforts, e.g., on adaptation, technology transfer, finance and might come with an increased pressure on industrialized countries to provide climate finance. Some Parties favour a work program that is permanently institutionalized within the UNFCCC architecture.

The negotiations under Article 6.8 have high relevance for SIDS and LDCs: Possible designs of approaches could cover climate finance provision for projects underrepresented in current market-based activities. This could concern, for example, adaptation and mitigation projects which are not easily quantifiable (e.g., technology transfer).

## 2.3. Key negotiation issues

**Key messages of section 2.3**

- Defining common rules on robust accounting is difficult given the diversity of NDC features (such as different metrics). Accounting questions are at the centre of the complex negotiation issues. There are two key issues for NDCs with different target types: For NDCs expressed in metrics other than CO2e, Parties apply a corresponding adjustment for the relevant indicator if the same indicator is used by both Parties. There is also disagreement on what constitutes an emission reduction 'outside the NDC' and whether corresponding adjustments apply for ITMOs used for 'other purposes'. There are special flexibilities for LDCs.
- The reporting and review obligations for Parties using Article 6.2 cooperative approaches comprise: (i) an initial report before the start of cooperative action; (ii) annual information on ITMO accounting and (iii) regular information every two years on participation in Article 6.2 approaches, the country's emissions balance and corresponding adjustments, in line with the ETF. UNFCCC will host a 'Centralized Accounting and Reporting Platform' (CARP) which assembles information on Article 6.2 cooperation. Reports will be evaluated by an Article 6 Technical Expert Review (A6TER). While there is little disagreement on the reporting and review cycle, there is uncertainty about practical steps for Parties.
- While CDM activity transition to Article 6 remains contentious, there has been movement towards resolution, and the question now is likely to be how and which activities can transition.
- The question of whether any Parties may use CERs towards their NDCs remains a key unresolved question that is political in nature due to the need to balance historic investment in the CDM by developing country Parties and businesses, with the need to protect ambition in post 2020 UNFCCC action and NDCs.
- While the share of proceeds for adaptation under Article 6.4 is clear, Parties need to determine how and when it will be levied. Options include monetary fees at registration or issuance or diverting a fixed percentage of units at issuance, or a mix of both. Whether a SOP will apply to ITMO transfers under Article 6.2 is highly contentious, and likely to be resolved as part of the package on Article 6. Some Parties argue that it ensures sufficient and equitable funding for adaptation and avoids disadvantaging the multilateral mechanism, others argue that it would not be legally sound and is not technically feasible given the diversity of Article 6.2 approaches.
- How to apply and implement OMGE in Article 6 remains unresolved.
- Another key issue is how to set baselines and additionality for the mechanism, given the need to incentivise action across the economy in as many Parties as possible, while also maintaining and enhancing incentives for progression and aiming towards the objective of the Paris Agreement.

The following section provides more detail on key issues that need to be resolved in order to be able to finalize the Article 6.2 guidance and Article 6.4 rules, modalities and procedures (RMP). There are important technical linkages between Article 6.2 and Article 6.4, and several of the key negotiation issues are relevant for both Article 6.2 and 6.4. ***These issues are only relevant for Art. 6.2 and 6.4, but not 6.8 since NMAs will not generate ITMOs.***

*Box 4: Differences in NDC characteristics*

**Scope of the NDC:** economy-wide vs. covering certain sectors

**Type of NDC target**: absolute emission targets; emission targets relative to (a) a base year level, (b) a static BAU scenario, (c) a dynamic BAU scenario; intensity targets relating to GDP or other parameters; non-greenhouse gas (GHG) targets (e.g. quantity of non-fossil or renewable energy, energy efficiency improvement, forest cover, etc.); policy or action targets.

Targets can be defined for **multiple** or **single years** during the NDC period. Some targets are quantified ex-ante, while others are only quantifiable ex-post.

**NDC metrics**: Metrics can take the form of $CO_2e$ or other units (e.g. energy units (GWh) or renewable electricity production capacities (MW), etc.)

**Time frames**: Parties have so far not agreed on common time frames for NDCs, so the time frames covered diverge. Most countries use 10 years, some five years.

*Source: Michaelowa et al. (2019)*

### 2.3.1. Accounting

While there is an agreement on the basic principles for robust accounting and avoiding double-counting (see section 2.2.1), different characteristics used to define NDC by Parties as described in Box 4 make defining a common accounting approach technically complex and challenging. The main open questions are (1) how to account for different NDC time frames (2) metrics of NDCs, (3) how corresponding adjustments will apply in relation to NDC scope, and (4) whether the use of mitigation outcomes for 'other purposes', such as voluntary uses need to be subject to corresponding adjustments. While Parties found common ground on the first two issues during COP25, positions on the latter two questions have also advanced. An additional negotiation issue concerns the need to accommodate for the special circumstances of LDCs and SIDS.

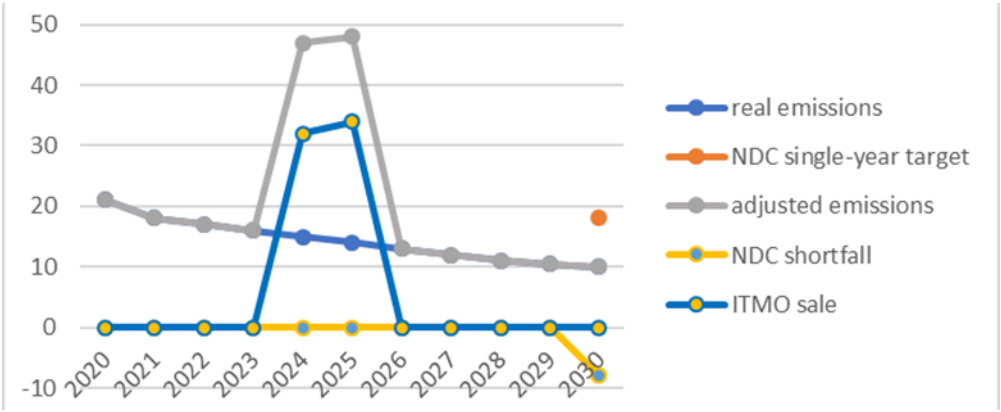
**How can accounting be operationalized given different time frames of NDCs?**

Whether a country has pledged that it will achieve an emission reduction in a certain year in the future (single-year-target) or has communicated an emissions trajectory throughout the entire period of the NDC (multi-year target) makes an important difference for the accounting approaches for ITMOs that can be used. While accounting for corresponding adjustments between two countries with multi-year target NDCs (e.g., having defined an emissions trajectory) is relatively straightforward, accounting for single year targets is more difficult. The accounting approach needs to ensure that the transfer of ITMOs prior to the target year is adequately accounted. If this is not guaranteed, Parties with a single year target might be incentivized to transfer emission reductions achieved earlier to the target year, violating environmental integrity (see Figure 4). Parties' positions seem to converge on two accounting

approaches for single-year targets. In the future, Parties can propose further accounting approaches for approval by the CMA.

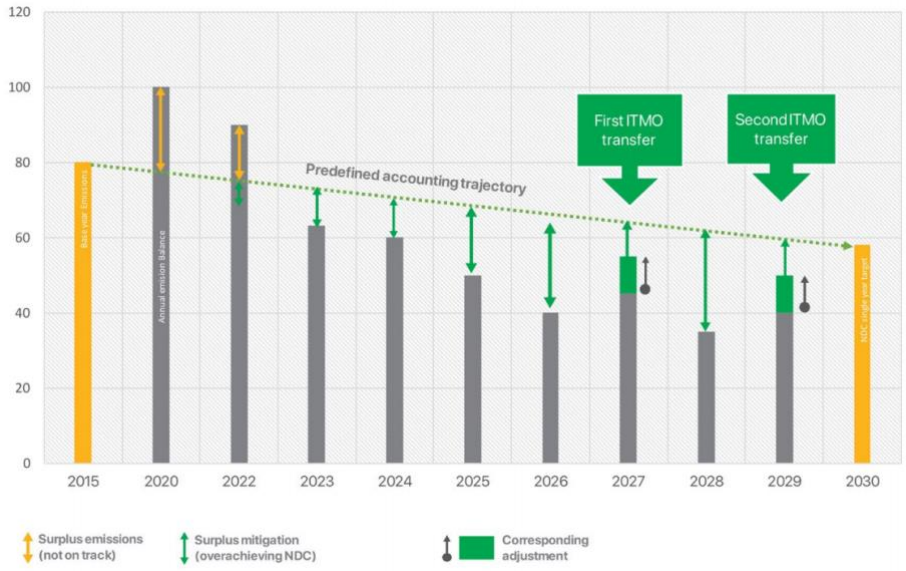
- Development of one or several multi-year emissions trajectory(ies) for the NDC implementation period or a multi-year emission budget. This allows Parties to apply annual adjustments comparably to a multi-year NDC (see Figure 5).
- The Party calculates an average of the ITMOs it transfers and acquires throughout the NDC implementation period. This allows the Party to undertake annual 'indicative' adjustments equal to this average amount and a 'final' CA in the NDC single target year (see Figure 6).

*Figure 4: Environmental integrity risk of accounting for single-year targets*



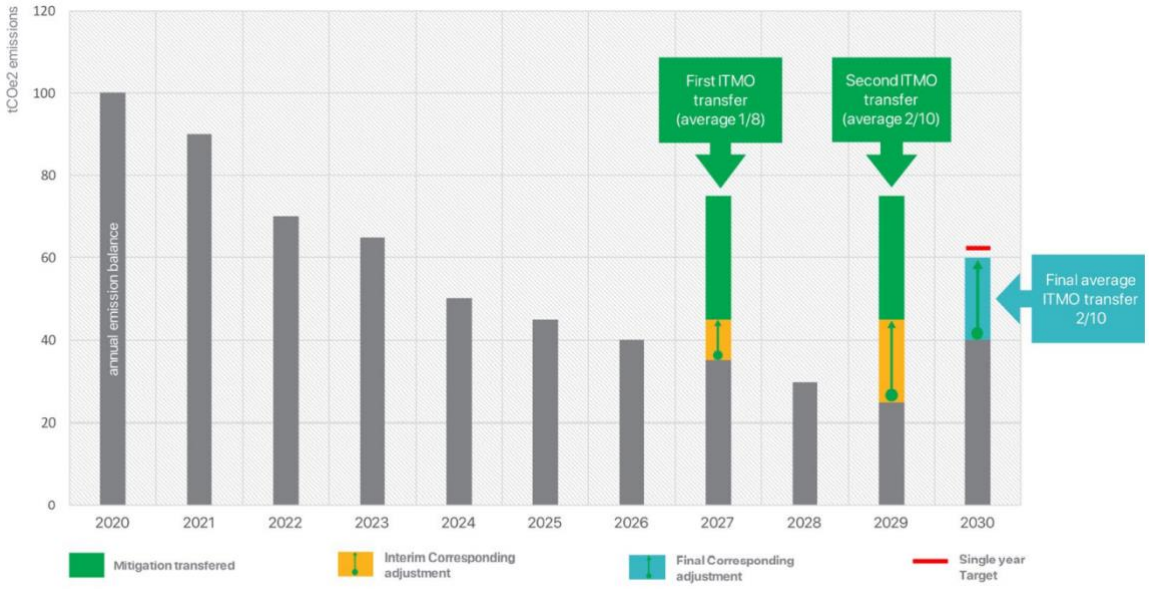

*Source: based on Michaelowa et al. (2019)*

*Figure 5: Corresponding Adjustments under a multi-year trajectory*




*Source: adapted from Michaelowa et al. (forthcoming)*

*Figure 6: 'Averaging approach' to CA for a single-year target*



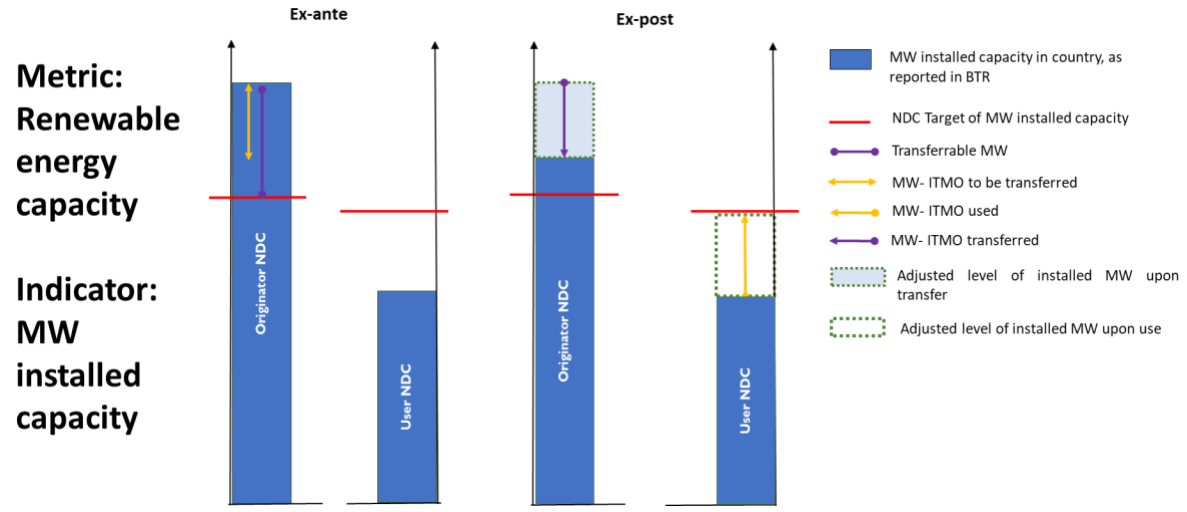

*Source: adapted from Michaelowa et al. (forthcoming)*

**How can accounting be operationalized given the expression of NDCs in different metrics?**

As not all NDCs have targets expressed in a common metric such as $CO_2e$ (carbon dioxide equivalents) (e.g., renewable energy, energy intensity or reforestation targets), and some Parties argue that requiring the expression of ITMOs in terms of $CO_2$ e restricts participation in Article 6. While extensive experience exists for trading mitigation outcomes expressed in $CO_2e$, new solutions would need to be found to operationalize corresponding adjustments for ITMOs expressed in other metrics. Some Parties oppose this in order to allow for transparent accounting, maintaining that any target type could, in principle, be converted into GHG denomination. The significance that Parties attach to this topic varies, and the substantive relevance of the topic may be limited. The current draft lays out a process for performing corresponding adjustments in a 'buffer registry', and SBSTA will have to elaborate further guidance, including on methods for conversion (Vivid Economics and Perspectives Climate Group 2020), specifically:

- Ideally, participating Parties need to have defined the NDC in the same metric as the ITMO. Every Party needs to report the relevant indicator for this metric in annual levels. It is this indicator that will be used by the Parties to track the progress of NDC implementation, and by extension the progress to keeping the Paris Agreement goals on track.
- If the ITMO and NDC metrics do not correspond, participating Parties must apply a corresponding adjustment only to the relevant NDC 'portion', which must be quantified in the same metric as the ITMO together with the annual level of the selected indicator.
- Corresponding adjustments are then performed against this reported annual 'level' of the indicator.

*Figure 7: Corresponding Adjusments fon Non-GHG Metrics*



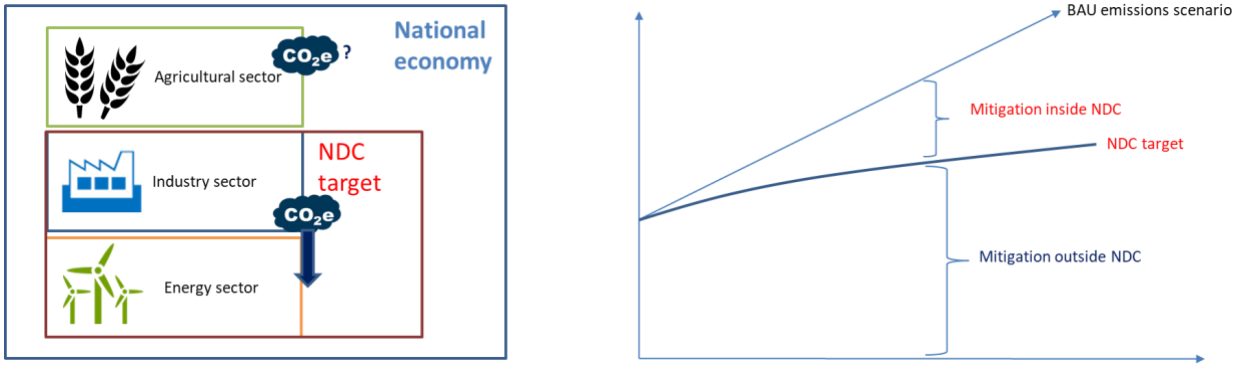

*Source: Michaelowa et al. (forthcoming)*

**Will CA apply to mitigation outcomes generated 'outside' of the scope of the NDC ?**

As Parties submit their NDCs towards achieving the Paris Agreement goals, it is the degree of achievement of NDCs (by virtue of Parties having to account for their NDCs) that will be used to determine or assess whether the objectives of the Paris Agreement are being achieved. Therefore the question is whether emissions reductions realised in Parties that are outside of the scope of the NDC, and which should be reflected in national inventories, would have to be subjected to a corresponding adjustment. This question remains unresolved and contentious as there is no agreement (1) on the definition of 'outside' of the scope of the NDC; and (2) there is no agreement on whether or not accounting is required for activities 'outside' the scope of NDC, although it is arguable that a national greenhouse gas inventory is accounting for national emissions.

Regarding the first issue, most countries use sectors and gases covered by the NDC as the reference point for measuring progress towards NDC achievement. In such context, 'outside of the NDC' means sectors and gases not covered by the NDC (see left part of Figure 8). A few countries promote a different understanding and consider any mitigation action beyond the NDC target to be 'outside the NDC' (see right part of Figure 8). During the Madrid talks, the prevailing view was that the impact on the atmosphere could only be reliably measures in terms of GHG, and the latest text includes references to sectors and gases. For LDCs, this issue is important as their NDCs do not cover all sectors, and some NDCs do not include the LULUCF sector.

*Figure 8: Common (left) vs alternative (right) understanding of "outside NDC"*




*Source: Michaelowa et al. (2019)*

Regarding the second issue, as from the most recent negotiation text on Article 6.2 guidance, the transfer of mitigation outcomes shall trigger a corresponding adjustment (to the emission balance on emission sources covered by the NDC), whether or not the underlying mitigation was itself achieved in sectors or GHGs covered by the NDC (Vivid Economics and Perspectives Climate Group 2020). Parties against the accounting for actions outside the NDC put forward that this provides disincentives to pursue mitigation in sectors outside the NDC. Parties in favour argue that exemptions might disincentivize the expansion of NDCs. With respect to emission reductions achieved under the Article 6.4, there might be exemptions for the international transfer of A6.4ERs that are issued 'outside' of an NDC within the first NDC implementation period[10] (Vivid Economics and Perspectives Climate Group 2020).

**Use of mitigation outcomes for purposes other than NDC targets (e.g. voluntary carbon market, Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA))**

Important ITMO demand in the short term may come from airlines that are required to offset part of their emissions under CORSIA (albeit now being constrained by the slump in international air travel triggered by the COVID-19 pandemic) and the voluntary market. However, there is a risk of 'double claiming' of ITMOs if these are not correspondingly adjusted by the host Party. Therefore, Parties agree that the use of ITMOs for 'other purposes' than the achievement of the NDC target will trigger a corresponding adjustment. How the accounting is to be performed depends on whether the definition of ITMOs includes credits traded on voluntary markets and the trigger for corresponding adjustments. Carbon credits used under CORSIA will certainly require a corresponding adjustment, whether or not internationally transferred, since CORSIA is also a multilateral mechanism.

**Flexibility of rules for LDCs and SIDS**

[10] Cf. Chapter IX of the annex of all three iterations of the Presidency text on Article 6.4.

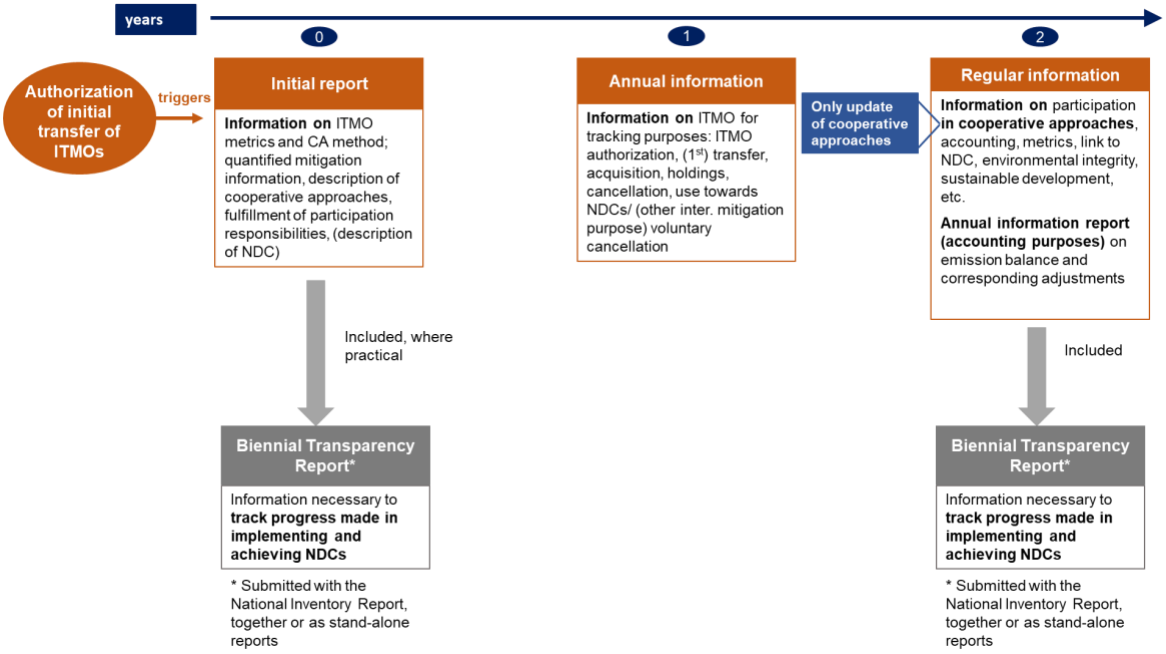
Accounting requires participating Parties to have the necessary capacities with regard to institutional arrangements, the elaboration of methodologies, maintenance of a registry, regular reporting, etc. Experience with the CDM shows that such capacities are a barrier to participation for LDCs and SIDs. Therefore, in the CDM, special provisions regarding eligibility, or the simplified use of methodologies, applied to LDCs and SIDs. While the PA establishes the same rules for developed and developing countries, there is recognition of the special circumstances of LDCs and SIDs in light of their limited means and capacities. While flexible rules for the operationalisation of Article 6 do not apply to developing countries, more flexibility in accounting and reporting may be elaborated for LDCs and SIDS. This issue may become relevant when elaborating the technical details.

### 2.3.2. Reporting and review

Parties using Article 6 approaches will have three reporting obligations: An **Initial Report** which will be submitted before a Party engages in a cooperative approach. It contains information on the metric of ITMOs to be used, the method for application of corresponding adjustments, quantified information on mitigation, a description of the cooperative approach and the fulfilment of other participation responsibilities. After the initial report, parties will submit **annual information** on ITMO accounting, as well **as regular Information** every two years on their participation in cooperative approaches, corresponding adjustments carried out, and their emissions balances or relevant adjusted indicators. This will be included in the **Biennial Transparency Reports (BTR),** which contains the information to be reported as per the Enhanced Transparency Framework (ETF) under Art. 13. The annual information on ITMO accounting may also be included in the BTR.

Furthermore, paragraph 77(d) of the modalities, procedures and guidelines for ETF defines minimum reporting standards for the annual emissions balance of sources and sinks, which must be aligned with reporting on Article 6 activities. Therefore, these reporting standards will only be operationalized once there is an agreement on reporting on cooperative approaches.

*Figure 9: Article 6 reporting requirements and linkage with reporting under the ETF*




*Source: authors*

To support the reporting and review under Article 6, the UNFCCC will implement a '**Centralized Accounting and Reporting Platform'** (CARP) to assemble information on Article 6 activities as provided in the initial reports and biennial transparency reports, such as a description of each cooperative approach, the expected mitigation outcomes and the participating Parties involved, public information on ITMOs, and all non-confidential information submitted by Parties in the context of their reporting obligations. The CARP will publish non-confidential information submitted by Parties and will also contain an Article 6 database with quantitative information on ITMOs and corresponding adjustments, annual emission balances and other adjusted indicators, as relevant. For Parties that are not in a position to set up a national registry for tracking ITMOs, the UNFCCC Secretariat will set up, also as part of the CARP, a multilateral registry with the same functions that national registries need to perform.

Reports will be evaluated by an Article 6 Technical Expert Review (A6TER). The information submitted by Parties will be reviewed by the technical experts regarding the consistency of information submitted with the Article 6.2 guidance, who may also provide recommendations. The reports of the A6TER will be forwarded for consideration under the ETF. Furthermore, the secretariat is requested to compile a synthesis of review reports periodically.

Reporting is of central relevance for Article 6.2 approaches, as there is no multilateral supervision. While Parties have already found common ground on many issues regarding the reporting and review process (see above), some open questions remain, including:

- Will the mandate of the A6TER only check that reporting procedures and application of corresponding adjustments or will it also examine environmental integrity and robustness of accounting?
- How inconsistencies identified in reporting will be addressed?

**Reporting alignment for ETF and Article 6 - Potential challenges for SIDs and LDCs**

While there is little disagreement on the reporting and review cycle, Parties are still uncertain about what the reporting under Article 6 and the ETF will look like in practice. Since Article 6 reporting is so closely interlinked with the ETF, Parties need to ensure consistency across their reporting. Many reporting requirements are optional or include flexibility provisions under the ETF, but since participation in market mechanisms is voluntary, participating Parties will be required to report comprehensively and consistently in relations to Article 6. This may emerge as an important practical challenge for LDCs and SIDS participation in Article 6. Therefore, negotiators and decision-makers need to understand which reporting processes and infrastructure for market approaches need to be established at the national level (e.g., to keep an inventory, how to authorize ITMO transfers and what the consequences are etc.) and for which ones the international infrastructure (e.g., CARP, Article 6 registry, etc.) can be used, and what flexibility provisions may be necessary for SIDS and LDCs. For example, while some LDCs/SIDS countries may not need to establish full-fledged national Article 6 registries for tracking ITMOs, given the resource requirements, a well-established national GHG inventory system will probably be necessary.

### 2.3.3. Transition of CDM activities and credits

Under the CDM, the Executive Board and DNAs gained experience with developing methodologies and standards for the international markets, registering projects, and generating and issuing credits. The CDM has a large portfolio of projects and programmes of activities, in which significant investments have been made, even though some CDM activities are inactive due to the low CER prices. Considering high uncertainties, the potential CER supply is estimated to range between millions and billions, according to the assumptions applied in the estimations (see technical input by the secretariat to informal technical expert dialogue on CDM transition, September 2021[11]).

CDM transition to Article 6 is a highly contentious issue in the negotiations. There was longstanding opposition between Parties in favour of 'full transition' (CERs and/or activities), and Parties in favour of 'no transition'. Parties opposing the CDM transition point to the significant surplus of pre-2020 CERs, which – unless governments increase demand significantly – would result in an oversupply that would keep prices low for years and undermine investments in new mitigation actions. They also point to concerns related to the environmental integrity of some CDM activities, such as large hydropower plants, destruction of industrial gases, or efficient coal power, including with regard to the lack of

[11] https://unfccc.int/sites/default/files/resource/Art.%206%20_presentation%20ITEDs%20CDM%20transition.pdf

additionality and low social and environmental co-benefits. Some Parties fear that the CDM transition could also be a justification for industrialised countries to transfer Kyoto surplus allowances into the NDC implementation period. Parties in favour of a 'full transition' argue that there is a need to preserve existing mitigation investments and their mitigation contribution. Overall, a well-organized transition from the CDM to Article 6 based on clearly defined eligibility criteria that meet all PA requirements would be a trust enhancing measure sending a signal to the private sector that a UNFCCC market mechanism would not just 'switch off' activities with valid crediting periods (Michaelowa et al. 2019).

However, significant progress was achieved at COP 25, and Parties converged on textual proposals in search for compromise on the fundamental aspects of transition. They agreed that there should be a well-organized process that avoids a regulatory gap for mitigation activities and recognized the balance that needs to be struck between preserving the trust of market actors and ensuring the ambition and integrity of activities that generate mitigation outcomes during the NDC implementation periods (Hoch et al. 2020). The transition of the CDM to the multilateral mechanism pursuant to Article 6.4 comprises three elements. The current negotiation status for all three aspects is summarized in Table 1. In respect of the transition of CERs, consideration could be given to a 'recrediting' of CERs in future NDCs, so that the net benefit of the atmosphere remains the same. This would address issues related to investments, potential revenue loss and CERs accruing pre-2020.

Table 1: Transition of CDM methodologies, activities and units to Article 6.4

| Transition of CDM methodologies | Transition of CDM activities | Transition of CDM units |
|---|---|---|
| The Supervisory Body reviews methodologies in use for the CDM and other existing market-based mechanisms with a view to applying them with revisions as appropriate for activities of the mechanism.<br><br>The Supervisory Body reviews the CDM accreditation standards and procedures with a view to applying them with revisions as appropriate by 2021.<br><br>When an activity is eligible for transition, it may continue to apply the currently approved CDM methodology either until of the end of its current crediting period or until 31 | The transition of activities is allowed following an eligibility check, in line with future CMA decisions and relevant requirements adopted by the Supervisory Body.<br><br>SBSTA is tasked with developing criteria for the transition of activities, the steps for implementation of the transition and a fast-track procedure for small-scale activities and PoAs (to be adopted by the CMA).<br><br>The host Party needs to communicate its approval before an activity can be re-registered under the Article 6.4 mechanism. | Concerning the transition of units, one controversial question remains: Can CERs generated before 2020 be used for compliance with NDC targets?<br><br>There is a strong disagreement between countries opposing the use of any credits generated before 2020 and countries with a large amount of CDM credits, who wish to safeguard their revenue potential.<br><br>However, there is consensus that this issue should not be deferred to a work programme. |

| Transition of CDM methodologies | Transition of CDM activities | Transition of CDM units |
|---|---|---|
| December 2023, whichever is earlier. Afterwards, it shall apply an Art.6.4 methodology. | The transition is to be completed by no later than 2023.<br>The transitioned activity may continue to apply the CDM methodology until the earlier end of its current crediting period, or 31 December 2023.<br>A6.4ERs may be issued for emission reductions achieved after 31 December 2020, in line with the guidance on corresponding adjustments. | Compromise solutions could be a cut-off date for CER generation, i.e. 2013/2016, and a restriction for the period in which 'old credits' can be used (e.g., 2025 or 2030), but no compromise was found at COP 25. |

*Source: based on Hoch et al. (2020)*

**Open questions and the regulatory gap after 2020**

With regard to the transition of methodologies, it remains open what criteria should determine the eligibility and revisions of methodologies before they qualify as Article 6.4 mechanism methodologies and what added value the review of methodologies of other market mechanisms will bring. It is also questionable whether the process timeline would be feasible. Given that COP 26 was deferred to 2021, the indicative timeline agreed on by Parties (Table 1) would have to be revised.

Together with the fact that the second commitment period of the Kyoto Protocol ended in 2020, this creates a regulatory gap as the rules for how to meet NDC targets have not yet been finalized. It also creates uncertainty, for example, on how the CDM EB and the SB may share responsibilities. At COP 25, the CMP could not agree on guidance to the CDM EB on how to continue its functions beyond 2020. There is a disagreement between proponents of stopping CER issuances for post-2020 mitigation outcomes and stopping the renewal of crediting periods after 2020, and proponents of continuing CDM activities. This also raises the question of whether it makes sense for project developers and DNAs to support the development of new CDM activities, even though a replacement is not yet in place. Finally, the regulatory gap creates uncertainty about how Article 6.4 infrastructure would be able to build on CDM infrastructure such as the CDM registry and UNFCCC secretariat support structure.

### 2.3.4. Share of proceeds for administration and for adaptation finance

*Box 5: Share of Proceeds under the CDM*

**Share of proceeds for administration**:

- Monetary
- Financing EB operations and maintenance of registry infrastructure
- Levied upon request for CER issuance

**Share of proceeds for adaptation**:

- In kind (2% share of issued CERs)
- Levied on CERs issuance
- Provided to the Adaptation Fund
- Monetized by the Adaptation Fund trustee

Under the CDM, a share of proceeds (SOP) was levied (i) for administrative purposes and (ii) and for adaptation (Box 5). The SOP for adaptation leveraged important contributions to the Adaptation Fund.

Parties can rely on the experiences from the CDM, to draw lessons learned regarding advantages and disadvantages of monetary vs in-kind SOP (for a detailed discussion, see Michaelowa et al. 2019a).

An international levy on mitigation outcomes generated by international market mechanisms has been discussed under the Article 6. While a share of proceeds will apply to the multilateral mechanism of Article 6.4 to cover administrative expenses and contribute to financing adaptation, a possible contribution of activities under Article 6.2 to adaptation finance is still being debated and contentious. Even if the applicability of an SOP under Article 6.4 is not in question, the exact modalities are still being discussed. There are different options on how to levy the SOP:

1. A **monetary fee** to be paid at registration and/or issuance. The advantage is that monetary fees provide a predictable and more stable income, even during periods of low market prices.
2. A **fixed percentage of units issued** could be withheld at issuance and transferred to a separate UNFCCC account. The units can then be sold on the international market by UNFCCC or a trustee.
3. A **hybrid** of monetary fees and a share of the mitigation outcomes could be levied. Income from fees and from the sale of mitigation outcomes would then be distributed among the administrative institutions and the Adaptation Fund.

The question of whether an SOP will be applicable to ITMO transfers under Article 6.2 is highly contentious. The absence of an SOP in the original text of Article 6.2 in the PA is being interpreted differently. Some Parties stress that there is no mandate to introduce an additional levy, while others argue that this does not prevent the CMA to adopt enabling decisions. Some Parties are opposed to raising adaptation finance from Article 6.2 activities as this would represent a disincentive that would not be technically feasible given the diversity of potential approaches. Other Parties support an adaptation levy on Article 6.2 as they want to ensure sufficient funding for adaptation and an equitable contribution by all Parties. They also have the concern that the Article 6.4 mechanism might be disadvantaged if the SOP is not applied to 'competing' bilateral cooperative approaches under Article 6.2.

It is also contested who should benefit from a contribution to adaptation finance. Some Parties are strongly in favour of contributing to the UNFCCC Adaptation Fund where countries are equitably represented. In contrast, other Parties oppose a binding beneficiary and want to have the flexibility to support other bilateral and multilateral funds or activities.

So far, with respect to raising finance, only the SOP for adaptation has been discussed in the context of Article 6.2. However, the maintenance of the CARP and the Article 6 database, the organisation of the A6TER, the provision of a registry to track ITMOs and related tasks for the Secretariat will also generate administration costs and capacity requirements which suggest that an administrative SOP may be one possible source of funding.

When designing SOP arrangements for Articles 6.2 and 6.4, an important question is the point at which it is levied. Under 6.4, at the point of requesting issuance or at the issuance of credits would be the easiest options. However, under Article 6.2, there is no international issuance. Either the SOP could be levied at the point of the international transfer for both mechanisms, or two different points of time for the levy could be agreed for 6.4 and 6.2. This could have a significant practical importance for SIDS and LDCs establishing Art.6.2 institutional capacity, which could potentially be financed through an administrative SOP on resulting ITMOs.

A relevant recent development, used by some Parties as an argument for SOP to be applied to Art.6.2, is that the ratification of the Doha Amendment at the end of 2020 expanded the SOP from CDM to Joint Implementation and International Emissions Trading. This may have set a possible precedent as it established that all KP international market mechanisms are subject to SOP. Notwithstanding, other Parties underscore that a parallel to the KP mechanisms cannot be drawn due to the different architecture and level of centralization of recording and tracking of units under the KP.

### 2.3.5. Overall mitigation in global emissions (OMGE)

Article 6.4 mandates that the new mechanism shall deliver 'overall mitigation of global emissions' (OMGE) (see Box 2). However, Parties do not share the same understanding as to how this principle should apply, which challenges its operationalisation. Some see OMGE as a 'side benefit', referring to either the general ambition increases of NDCs triggered by exploring market efficiencies, or the fact that additionality of activities under Article 6 or conservativeness of baselines is to be ensured by robust rules. A different interpretation treats OMGE as a separate requirement that can be implemented through cancelling A6.4ER. This would mean that a certain part of the emission reductions achieved would be cancelled, either mandatorily or voluntarily, in the context of results-based climate finance (Michaelowa et al., 2019). The LDC group, AOSIS and the African Group of Negotiators advocate for such tangible OMGE approach.

Parties do not agree on whether OMGE should apply only to emission reductions generated under Article 6.4 or also to ITMO transfers under Article 6.2. The draft negotiation texts include options that

would lead to either an encouraged (voluntary) or mandatory cancellation of a certain share of ITMOs transferred under Article 6.2 for OMGE. (Vivid Economics and Perspectives Climate Group 2020). The application of reciprocal OMGE arrangements between Articles 6.2 and 6.4 remains strongly debated, often in conjunction with SOP.

### 2.3.6. Baselines and methodologies

**Key approaches in draft negotiation text**

Methodologies are essential for establishing baselines (and there may be many such methodologies), the monitoring of emission reductions and the determination of their additionality. These are key steps that determine the eligibility of a proposed carbon market activity for Article 6 and may have substantial impact on the amount of ITMOs/A64ER that can be claimed, as well as their environmental integrity.

*Box 6: Additionality*

The concept of additionality stipulates that in the context of crediting mechanisms any mitigation activity needs to demonstrate that the activity (and thus the resulting mitigation) would not have happened in the absence of the revenue from the sale of credits generated under the market-based mechanism. Additionality is important to prevent the generation of fictitious carbon credits and thus for ensuring environmental integrity and ensuring the efficient allocation of funds. Additionality has historically been checked through investment or barrier tests, which were subject to criticism for subjectivity. Recently, positive lists of technologies seen as automatically additional have gained ground.

Under Article 6.2 cooperative approaches, baselines and additionality will be determined by the cooperating Parties who have an obligation to report in their BTRs how each cooperative approach ensures environmental integrity. The additionality of each Article 6 activity needs to be determined. Given that host country policies were explicitly excluded from additionality tests in the CDM, as mitigation in developing countries was strictly voluntary, these approaches need to be fundamentally rethought in order to consider the new circumstance that all countries have NDCs. Suppose the NDC of the transferring country is not ambitious. In that case, credits generated based on such NDC might not actually represent an emission reduction that results from a mitigation action (see Box 6). Crediting of non-additional activities violates the principle of environmental integrity. If such credits are traded or claimed against NDC targets, then total global emissions increase as a result, undermining environmental integrity. Thus, a key question is whether the Supervisory Body would assess additionality only against the NDC or through investment or other tests (Michaelowa et al. 2019).

In order to meet Article 6 design principles, methodologies need to apply conservative baselines that take into account all existing policies and address potential leakage. Furthermore, the risk of non-permanence, i.e., reversals of emission removals need to be addressed (Vivid Economics and Perspectives Climate Group 2020). For the Article 6.4 mechanism, baselines and methodologies are likely to be approved by the Supervisory Body, although it is possible that host country DNAs will play

a role in ensuring the integrity of methodologies or country-specific parameters that influence baseline or activity scenarios. Several options for general baseline principles, such as variations of a '*best available technology*' approach or *business as usual scenarios*, are being discussed. At COP25, the text developed significantly, whereby Parties tried to come up with language that balances several key principles. These go beyond the requirements for baselines under the CDM but also provide flexibility to Parties. Baselines should reflect the ambition of the PA, which could be specified by a crediting threshold or 'ambitious' baseline 'below BAU' (which does not provide full crediting against a BAU scenario). Baselines have to contribute to emission reductions and/or removals and be consistent with the NDC of the host Party and the PA objectives.

It should be noted that the calculation of baselines on all levels of aggregation (project, programme, sectoral, etc.) relies heavily on data availability, which can be a barrier for participating in the mechanism. Therefore, baseline approaches should always be able to take into account host countries' specific context. Parties have been discussing several textual proposals in relation to the Article 6.4 rules, modalities and procedures:

- All baselines must take into account relevant circumstances (e.g. national, regional, local)
- Justification of the choice of baseline
- Baseline setting approaches based on best available technology baselines or performance benchmarks should be the main options (or default approach), but others (e.g. BAU, standardized baselines) can be chosen if not 'economically or technologically viable'

Such flexibility provisions should cater for the different capacities of countries. However, it needs to be ensured that they would not be exploited as loopholes for middle- or high-income host countries. An additional option to address the diverging capacities of cooperating countries would be developing standardized baselines by the SB. This approach already exists under the CDM.

**Differences between CDM and Article 6 baselines and methodologies**

While the CDM and JI serve as predecessors of the future cooperative approaches, there are two fundamental differences. First, both new approaches include the possibility of crediting emission reductions generated by policy instruments on a sectoral level. This means that Parties engaging in cooperative approaches (for Article 6.2 approaches) or the SB for the Article 6.4 mechanism will develop an entirely new set of methodologies for such approaches that were not applied in CDM and JI. Secondly, baseline and additionality determination have to be undertaken in the context of host countries' NDCs (Michaelowa et al. 2019c). Host countries must determine which mitigation outcomes they need to achieve their national pledges and which ones can be traded internationally when engaging in a cooperative approach. ITMOs need to exceed unconditional host countries' NDC targets, which are expected to be achieved and accounted for domestically. Conditional NDC elements, however, are in principle likely to be eligible for generating ITMOs provided the respective activity is additional. The ambition of an NDC and the institutional capacity to determine which mitigation

outcomes can be traded without undermining environmental integrity are crucial preconditions for generating a 'good quality' ITMOs.

An additional potential issue that is currently not mentioned in the draft decision texts is a baseline approach called suppressed demand. Such baselines allow for the consideration of scenarios in which future anthropogenic emissions are projected to increase as access to basic services (such as electricity supply for households, cooking energy or access to water) has historically not been provided at adequate levels to local populations. In such cases, a CDM activity might not reduce historical emissions as the de facto BAU baseline may be close to zero emissions. However, suppressed demand methodologies consider normative aspects in establishing baselines at least for so-called minimum service levels for the provision of basic services (CDM EB 2012). This issue was a central aspect of reform efforts to make the CDM accessible to underrepresented countries. While the issue was controversially discussed, it is now well-established in several CDM methodologies. Crucially, the suppressed demand concept was based on a baseline approach in the CDM rules. Therefore, it is a key question for SIDS and LDCs of whether suppressed demand should be explicitly mentioned in the Art.6.4 rules or whether it could be understood as a benchmark approach that considers the specific circumstances of these states.

## 2.4. Overview of Article 6 and key links to NDC, Transparency and Climate Finance

**Key messages of section 2.4**

Article 6 negotiation issues are closely linked to other Articles of the PA, in particular the Enhanced Transparency Framework (Article 13), NDCs (Article 4), the Global Stocktake (Article 14) and climate finance (Article 9).

For DNAs this means that Article 6 oversight must be aligned with other departments in charge of the respective processes and decisions, requiring institutional coordination and capacities.

Key negotiation issues under Article 6 are closely linked to other provisions of the PA, in particular monitoring and reporting of progress towards achieving NDCs goals. This concerns Article 4.13 (Guidance on accounting for the mitigation components of NDCs) and Article 13.7 (Information to be disclosed in the transparency framework). A potential mobilization of results-based finance would create linkages with provisions on climate finance (Article 9, PA) and the share of proceeds for adaptation links to matters related to the Adaptation Fund. In addition, activities under Article 6 will be considered in the Global Stocktake (Article 14, PA). Figure 10 shows these links and the respective decisions.

At the national level, given that Article 6 oversight cannot happen in isolation but must align with other departments in charge of the respective PA processes or issues, and that therefore a higher degree of internal coordination and respective capacities is likely to be required, such institutional alignment may prove challenging to SIDs and LDCs as they generally are capacity-constrained.

*Figure 10: Article 6 and the PA architecture*


*Source: based on Michaelowa et al. 2019*

## 3. Article 6 relevance and opportunities for CARICOM/SIDS

### 3.1. Potential for CDM transition

**PoAs as key vehicles for potential rapid upscaling of carbon market activities**

CDM transition is particularly relevant for CDM PoAs as their existing umbrella structure would enable a rapid upscaling of mitigation activities, once regulatory certainty about the transition to Article 6 would have been secured. Moving from projects to programmes was a major conceptual CDM innovation since it allows for aggregating decentralized CDM activities with many different component activities, sometimes even hosted by several countries. As described in section 2.3.3, SBSTA has been tasked to develop criteria for a fast-track procedure for the transition of CDM PoAs to Article 6.4. While it is still unclear how this process may look like, it is clear that further thinking is needed, e.g. with regard to how CDM transition cut-offs apply to programmatic activities (are programme or activity

levels the main reference point for the cut-off, e.g. would the registration date of the entire PoA count, or the dates of the inclusion of the component project activities?).

Besides active REDD+ participation by several countries, multiple CDM projects support afforestation/reforestation in member countries. Crucially, several of these have since deregistered from the CDM mechanism due to the low attractiveness of temporary CERs (tCER). Therefore, SIDS negotiators may want to pay attention to those solutions for sector-specific methodological challenges that are being identified – in particular the issue of permanence – in order to be able to tap into the mitigation potentials of these sectors under Article 6.

**Standardized Baselines as a potential building block for establishment of sector-specific baselines under Article 6**

Standardized baselines are established for a Party or group of Parties to facilitate the calculation of emission reductions and removals and/or the determination of additionality for CDM project activities while ensuring environmental integrity. Although setting the baseline for the calculation of greenhouse gas emission reductions has been an expensive and time-consuming exercise in some cases, the development of standardized baselines for a region/country or group of countries brings significant benefits such as, reduced time and cost incurred by the project developers, provides credibility of the data that was used for calculation, generates a habit of QA/QC compliance at the data generation level etc. The use of such baselines can also enhance transparency, objectivity and predictability, and scale up the abatement of GHG emissions in developing countries and LDCs and SIDs in particular.

The standardized baseline infrastructure could enable countries to establish cost-effective approaches for reporting of mitigation achievements under Article 6.

## 3.2. Article 6 piloting

**Key messages of section 3.2**

Despite the lack of a substantive outcome on Article 6, several governments and development banks have jointly initiated pilot activities around the world. Several actors engage in creating enabling conditions such as promoting research and development.

The Joint Crediting Mechanism (JCM) which is being fully implemented, and Swedish Energy Agency which is currently looking at signing mitigation outcome purchase agreements in the Caribbean are particularly relevant in the SIDS context.

Other relevant pilots are the Swiss KliK foundation programme, as it is one of the most advanced bilateral initiatives with the objective and resources to procure substantial amounts of credits.

**Initial experience and further opportunities for Article 6 piloting**

Despite the lack of a substantive outcome on Article 6, as discussed above, several governments and development banks have jointly initiated pilot activities worldwide (Greiner et al. 2019). Most of the pilot activities, which aim at generating ITMOs, operate as bilateral cooperative approaches as per the draft Article 6.2 guidance or remain instrument neutral, as the multilateral mechanism under Article 6.4 has yet to be operationalized. Furthermore, several actors engage in creating enabling conditions such as promoting research and development, e.g. on methodologies, promoting the establishment of necessary regulatory processes and carbon market infrastructure or building capacities of relevant institutions (e.g. the DNA) and stakeholders. Countries currently involved in pilot projects have an opportunity to jointly reflect on these early Art.6 experiences, both in order to facilitate setting domestic processes for Article 6 engagement, but also to provide inputs into the ongoing climate negotiations taking into account regional circumstances.

The Joint Crediting Mechanism (JCM) was established by Japan to promote bilateral cooperation with developing countries and facilitate the implementation of mitigation actions, in particular contributing to the NDC of Japan and the host country. Japan has signed agreements with 17 countries and has more than 40 projects registered, of which 19 achieved issuances. Japan anticipates to continue operating the JCM under Article 6.2. The JCM is relevant as it allows to build experience with comprehensive oversight functions by host governments, as well as with crucial NDC features such as reinterpreting additionality in light of NDCs, avoiding double counting and OMGE.

In 2019 Sweden Energy Agency (SEA), on behalf of the Swedish government, launched a program with the aim to mobilise Article 6 trading structure. The SEA has commissioned virtual Article 6 pilots worldwide to explore ways to support the development of mitigation activities that could potentially generate ITMOs. The agency recently launched a public procurement in the Dominican Republic looking for activities that can deliver emission reductions suitable for transfer under Article 6 of the PA (SEA, 2021)

The Swiss KliK foundation programme is another relevant pilot, as it is one of the most advanced bilateral initiatives with the objective and resources to procure a substantial number of credits. For 2021-2030, the KliK Foundation aims to purchase up to 35 million tons of $CO_2e$ to compensate emissions of Suisse fossil motor fuel importers under the Swiss $CO_2$ law. At the time of writing, the Foundation has registered 93 private and governmental partner organizations that are eligible to submit project propositions in calls for proposals. Pre-selected activities will be developed into full project proposals, with financial support from the KliK Foundation. Before KliK can purchase ITMOs, a bilateral framework agreement will be signed between the Swiss Government and the respective host country. Project developers will then engage in a separate discussion with KLIK as the buyer.

## 4. Strategic considerations and practical steps for engaging in negotiations

**Key messages of section 4**

Finalizing the rules for Article 6 so that they reflect CARICOM priorities and circumstances requires both strategic planning as well as effectively employing tactical negotiation skills, including a deep and nuanced understanding of negotiations terminology, conventions, and processes.

Given the considerable controversies on several crunch issues in Article 6 negotiations, it is crucial to define substantive priorities and translating them into negotiations text options. Moreover, it is important to engage in different virtual formats with strategically relevant Parties which are needed to forge compromise proposals that reflect CARICOM/SIDS priorities, even though formal decisions may only be possible once physical meetings can resume.

As it became evident in the preceding chapters, Article 6 of the PA has redefined the cornerstones of the future international carbon markets. However, detailed technical rules still need to be agreed upon, which currently prevents multilateral Article 6 mechanisms from becoming operational even though bilateral cooperation has already commenced. Finalizing these rules to reflect CARICOM/SIDS priorities and circumstances requires both strategic considerations and skilful engagement by

CARICOM/SIDS Article 6 negotiators, including a deep and nuanced understanding of negotiations language and processes. The intent of this section is to provide a general and broad understanding of the major negotiating modalities, and not intended to provide an exhaustive treatment of negotiating strategy.

**Engagement in the negotiations**

Negotiation text proposals often use highly coded language and jargon (compare the glossary in Annex II), in which specific terms contain specific contexts as often they contain nuanced relationships with other issues, and therefore may not convey the ordinary English meaning and context, and therefore may not be obvious if someone has not been immersed in the UNFCCC process for a long time (Abeysinghe et al. 2015). [12] In addition, a myriad of technical terms and acronyms is being used in the negotiations. Familiarity with negotiations terminology is key to engage effectively in the negotiations. Typical negotiation texts contain basic drafting language and qualifiers as well as brackets. Brackets indicate lack of agreement over the text contained therein. Sometimes, different options, e.g. a target year, are presented in parallel → [2025][2030]. A high number of square brackets points to significant disagreements over the text, whereas a reduction of brackets from one text iteration to the next indicates progress on forging consensus.

Abeysinghe et al. (2015) provide an overview of negotiations language with explanations of the meaning of typical negotiations terms. A critical aspect, for example, is the differentiation between “shall”, “should”, and “may” is crucial for establishing the legal quality of the issue at hand.

| "shall" | "should" | "may" |
|---|---|---|
| Action is required (obligatory or binding) | No obligation, but advised (often used for principles) | No obligation, offers a possibility or alternative course of action |
| "37. Each mechanism methodology **shall require** the selection of a transparent and conservative approach, assumptions, „„." | "37. Each mechanism methodology [...] **should encourage** an increase in ambition over time". | "42. Standardized and/or regional and/or subregional performance based-baselines **may be developed** by the Supervisory Body at the request of the host Party or …." |

If the negotiations text uses the term ‘shall’, action is legally binding and therefore required. However, this can still be softened by inserting qualifiers such as ‘shall *strive to*’, which only requires Parties to try to do something and are therefore less strong. If the term “should” be used, the issue is not obligatory, but only advisable or expected. This is often used for introducing high-level principles. Provisions which are preceded by the word ‘may’ present one possibility or alternative course of action but are neither binding nor advised. It is important to understand the context, as it has implications for

[12] Please also refer to the power point presentation

implementation and therefore negotiators ought to pay special attention to what is being contemplated and intended in the language used.

In addition, negotiations text often contains so-called qualifying language. The following excerpt from the December 14, 2019, Article 6 Presidency text contains both the term "should" discussed above and the qualifier 'as appropriate': "*37. Each mechanism methodology [...]* ***should*** *take into account****, as appropriate****: uncertainty; any leakage due to the implementation of the Article 6, paragraph 4, activity; relevant policy; consistency with the NDC of the host Party, any contribution to reducing emission levels in the host Party, any long-term low GHG emission development strategy of the host Party and the long-term goal of the Paris Agreement [...]."* This qualifier gives Parties flexibility in determining how the application of the principle is appropriate (Abeysinghe et al., 2015). In addition, sometimes text includes terms which 'hide' meaning or replace a word which has become controversial in the negotiations and is, therefore, 'burnt'. For example, the Presidency text on Article 6 of December 14, 2019 contains a reference to 'projected emissions' as a potential baseline approach. Such a baseline approach may include business as usual (BAU) baselines. However, the concept and term of BAU itself are contested in the negotiations; therefore, it is not used explicitly in the text.

In addition to terminology, it is crucial to understand the role of different negotiation formats, which issues are being negotiated in them, and with whom to coordinate. Gupta (2000) and Tenzing (2016) provide detailed overviews of these different UNFCCC negotiation formats. The complexity of climate negotiations requires a good organisation within the delegation of the respective country and regional or thematic constituencies. Even within a topic such as Article 6, several different sub-aspects of the negotiation sessions may happen in parallel, therefore delegates should clearly define who covers which negotiation track (e.g., CDM transition under CMP, Art.6 baselines under SBSTA), know the position of their delegation and negotiation group on specific sub-issues (e.g., corresponding adjustments) and exchange regularly regarding the status of negotiations. For the negotiation tracks for each political (COP, CMA and CMP) and technical (SBI/SBSTA) body, there are different meeting formats with different levels of formality (contact groups, informals, informal informals, etc.) which allow to negotiate or discuss according to different rules and conventions.

**Negotiation tactics**

It is important to develop and adjust positions on specific thematic issues within negotiation groups. Traditional negotiation groups are divided between developing countries (G77+ China; African Group; AOSIS; LDCs) and developed countries (EU, EIG, umbrella group). In recent years, negotiation groups have become more dynamic, with new groups and sub-groups emerging. Membership between groups sometimes overlaps (e.g., all Caribbean countries are members of both the AOSIS Group and the G77+ China), which can be leveraged within the negotiations. Coordinating synergies and common interests between these negotiation groups can lead to strong coalitions. In addition, different negotiation strands are often interlinked. As discussed earlier, the Article 6 negotiations are linked, among others, with negotiations on transparency, NDCs accounting and climate finance. Skilled negotiators may use

these linkages to include negotiation text which pertains to a certain topic under a separately negotiated topic. A key example is paragraph 77(d) of the ETF, which was adopted with decision 18/CMA.1 at COP24. It includes a 'shall'-provision on reporting under Article 6 and corresponding adjustments in the Art.13 negotiations on transparency which did not correspond to the status of Article 6 negotiations.

Furthermore, procedural issues can be used for negotiation tactics. For example, a Party may add a request to include or remove a point from the agenda as an additional 'negotiation chip' or try to prevent negotiation outcomes by delaying negotiations. Increasingly, COPs tend to run overtime, with COP25 breaking the record by running 44 hours overtime.

**Strategic considerations**

Article 6 negotiations are currently characterized by high uncertainty about both substantive and procedural matters, largely arising out of the delays incurred by the Covid pandemic. Normally, multilateral agreement by consensus is achieved during in-person conferences. Therefore, it is crucial to find alternative ways to elaborate a clear approach to defining substantive priorities and to develop a strategic approach to engaging relevant partners, which are needed to explore compromise proposals that reflect CARICOM/SIDS priorities, even though formal decisions may only be possible once physical meetings can resume. Already in 2021, several virtual meetings, including the May/June meetings of the Subsidiary Bodies as well as virtual consultations by the Subsidiary Bodies' Chairs and COP Presidencies have resulted in a greater understanding of positions an issues, notwithstanding that there are contentious and sticking issues to be resolved.

On a strategic level, it is important to consider overlapping negotiation constituencies. While CARICOM negotiates within AOSIS as the primary small island states negotiation bloc, the G77+ China Group is also a crucial negotiation alliance which has at times been very influential. There is potential in working towards aligning priorities among such different constituencies, and there are historical precedents for effective cooperation, e.g., between AGN and LDCs during COP17 in Durban, which reset the UNFCCC negotiations after the failed Copenhagen Conference by creating the Durban Platform negotiations track that ultimately resulted in the PA. However, there are also instances of conflicting priorities of different constituencies which need to be taken into account, e.g., the influence of Arab countries on Northern African countries, which complicates finding consensus within AGN. The issues and interests therefore are dynamic and no set formula of consensus among issues. It is therefore critically important to understand the nuanced differences so that strategic engagement can be adjusted within, and among negotiating groups.

While the engagement of CARICOM member countries would strengthen AOSIS, it is also likely to lead to a better understanding of evolving Article 6 requirements for domestic implementation of Article 6. Carbon markets have historically always evolved in a learning-by-doing approach, and there is likely going to be a lot of iteration between national processes and international rule-making, since Article 6

rules still remain at a very high political level and are likely to continue to evolve over time, just as UNFCCC rules for the Kyoto mechanisms have in the past.

A more effective engagement of CARICOM/SIDS member countries in practical steps towards finalizing Article 6 rules during upcoming SBs/COP26 and other fora will also benefit from improving SIDS negotiators' general UNFCCC negotiation skills. This includes understanding which issues are being negotiated on which of the different negotiation tracks (CMA-CMP-SBSTA-SBI), where to find information within the UNFCCC systems, differences between document and meeting types as well as practical tips on how to access information and the relevance of outreach (e.g., participating in side events in order to communicate national/regional experiences and priorities). As it is impossible to capture all the details of this highly complex material in this guidebook, Annex 1 offers an overview of further resources that allow interested readers to study either specific issues related to Article 6 or a general overview into the UNFCCC negotiations in more detail. Moreover, Annex 2 presents a glossary of key terms relevant for the Article 6 negotiations.

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## Annex I: Key resources

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Closing the deal on CDM transition, 2019, Climate Finance Innovators

Pocket guide to capacity building, 2020, European Capacity Building Initiative

2019 Climate Change Conference 2019, Highlights for Saturday 14 and Sunday 15 December 2019, Earth Negotiations Bulletin (ENB) – The ENB's latest daily COP 25 coverage is available here in English, French, Spanish, and Japanese languages.

European capacity building initiative: Policy briefs and notes – All published briefs and notes can be accessed here.

How to become a delegate – A highly hands on description of the day-to-day practice of a UNFCCC negotiations session.

UNFCCC documents and decisions – All published UNFCCC documents and decisions can be found here.

UNFCCC Regional Collaboration Centre (RCC), Kampala – RCC Kampala newsletter can be accessed here.

## Annex II: Glossary of terms

**Kyoto Protocol** was adopted on 11 December 1997. Owing to a complex ratification process, it entered into force on 16 February 2005. Currently, there are 192 Parties to the Kyoto Protocol. Kyoto Protocol operationalizes the UNFCCC by committing industrialized countries and economies in transition to limit and reduce greenhouse gases (GHG) emissions in accordance with agreed individual targets. The Convention itself only asks those countries to adopt policies and measures on mitigation and to report periodically.

**Clean Development Mechanism** is a mechanism under the Kyoto Protocol, the purpose of which, in accordance with Article 12 of the Kyoto Protocol, is to assist non-Annex I Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Annex I Parties in achieving compliance with their quantified emission limitation and reduction commitments under Article 3 of the Kyoto Protocol.

**Certified Emission Reductions** (CERs) are Kyoto Protocol units equal to 1 metric tonne of $CO_2$ equivalent. CERs are issued for emission reductions from CDM project activities. Two special types of CERs called temporary certified emission reduction (tCERs) and long-term certified emission reductions (lCERs) are issued for emission removals from afforestation and reforestation CDM projects.

**The Paris Agreement** it is a legally binding global climate agreement adopted by 195 countries in December 2015 and entered into force in November 2016. It aims to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius.

**Cooperative Approaches –** The Paris Agreement offers Parties the opportunity to cooperate with one another when implementing their nationally determined contributions (NDCs). The cooperation mechanisms designed to assist this process should not only make it easier to achieve existing reduction targets, but also to raise ambition in future efforts and to promote sustainable development. The cooperation mechanisms enshrined in Article 6 of the Paris Agreement form the legal framework to allow use of market-based climate change mitigation mechanisms.

**The Conference of the Parties (COP)** is the supreme decision-making body of the Convention. All States that are Parties to the Convention are represented at the COP, at which they review the implementation of the Convention and any other legal instruments that the COP adopts and take decisions necessary to promote the effective implementation of the Convention, including institutional and administrative arrangements.

**Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA)** is the supreme body of the Convention, shall serve as the meeting of the Parties to the Paris Agreement. All States that are Parties to the Paris Agreement are represented at the CMA, while States that are not Parties participate as observers. The CMA oversees the implementation of the Paris Agreement and takes decisions to promote its effective implementation.

**Subsidiary Body for Scientific and Technological Advice (SBSTA)** is one of two permanent subsidiary bodies to the Convention established by the Conference of the Parties (COP)/ Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP). It supports the work of the COP, the CMP and the CMA through the provision of timely information and advice on scientific and technological matters as they relate to the Convention, its Kyoto Protocol and the Paris Agreement.

**Nationally Determined Contributions (NDC)** is a term used under the United Nations Framework Convention on Climate Change (UNFCCC) whereby a country that has joined the Paris Agreement outlines its plans for reducing its emissions. Some countries' NDCs also address how they will adapt to climate change impacts, and what support they need from, or will provide to, other countries to adopt low-carbon pathways and to build climate resilience.

**Article 6.2** provides an accounting framework for international cooperation, such as linking the emissions-trading schemes of two or more countries (for example, linking the European Union cap-and-trade program with emissions-reduction transfers from Switzerland). It also allows for the international transfer of carbon credits between countries (WRI).

**Article 6.4** establishes a central UN mechanism to trade credits from emissions reductions generated through specific projects. For example, country A could pay for country B to build a wind farm instead of a coal plant. Emissions are reduced, country B benefits from the clean energy and country A gets credit for the reductions.

**Article 6.8** establishes a work program for non-market approaches, such as applying taxes to discourage emissions. For this explainer, we will focus on the carbon markets elements of Article 6.

**Internationally Transferred Mitigation Outcome (ITMOs)** are emission reduction units that Parties cooperating under Article 6.2 of the Paris Agreement can transfer and use for attaining their NDC. The Paris Agreement requires that Parties that are engaged in ITMO transfers shall ensure environmental integrity, apply robust accounting and promote sustainable development. The use of ITMOs to achieve NDCs shall be voluntary and authorized by participating Parties (Article 6.3).

**Additionality** stipulates that in the context of crediting mechanisms any mitigation activity needs to demonstrate that the activity (and thus the resulting mitigation) would not have happened in the absence of the revenue from the sale of emissions units created by the market-based mechanism. It is important to prevent the generation of fictitious carbon credits and thus for ensuring environmental integrity and ensuring the efficient allocation of funds.

**Corresponding Adjustment** means that when one country sells emissions reductions to another, it must adjust its own emissions figures accordingly. In other words, it must increase its level of emissions reductions in its NDC to make up for the fact that it sold some emissions reductions to another country.

**Double Counting** refers Parties credits under Article 6.2 are subject to robust accounting to ensure avoidance of double counting, meaning each ITMO must only count towards the targets in one country's NDC. For example, country A might build a wind farm and then sell the credits for those emissions reductions to country B, so now country B can count those emissions reductions as part of its progress to achieving its NDC. But if country A claims those same emissions reductions toward achieving its own NDC, that is double-counting.

**Article 6 Technical Expert Review (A6TER)** reviews Parties' reports involved in cooperative approaches covering- participation requirements, application of corresponding adjustments and a description of the cooperative approach, annual quantitative information on ITMOs authorized, transferred, acquired, hold, cancelled and used. In addition, A6TER reviews Parties' reports inter alia on how corresponding adjustments have been applied to ensure the avoidance of double use or counting of the ITMOs acquired and used and ITMOs authorized for other uses, and how the cooperative approaches promote environmental integrity; it reviews Parties' annual information on adjustments to the annual emissions level (or levels of another relevant NDC indicator), and, in case reporting includes the end year of an NDC period, an assessment of whether NDC targets were achieved pursuant to the application of corresponding adjustments.

**Enhanced Transparency Framework –** Parties that engage in cooperative approaches must have arrangements in place to authorize and track ITMOs, in accordance with the requirements of the guidance; and provide the most recent national inventory report required under the enhanced transparency framework. Host parties that wish to register a mitigation activity under the Article 6.4 mechanism must also establish a national authority for the mechanism; communicate how its participation in the mechanism contributes to sustainable development and ensures on a continuous basis that this participation contributes to the implementation of the NDC and its long-term strategy, if applicable; and indicate to the Supervisory Body the types of activities it would consider approving and how they would contribute to mitigation in the host Party and achievement of its NDC.

**Article 6.4 Emission Reduction –** A crediting mechanism under the PA, for issuing carbon credits against real, measurable and additional emission reductions from registered mitigation activities approved by the host Parties (Article 6.4). The Parties to the PA will elaborate the rules, modalities, and procedures for this mechanism. The mechanism will be governed by a "Supervisory Body" that oversees the registration of activities and the issuance of credits. These Article 6.4 emission reduction credits, called "A6.4ERs" can be internationally transferred if the host Party authorizes the transfer, but they can also be used in the domestic host Party context. Should they be internationally transferred, they become ITMOs and the Article 6.2 applies.

**Biennial Transparency Report (BTR)** – All Parties will submit a BTR. The scope of the BTR will cover information necessary to track progress made in implementing and achieving NDCs under Article 4, information related to climate change impacts and adaptation under Article 7, information on financial, technology development and transfer and capacity-building support needed and received under Articles 9–11, information on financial, technology development and transfer and capacity-building support provided and mobilized under Articles 9–11.

**Share of Proceeds** is a leavy under the Paris Agreement to support for adaptation and administrative purposes, which provides support to vulnerable countries to adapt to the impacts of climate change under Article 6.4 (trading credits from emissions reductions resulting from specific projects), but did not mention it in Article 6.2 (when two or more countries transfer emissions reductions, for example through linked emissions-trading schemes).

**Overall Mitigation of Global Emissions (OMGE)** Article 6.4 stipulates that the mechanism is to deliver an OMGE. For some Parties, overall mitigation in global emissions could mean that some of the credits generated under Article 6.4 for emissions reductions are essentially taken off the table, not used toward any Party's NDC. In other words, rather than transferring them between Parties and allowing a buying country to count those emissions reductions toward its target, these unused emissions reductions could be set aside to provide a net decrease in global emissions. Countries are

primarily divided on whether overall mitigation in global emissions applies only to Article 6.4 or to Article 6.2 approaches as well, as well as how overall mitigation in global emissions is done in practice (via discounts, cancellations, or other means).

**Voluntary Carbon Market** is a market for the voluntary compensation of greenhouse gas emissions. It enables companies and individuals to voluntarily offset their carbon footprint.

**CORSIA** is a global market-based mechanism scheme in the form of the carbon offsetting and reduction scheme for international aviation to address any annual increase in total $CO_2$ emissions from international civil aviation (i.e. civil aviation flights that depart in one country and arrive in a different country) above the 2020 levels, taking into account special circumstances and respective capabilities. CORSIA is implemented in phases, starting with participation of States on a voluntary basis, Pilot phase (from 2021 through 2023) and first phase (from 2024 through 2026), followed by participation of all States except the States exempted from offsetting requirements.

**United Nations Framework Convention on Climate Change (UNFCCC)** is the United Nations entity tasked with supporting the global response to the threat of climate change. The Convention has near universal membership (197 Parties) and is the parent treaty of the 2015 Paris Agreement.

**Environmental Integrity** in context of Article 6 means that using international transfers does not result in higher global GHG emissions than if mitigation targets of NDCs had been achieved only through domestic mitigation action.

**Suppressed demand** is the situation where energy services provided are insufficient – due to poverty or lack of access to modern energy infrastructure – to meet the needs of stakeholders given their human development needs. Suppressed demand in the context of CDM refers to because CDM projects estimate emissions reductions and the credits it receives through calculating baseline emissions and then subtracting project emissions, such approach makes it difficult for LDCs and SIDS Parties to register CDM projects. The concept of 'suppressed demand' tries to take into account the fact that their per-capita emissions would be much higher if the poor had better access to energy and goods.