



**Host Country Authorizations under Article 6 Paris Agreement:
Developments After COP 24 (Katowice)**

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Editorial/Introduction

On 4 November 2016, the Paris Agreement (PA) entered into force less than eleven months after its adoption in December 2015. The record speed with which countries ratified the agreement and met the double threshold of 55 Parties and 55% of global emissions is largely unprecedented in international policy in recent years. The approach of the PA, including its treatment of Nationally Determined Contributions (NDCs) and cooperative approaches among Parties under Article 6, is one that is fundamentally decentralised in nature. Its provisions set out parameters within which countries are to take climate action and ratchet up ambition over time, but are neither prescriptive of the actions those countries are to undertake nor the particular approaches to cooperation.

In relation to carbon markets, future guidance to be adopted by the Parties to the Agreement will have to consider the nexus of NDCs, accounting and the various mechanisms for implementing the voluntary cooperation that countries will engage in. It will need to cover in particular the avoidance of double counting, additionality issues of Art. 6 mechanisms and other issues that could jeopardise environmental integrity in the generation and transfer of mitigation outcomes, as well as ensuring transparency, good governance and the necessary institutional infrastructure. It will also need to consider the key role that carbon markets can have in enabling and encouraging greater mitigation ambition and in bringing about sectoral transformation. In particular the question of how overall ambition of the PA can be increased over time will become an increasingly important and contradictory topic.

This study aims at making a step toward a better understanding of the above mentioned issues covered by Art. 6. as well as an enhanced usage of its scope. It is supported by a grant from the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU). The analysis, results and recommendations in this paper represent the opinion of the authors and are not necessarily representative of the position of the BMU.

Executive Summary

The briefing note re-examines an earlier assessment – completed prior to the 24th session of the Conference of the Parties (“COP24”) in December 2018 – on the nature and design of host country approvals and authorizations (altogether “Letters of Approval” or “LoA”) in the context Article 6.2 and Article 6.4 transactions under the Paris Agreement (“PA”). The follow-up concerns, in particular, LoAs for cooperative approaches, i.e. bilateral or multilateral (international) transfers of mitigation outputs (“ITMOs”) under Article 6.2 PA. These transfers have been the subject of important negotiations and decisions of the COP24 Katowice conference.

The COP 24 decision on transparency, in particular, has put its mark on ITMOs by laying down a range of reporting obligations for Parties concerning the transfers in their biennial transparency reports (“BTR”). An even more compact set of reporting obligations – equally linked to BTR reporting – is likely to come into place with the adoption of the decision on guidance on cooperative approaches referred to in Article 6.2 PA, which failed to pass at the Katowice conference but is planned for adoption at COP25 in Santiago de Chile in December 2019. The COP 24 negotiations over this decision ended in disagreement but left segments on BTR reporting in consolidated form. Their adoption as such is likely for COP 25.

To allow full and precise implementation of the wide set of reporting rules, host country Parties will have little choice but to shape their LoA practice along the specific BTR information needs and to pass on much of the obligations in question to the implementing entities of the cooperative approaches.

Interventions, then, will require, among other things, the substantiation that the cooperative approach in question supports the implementation of the host country NDC using appropriate metrics (in the case of tCO₂eq., consistent with IPCC guidelines); the assurance that the measure in question complies with a detailed safeguards package; the confirmation of compliance with sustainable development and long-term low carbon development targets; as well as information on the transferee, the use of the mitigation output, and the way corresponding adjustments will be made.

The considerable list of information items made it necessary to rework the model LoA developed as part of the briefing of last October. Other elements, however remained mostly unchanged. The COP24 decision on transparency (Decision 18/CMA.1), indeed, includes language that confirms one of the key assumptions made with respect to the earlier model LoA, namely that the Article 6.2 infrastructure will foresee an alternative use option for ITMOs, i.e. their use for another purpose than achieving an NDC. There is less certainty now than before when it comes to the direct authorization of non-state actors under the Paris rules. While this option has been a firm component of earlier negotiation drafts for the Article 6.2 guidelines, the last version of the draft decision no longer makes reference to non-state-actors. This said, a LoA is as much a domestic legal instrument as it is one under international law. Including, and even addressing, non-state actors in LoAs, remains an obvious choice that countries will make. The new model LoA anticipates this.

A new model LoA for an Article 6.2 PA (ITMO) transfer is provided both in clean and commented form. As before, it includes different options (referred to as “modes”) as follows:

LoA Article 6.2 PA:

- **MODE A:** Investor country receives mitigation outcome for NDC use.
- **MODE B:** Mitigation outcome may not be used by either host country or investor country.

In the final section of the briefing, options for compliance procedures and enforcement action are discussed, with respect to potential irregularities in the implementation of LoAs. Compliance and enforcement may happen on different levels and concerning different legal relationships, namely (1) non-state actor and host country government; (2) host country government and investor/guarantor country government; and (3) Article 15 PA Committee and host country government.

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1. Objective

This briefing note re-examines an earlier assessment on the nature and design of host country approval letters – “Letters of Approval” or “LoA” – for issuance in the context of Article 6.2 and Article 6.4 transactions under the Paris Agreement (“PA”). It examines recent regulatory developments, in particular the (partial) adoption of the Paris Rulebook at the 24th session of the Conference of the Parties at Katowice (“COP 24”).

The briefing note also discusses practical solutions for host country approvals targeting pilot transactions under Article 6. The proposed ‘LoA Blueprint’ are not meant to anticipate any specific regulatory outcomes from COP 25 (Santiago de Chile) but rather to provide for a flexible preliminary solution aiming for compatibility with different COP 25 scenarios.

Finally, the briefing note will present a tentative discussion of consequences of acts of non-compliance in Article 6 transactions.

2. Context: Ongoing Negotiations

The 2018 Katowice conference ended mostly as planned with the adoption of the Paris rulebook, i.e. the set of core implementation provisions to operationalize the Paris Agreement. The only rulebook mandate that did not lead to an agreed position and formal text among Paris concerned the instruments on enhanced ambition under Article 6 of the Paris Agreement. The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) referred the matter back to the Subsidiary Body for Scientific and Technological Advice (SBSTA) with the instruction to continue its work on preparing a draft negotiation decision for consideration and adoption by CMA at the end of 2019 (COP 25/CMA 2). In its reference instruction, CMA listed two sets of negotiation texts to be “[taken] into consideration”, one drafted by SBSTA, the other prepared by the Polish presidency late in the second week of negotiations at COP 24/CMA 2.

At its 50th session (June 2019), SBSTA produced an updated set of negotiation texts for the three instruments – the “cooperative approaches” under Article 6.2 (in the following for the ease of reading referred to as “D-6-2”), the mechanism to contribute to mitigation and sustainable development established under Article 6.4 (“D-6-4”)) and the “non-market approaches” of Article 6.8 (“D-6-8”) –¹ consolidating the two different text versions (SBSTA and Presidency).

Several (legacy) issues continue to be conflictual, including the question of single-year vs. multiple year-accounting; the timing of corresponding adjustment; and the question whether and how the project-based mechanisms of the Kyoto Protocol can be transferred into the new system.

Several issues had boiled up in Katowice and remain contentious, namely:

- Metrics: Can the international transfer of mitigation outcomes (ITMOs) be restricted to GHG emission reduction (CO₂eq.) measures, and if not, what are the rules and procedures for conversion?
- Article 6.4 (first transfers): What are the requirements for the host country beyond delivering emission reductions? Does a host country transfer involve a mandatory corresponding adjustment? Is this different in case the emission reductions have been generated in a sector outside the scope of an NDC?

¹ Draft CMA decision on guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement; Draft decision on the rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement; and Draft CDMA decision on the work program under the framework for non-market approaches referred to in Article 6, paragraph 8, of the Paris Agreement, all accessible [here](#).

- Overall mitigation in global emissions: The issue of overall global mitigation is still much debated. It is also linked to the question of first transfer requirements. Some Parties see it as a voluntary commitment by Parties under Article 6.4 only.
- Share of Proceeds: Is the level playing field threatened if a fee on transactions (share of proceeds) is charged for Article 6.4 transactions, but not on Article 6.2 transfers?
- Sustainable development: Sometimes regarded a niche issue of little consequence (with references sometimes disappearing in new iterations of negotiation text), several Parties strongly support the role and relevance of the item as a constitutive element for all Article 6 instruments. There is little clarity on design details, however, and the extent to which they remain the prerogative of host countries.

Curiously, a new battlefield has emerged as a result of the Katowice conference, that is as a result of the adoption of paragraph 77.d of Decision 18/CMA.1, which sets out specific information requirements for Parties engaging in cooperative approaches (Article 6.2 Paris Agreement). While that provision includes the principle of consistency “with guidance developed related to Article 6” and while the CMA decision on Article 6 (Decision 8/CMA.1) lays out that the information requirements under Decision 18/CMA.1, paragraph 77.d are “without prejudice to the outcomes on these matters”, Parties are debating the relevance of that provision for the Article 6 negotiations. Paragraph 77.d includes a detailed information set including on “annual emissions” data, “corresponding adjustments undertaken... for [ITMOs] first-transferred/transferred”. The concern here is for a number of Parties that the specific level of detail could anticipate the design of the Article 6 instruments including in terms of metrics, single-year accounting, NDC scope, and first transfers.

3. LoA Blueprint: Methodological Considerations

This briefing note does not attempt to provide solutions for the open issues. These will require settlement at the political (negotiation) level. Instead, this briefing note will focus on those transaction or approval elements that are (largely) uncontested either because they feature explicitly in Article 6 or because the latest negotiation texts indicate a high or higher degree of consolidation around a particular feature. Furthermore, and following the country-level perspective of designing what will remain discretionary approval, the briefing note will outline a model pathway for how countries could identify pragmatic ways forward amidst a wide field of disparate NDC types and features. Irrespective of what the ultimate rules for conversion will be for NDCs using different metrics and irrespective of how conflicts between annual and multi-annual accounting can be solved, countries may decide for themselves to apply restrictive approaches, especially during the early years of implementation of the Article 6 instruments, i.e. they may decide to restrict bilateral ‘cooperative approaches’ to single metrics (the metric being tCO₂eq. emission reductions/removals measured against a baseline expressed in tCO₂eq.) and to identical (say: same-year) accounting. Host countries may also decide to submit corresponding adjustments to first transfers.

In that sense, the blueprint document will seek a minimalist, pragmatic approach to how countries can determine their engagement in Article 6. While minimalism is the goal, it has its limits where the future CMA decisions will (likely) require complexity and multi-pronged engagement. Reporting, in particular, will be multi-faceted and extensive. As the respective guidance will likely not be optional, countries will have to follow and implement those rules meant to enhance transparency and robustness of action. Compared with the hands-off approach of the Kyoto mechanisms, this will involve a major institutional shift requiring substantial additional resources available at the central national level.

LoAs offer the opportunity for countries to share with, or even shift, the reporting requirements to proponents, yet the level of complexity of the instrument design will remain high.

More than ever, countries will need to consider the merits of regulating Article 6 implementation domestically, laying down not just procedural rules but also content. It is largely settled that countries will have to explain and justify individually their use of the Article 6 instruments away from simple binary (“yes” / “no”) statements. They must rule and report on, among others, “sustainable development” and “environmental integrity”; and they must provide information that blends process and content, in particular on transparency and governance. On this basis, the design of a domestic regulatory framework defining specific objectives, indicators, and compliance procedures – for use by authorities and applicants/proponents – would appear a logical response. Table 1 includes sample areas for regulatory action in this context.

Domestic Rules on Article 6 Implementation: Sample Areas

| | |
|------------------------------------|--|
| <i>Sustainable Development</i> | <ul style="list-style-type: none"> • Guidance based on United Nations 2030 Agenda for Sustainable Development • Priority list for country (sectors, intervention types) and target groups (including in terms of equal access, gender policies etc.) • List of indicators for implementation (including with respect to mitigation-cum-adaptation needs) |
| <i>Environmental Integrity</i> | <ul style="list-style-type: none"> • Compliance with COP and CMA guidance; • Specific requirements for partner countries (examples): <ul style="list-style-type: none"> ◦ Coverage of NDCs; ◦ Metrics; ◦ Ambition of NDCs; ◦ Procedures for measure approval; ◦ Long-term (2050) strategy in place' • Specific requirements for participating non-state actors (including state-owned operators) (in certain sectors, examples): <ul style="list-style-type: none"> ◦ Does not benefit from state subsidies; ◦ Meets global transparency requirements; ◦ Has Environmental-Social-Governance (ESG) policy in place; • Specific quality thresholds (examples): <ul style="list-style-type: none"> ◦ Rules on overall global mitigation benefit per intervention (type); ◦ Compliance with Paris trajectory (2 degree or 1.5 degree); ◦ Certain sectors are prioritized, other excluded (positive/negative lists); ◦ Additionality test (e.g. beyond NDC; tests of technology penetration; and so on); ◦ Specific rules for use of intervention for international aviation and shipping purposes |
| <i>Transparency and Governance</i> | <ul style="list-style-type: none"> • Process for application and approval; • Institutional responsibilities; • Eligibility of applicants; • Necessary documentation; • Compliance procedures (including with respect to the achievement of indicators under Sustainable Development) |

Table 1: Sample areas for domestic regulatory action (Article 6 Paris Agreement).

Countries will also have to decide on their approach to additionality. While the concept of additionality features prominently in the negotiation text on Article 6.4 and while guidance is set to be developed as part of the Article 6.4 process for methodological approval, the situation for Article 6.2 transfers is different. The concept may be interpreted as a mandatory element of ‘environmental integrity’, but Article 6 PA and Decision 1/CP.21 are silent on the matter. Consequently, the negotiation text for Article 6.2 seems to confer most of the conceptual definition to participating Parties. It will, thus, be for Parties to lay out their approaches in principles.

Finally, the briefing note seeks to bring into view the inter-dependency of the different Article 6 instruments. The inter-dependency between Article 6.4 and Article 6.2 is the most evident. Article 6.5 bans host countries from accounting emission reductions achieved under Article 6.4, when they are used by another Party to fulfil their national NDCs. Such use by another Party – it would seem – requires a transfer under Article 6.2 PA and an authorization of use as per Article 6.2. The negotiation texts seem to acknowledge the complementarity of Article 6.3 PA and Article 6.5 PA, though the details are still widely debated (see section 1.a.vii of D-6-2 (definition of ITMOs) and section VIII of D-6-4, which makes references to Article 6.2 transfers in all of the distinct options and sub-options).

On the other hand, other inter-dependencies, notably the inter-dependency between Article 6.8 and Article 6.2/6.3, are less obvious but equally relevant in the light of the Article 6 principles of enhanced ambition, sustainable development and environmental integrity (Article 6.1). Where a cooperation under Article 6.8 leads to a mitigation outcome, this mitigation outcome cannot be subject to a transfer under Article 6.8 (“non-market approaches”), and at the same time, it is excluded from a transfer under Article 6.2 (cf. D-6-8, paragraph 2.d and 2.f). LoAs may be used to restate this exclusivity of Article 6.8 interventions.

4. LoA: The Basics

Participation in the Article 6 PA instruments is voluntary and subject to Party authorization. Article 6.3 PA lays down that “[the] use of internationally transferred mitigation outcomes to achieve nationally determined contributions shall be *voluntary and authorized by participating Parties*” (italics added). The mechanism under Article 6.4 PA is established for use by Parties “on a voluntary basis”. This requirement is a case-specific requirement, i.e. each internationally transferred mitigation outcome (“ITMO”) under Art. 6.2 PA and each transfer of emission reductions under Art. 6.4 PA must be approved through an LoA. With this, the LoA practice under the Paris Agreement continues the previous practice under the Kyoto Protocol.

Furthermore, in line with the previous Kyoto practice, the LoA can combine both the “approval” of the specific measure/transfer and the “authorization” of non-state actor involvement. It is the opportunities for engaging the private sector in the flexible mechanisms and emissions trading, which has fueled much of the debate around Article 6 in recent years.

In the author’s brief of 20 October 2018, prepared prior to the Katowice COP, we compared the design of Article 6.2 PA and Article 6.4 PA with the Kyoto precedents and suggested tentative language for model LoAs under both instruments. A *model LoA for use under Article 6.2 PA*, the author argued, should be able to address the following points:

- Approval of the cooperative approach resulting in a mitigation outcome (specific intervention), including a declaration on the promotion of sustainable development;
- Approval of the international transfer, subject to an LoA from an investor country;

- Approval of the ITMO use towards the NDC of the investor country; or alternatively, approval of the ITMO use towards a non-NDC objective (with the sub-option to specify a particular use, e.g. ICAO/CORSIA);
- Authorization of non-state actors (including state-owned operators);
- Strict commitment of host country to perform a corresponding adjustment;
- Limitations of approval in terms of transfer amount, timing, submission of investor country LoA, additionality requirements, and other.

A model LoA for Article 6.4 PA purposes, on the other hand, should be able to address the following points:

- Approval of the specific activity, including a declaration on the promotion of sustainable development;
- Approval of use of the emission reductions concerned;
- Authorization of non-state actors (including state-owned operators);
- Choice of use:
 - 1. Host country use;
 - 2. Investor country use (then also transaction in accordance with Article 6.2 PA); or
 - 3. Non-Party use.
- For choices 2 and 3: Strict commitment of host country to perform a corresponding adjustment;
- Limitations of approval in terms of transfer amount, timing, submission of investor country LoA (for some constellations only), additionality requirements, and other.

5. Recent Regulatory Developments (Katowice COP)

COP 24 (Katowice) failed to produce relevant implementing acts – the guidance foreseen in Article 6.2 PA and the rules, modalities and procedures foreseen for Article 6.4 PA in conjunction with Art. 6.7 PA – and requested² SBSTA instead to prepare a draft decision for consideration by Parties at COP 25 in Santiago de Chile.

This notwithstanding, as noted above, the adoption of paragraph 77.d of Decision 18/CMA.1 has arguably anticipated a number of key decisions for the Article 6 design. The dual coverage of Article 6 transactions as part of the Article 6 guidance (still to be negotiated), on the one hand, and as part of the Katowice Climate Package, on the other hand, may be surprising. However, it is logical in principle. The Katowice Climate Package includes the modalities, procedures and guidelines for the transparency framework for action and support referred to in Article 13 of the Paris Agreement (Decision 18/CMA.1).³ Article 13 PA aims to provide a “clear understanding of climate change action... including clarity and tracking of progress towards achieving Parties’ individual nationally determined contributions” (Art. 13.5 PA). Addressing this purpose, the Decision 18/CMA.1 lists specific data requirements that countries must meet in their nationally determined contributions (“NDCs”) and their biennial transparency reports (“BTRs”). Generally, the strong emphasis on data management and reporting reflects the overall design feature of the Paris Agreement that leaves to Parties much choice on the substance of their

² Decision 8/CMA.1: Matters relating to Article 6 of the Paris Agreement and paragraphs 36-40 of decision 1/CP.21.

³ Decision 18/CMA.1.

commitments and the means of implementation, while ensuring a tight leash of procedures and follow-up. This includes setting transparency rules for transactions under Article 6.

5.1. Structured Summary Reporting

As part of these requirements, Parties must provide “structured summary” information on (para 77, Decision 1/CMA.18):

- The indicators used for the tracking of progress (which may be greenhouse gas (“GHG”) emissions and removals, but also action-driven indicators, e.g. hectares of reforestation, as well as adaptation-related indicators), together with the reference point for each indicator (e.g. base year against which progress is measured and the most recent reporting results against the indicators (para. 77.a);
- Information on GHG emissions and removals consistent with the coverage of the Party’s NDC, where applicable (para. 77.b);
- Contribution or the LULUCF sector, if not included in the inventory time series of total emissions (para. 77.c); as well as
- Information on the use of flexible instruments (para. 77.d).

The information on flexible instruments concerns Parties only that either participate in Article 6.2 PA (“cooperative approaches”) transactions, i.e. those that involve the use of internationally transferred mitigation outcomes (“ITMOs”) towards NDCs, or that “[authorize] the use of mitigation outcomes for international purposes other than achievement of its NDC”.

Parties that engage in either way must include the following information in the structured summaries:

- Annual level of GHG emissions and removals covered by the NDC (measured annually and reported biennially);
- Emissions balance reflecting the level of GHG emissions covered in the NDC adjusted for “corresponding adjustments... by effecting an addition for [ITMOs] first transferred/transferred and a subtraction for internationally transferred mitigation outcomes used/acquired”, consistent with guidance developed related to Article 6;
- Other information consistent with guidance developed related to Article 6, if relevant; and
- Information on how each cooperative approach promotes sustainable development; ensures environmental integrity and transparency, including in governance; and applies robust accounting to ensure the avoidance of double counting, consistent with guidance developed related to Article 6.

5.2. Regulatory Impact

The section is peculiar for a number of reasons. While the ‘tentative’ nature of paragraph 77.d of Decision 1/CMA.18 is noted (see above), , it appears to anticipate a number of structuring elements for future Article 6 trading, even if we exclude the more contentious details such as the reference to the “emissions balance”, the reference to NDC coverage, with no mentioning of measures outside NDCs; and the reference to first transfers. This concerns first and foremost the instruction that all trading of mitigation outcomes must be closely tracked

by both the transferor (including the first transferor) and the transferee and reported on as part of the BTRs. This implies substantial reporting and compliance obligations for both host and investor country.

Then, the provision 77.d allows for the option that a country authorizes “the use of mitigation outcomes for international mitigation purposes other than the achievement of its NDC”. The wording is a strong indicator that alternative trading – NDC-debiting but not crediting – will be possible and governed by CMA guidance. It is noted that the latest negotiation texts – D-6-2 as well as D-6-4 – propose matching language (though D-6-2 also includes one option out of three which would expressly exclude the alternative use under Article 6.2 PA).

This said, the regulatory space for the *alternative use of mitigation outcomes* is not free of ambiguity. On the one hand, the specific wording of paragraph 77.d suggests that the alternative use of mitigation outcomes does not fall within Article 6.2 PA or another Article 6 instrument (“... or authorizes...”; italics added). On the other hand, both options, the ITMO (NDC debit and credit) use as well as the alternative use (NDC debit but not credit) of mitigation outcomes is subject to “relevant decisions adopted by the CMA on Article 6 and [the Katowice decision on mitigation]⁴ indicating that the alternative use is or may be regulated as a variation of the Article 6 instruments.

Furthermore, the identity of the authorizing Party remains unsettled. It is obvious that the host country will need to approve the international transfer of any mitigation outcome concerned. Yet, the host country is never the country that uses the mitigation outcome concerned (otherwise we would not speak of an international transfer, or an “international mitigation purposes”). Thus, the words “other than achievement of its NDC” (italics added) imply that the international alternative-use transfer requires *dual* authorization, just as the NDC-debit/credit cooperative approach: 1) the authorization from the host country to release and account for the mitigation output, and 2) the authorization from an investor (or guarantor) country that commits not to use the mitigation outcome for the purpose of achieving its own NDC. The alternative use scenario, then, would be another form of ‘cooperative approach’.

By contrast, it is not clear whether the host country has the power to restrict the use of “its” mitigation output for purposes other than NDC achievement.

5.3. Tracking and Reporting under Article 6

The many contentious issues aside, the latest Katowice negotiation text⁵ on Article 6.2 (D-6-2), includes a consolidated and presumably little-contested list of reporting elements which would come into play. Section VII of this draft decision is dedicated to reporting, and it has a sub-section on initial reporting concerning NDC design details (para 38) and one on regular reporting (para 39-43). Overall, reporting tasks and capacity needs will be considerable.

5.3.1. Authorizations, Registry, Institutions

Each Party participating in cooperative approaches must describe:

- The registry functions in place to track ITMOs (transfer, holding, use, cancelation, etc.);

⁴ Decision 4/CMA.1: Further guidance in relation to the mitigation section of decision 1/CP.21.

⁵ Draft Negotiation Text (SBSTA 50), cf. footnote 1.

- The LoA process and institutions;
- The authorizations in place;
- The existing guarantees against double-counting towards NDCs;

5.3.2. Impact

Each Party participating must describe how the cooperative approaches:

- Support the mitigation of greenhouse gases and the implementation of its NDC;
- Ensure environmental integrity such that there is no increase in global emissions through robust governance, stringent baselines, compensation for reversals etc.
- Apply consistent measurements
 - If CO₂eq. metrics are used to measure mitigation outcome, that these are in line with IPCC guidance and CMA decisions;
 - If other metrics are used, that these are consistent with the NDCs of the participating parties;⁶
- Include measurements for co-benefits resulting from adaptation actions and/or economic diversification plans;
- Are consistent with sustainable development in the host Party, noting national prerogatives.

Each participating Party must further submit information on its long-term low emission development strategy, where available (though the provision, para. 25, does not require *expressis verbis* that the Party needs to demonstrate that the cooperative approaches it engages in are consistent with the strategy).

5.3.3. Safeguards

Each Party participating must describe how the cooperative approaches:

- Are consistent with sustainable development in the host country;
- Deliver overall mitigation in global emissions (details continue to be under negotiation);
- Do not result in environmental harm;
- Address any risks of conflict with other environment-related aspects;
- Avoid unilateral measures and discriminatory practices;
- Are consistent with the Party's respective obligations on human rights; and
- Avoid causing negative social or economic impacts to any Party.

⁶ It is noted that the text on the use of non-CO₂eq. metrics is bracketed indicating contention. The details for consistency evaluation will be complex to establish, if and where non-CO₂eq. metrics will be used. This will also impact multi-party transactions, in which some parties use CO₂eq. metrics but other do not.

5.3.4. Tracking

Each participating Party must submit annually⁷ quantitative information on:

- Annual and cumulative (all years covered by the NDC) emissions and removals in relation to the sectors, sources, greenhouse gases and time periods covered by the NDC;
- Annual and cumulative ITMOs first transferred, acquired, held, transferred, cancelled or used by participating Parties (thus including transferor and transferee), distinguishing ITMOs from sectors, sources and gases within the NDC and those falling outside the NDC, with specific data on each cooperative approach, sector, vintage and metric used;
- Annual and cumulative corresponding adjustments applied, with information on the other Party and the metric used;
- Annual and cumulative ITMOs authorized for alternative use (i.e. for a purpose other than towards NDCs), including information, as applicable, on the transferor, acquirer and/or user of the ITMOs;
- Adjusted balances after applying corresponding adjustments; and
- (this last point remains in brackets indicating contention) Information on share of proceeds.

6. Impact for Authorizations under Article 6 Paris Agreement

The Katowice decisions and draft decisions are primarily concerned with reporting obligations for NDC accounting purposes and they do not give any instructions related to the content of the form of an LoA. This notwithstanding, as the reporting obligations pre-condition the implementation of any cooperative approach (with or without the alternative use), it is through the LoAs that Parties communicate and pass on the *country-level conditions for implementation* to the intervention-level. Thus, the LoA becomes a functional document that responds to the list of information items required under the Paris Rulebook and examines any requests for the implementation of an Article 6 measure against these requirements.

Mirroring the functional requirements of a measure and transfer under Article 6.2, LoA applications should address, and a model LoA may include, the following content elements (“mandatory/optional” indicating that the issues not yet or not completely settled):

- (Mandatory/optional) A confirmation that the measure supports the mitigation of greenhouse gases *and the implementation of its NDC*;
- (Mandatory/optional) A clarification whether the measure falls *fully or partially into the scope of the NDC* providing details on sectors covered, vintages concerned, and metrics used;
- (Mandatory) That the *metrics* used are consistent with IPCC guidelines (when expressed in CO₂eq.) or other relevant sources such as global temperature potential (when non-Co₂eq. metrics are proposed);
- (Mandatory) Where available, information on the other Party, the *corresponding adjustment* to be made and the *metric* used;

⁷ Para. 26 requires annual submissions but frames these in the BTRs. How this is technically implemented remains to be seen.

- (Mandatory/Optional) For alternative use: Information, as applicable, on the *transferrer, acquirer and/or user of the ITMOs*;
- (Mandatory) Clarification how the measure meets the Party's *safeguards* [guarantees] [protocol], namely that the measure is found not to result in environmental harm and is not in conflict with other environmental priorities, that it is not arbitrary or discriminatory, that it is consistent with obligations of human rights, and that it avoids any negative social or economic impacts.
- (Mandatory) Confirmation that the measure supports the *sustainable development* of the Party;
- (Mandatory/Optional) Information on *measurements for co-benefits* resulting from adaptation actions and/or economic diversification plans;
- (Mandatory) Confirmation that the measure is consistent with the *long-term low-emission development strategy*;

Most discussions on letter of approvals are limited to the instruments under Article 6.2 and 6.4. However, it seems appropriate to address cooperation formats between Parties under Article 6.8 (non-market approaches), too. As mentioned above, where a cooperation under Article 6.8 leads to a mitigation outcome, this mitigation outcome cannot be subject to a transfer under Article 6.8 (“non-market approaches”), and at the same time, it is excluded from a transfer under Article 6.2 (cf. D-6-8, paragraph 2.d and 2.f). LoAs – issued for Article 6.8 operations – should be used to restate this exclusivity of Article 6.8 interventions.

7. Model Language

In the following, revised model language is proposed for a host country letter of approval based on Article 6.2 PA. The model is informed both by Decision 18/CMA.1 as well as the draft Article 6.2 decision (status: SBSTA 50). It reflects both the Party-to-Party transfer whereby the transferor (host country) and the transferee (investor country) Party account the ITMO towards their NDC – as a debit for the transferor Party and a credit for the transferee Party – as well as the alternative use transfer whereby the transferor (host country) accounts the ITMO towards its NDC (as a debit) and the transferee (guarantor country) abstains from crediting its NDC with the ITMO. Metrics are defined as CO₂eq. only.

No new language is proposed for the Article 6.4 PA LoA, given that the decisions adopted or proposed at Katowice have not resulted in much guidance on the specific scope and context for this LoA type. It goes without saying that any measure authorized for Article 6.4 purposes, which involves an international transfer, must also meet the LoA requirements as contemplated in the below.

7.1. Caveats

The same caveats raised in the briefing of October 2018 apply here. First, the Paris Rulebook remains incomplete, and specific implementing legislation on Article 6.2 PA has yet to be finally negotiated and adopted. The model presented reflects the legal core provisions in the Paris Agreement, Decision 18/CMA.1 and the draft Article 6.2 decision, but the uneasy relationship between the latter two is noted once more, and generally it cannot anticipate what details will be added at the level of the Article 6 decisions and how they impact paragraph 77.d of Decision 18/CMA.1. These details may weigh in on what needs to be included in a letter of approval and in what manner approvals must be made.

Second, there is no practice of Article 6 PA approvals yet from which a consolidated draft could be developed.⁸ The model presented is quite literally a *proposal* for negotiators and governments to comment on.

Third, there has been no input from potential host countries on the wording. The text elements are meant as a beginning of a consultation process, not the end result.

In addition, a fourth caveat is made that was not included in the October 2018 briefing. While previous draft decisions of Article 6.2 prominently featured the option for Parties to authorize non-Parties to participate in cooperative approaches,⁹ this option has disappeared from the negotiation text during the Katowice conference. The draft SBSTA 49 text¹⁰ still made a bracketed reference to the option; the proposal by the President at COP 24, however, was altogether free of it, and this line was maintained in the latest negotiation text (SBSTA 50). Provided the COP 25 decision follows this lead, non-state actors will not be directly involved for the legal purpose of cooperative approaches – a far-reaching departure from the Kyoto precedents. A host country may still choose to have cooperative approaches implemented by non-state actors and authorize their implementing role through an LoA. But such authorization would not have any legal consequence under the Paris Rulebook proper. This said, for the purpose of transparency of governance, the option of non-state actor authorization is included in the below.

7.2. Modular presentation

With these caveats in mind, the following proposals are designed to reflect different scenarios or options (referred to as “modes”) as well as sub-options (referred to as “options”), namely:

- **MODE A:** Investor country receives mitigation outcome for NDC use.
- **MODE B:** Mitigation outcome may not be used by either host country or investor/guarantor country.
 - Option 1: Generic Non-Party use;
 - Option 2: Specific Non-Party use (e.g. for use under ICAO’s CORSIA).

7.3. Commented Version

Section 7 (Appendix) contains a commented version of the model draft.

⁸ See, however the White Paper: Formal dialogue between Peru and Switzerland on a bilateral agreement under the Art. 6 of the Paris Agreement, dated 27 November 2018, available [here](#).

⁹ See, for instance, the draft text of SBSTA 48-2 agenda item 12(a): Matters relating to Article 6 of the Paris Agreement: Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement, paragraph 37: “Non-Party actors may, where applicable, subject to authorization by a participating Party... Participate in cooperative approaches... Transfer and acquire ITMOs... [and] Use ITMOs for purposes other than towards achievement of an NDC.”

¹⁰ SBSTA 49 agenda item 11(a): Matters relating to Article 6 of the Paris Agreement: Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement, paragraph 9.

7.4. Approval Notice under Article 6.2 PA

[Issuing Authority]

**Approval Notice
concerning the international transfer of a mitigation outcome
(Article 6.2 Paris Agreement)**

[Recipient of Notice:]

[Location, Date]

Dear Sir / Madam,

[With respect to your request of _____, we issue the following approval notice:]

[With this letter, we present and make public the following approval:]

1. International Transfer of Mitigation Outcome

1.1 The cooperative approach as further described in Annex I is recognized as generating a greenhouse gas (GHG) mitigation outcome in [host country] and serves the implementation of [host country]'s nationally determined contribution.

1.2 The mitigation outcome is accounted for in [tonnes of CO₂eq.] [other] and calculated consistent with guidelines established by [the Intergovernmental Panel on Climate Change ("IPCC")] [other, when non tCO₂eq metrics are used]. It impacts, or may impact, GHG emissions and removals for the following years (each a "Vintage"): _____, in the following sectors, [which are all covered by [host country's] NDC] [with those underlined being fully covered by [host country's] NDC]:

1.3 The cooperative approach as further described in Annex I also supports [host country]'s sustainable development as well as [host country]'s long-term low emission development strategy. In particular, [if host country has specific SDG / low emission development / Roadmap 2050 et al. catalogue to verify].

1.4 The cooperative approach as planned does comply with [host country]'s safeguards [guarantees] [protocol]. [In particular, it meets...]

1.5 We endorse the international transfer of the mitigation outcome resulting from the cooperative approach to [specify investor country or otherwise use: "another country"] ("**Investor/Guarantor Party**"), subject to the receipt – and our written appraisal – of a letter of approval authorizing such transfer issued by the Investor/Guarantor Party as further specified in section 3 below.

- 1.6 The transfer amounts shall be limited to _____ [tCO₂eq.] [other metric, as applicable] per calendar year.
- 1.7 [You [as well as ____] are authorized to participate in the generation and transfer of the mitigation outcome in question in accordance with [quote provision in Article 6.2 decision that authorizes non-state actors, if applicable].]
- 1.8 For the avoidance of doubt, no transfers are permitted prior to the submission and our appraisal of the Investor/Guarantor Party letter of approval.

2. Authorization of Use

- 2.1 **MODE A:** The mitigation outcome resulting from the cooperative approach and transferred may be used by the Investor/Guarantor Party to achieve its nationally determined contribution under the Paris Agreement.
- 2.2 **MODE B:** The mitigation outcome resulting from the cooperative approach and transferred may not be used by the Investor/Guarantor Party or any other Party to achieve any nationally determined contribution under the Paris Agreement.
- 2.3 **MODE B:** However, the mitigation outcome transferred may be used
 - 2.3.1 Option 1: for purposes other than towards achievement of a nationally determined contribution;
 - 2.3.2 Option 2: [within the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)] [another scheme].

The authorization granted to you under sec. 1.7 extends to such use.

- 2.4 [Host country] will not use the mitigation outcome transferred to demonstrate achievement of its own nationally determined contribution, and [host country] guarantees that a corresponding adjustment be made, by adding the mitigation outcome transferred to the level of anthropogenic emissions by sources and/or removals by sink covered in [host country's] nationally determined contribution.

3. Investor Party / Guarantor Party

- 3.1 This Letter of Approval requires a matching approval notice from [include specific country or state "another Party eligible to participate in cooperative approaches under Article 6.2 Paris Agreement"] ("Investor/Guarantor Party LoA").
- 3.2 The Investor/Guarantor Party LoA must include:
 - 3.2.1 a clear reference to the cooperative approach as further described in Annex I;
 - 3.2.2 a confirmation whether the mitigation outcome generated from the cooperative approach is used towards achievement of the country's nationally determined contribution ("Investor Party Use");

- 3.2.3 a clarification on the annual and cumulative corresponding adjustments planned, where applicable, and the metrics used;
- 3.2.4 if the use towards achievement of the country's nationally determined contribution is not intended ("Guarantor Party Use"), information on further transfers intended and whether the ultimate use is towards achievement of another country's nationally determined contribution or towards another purpose, with details where available.

4. Other Provisions

- 4.1 The calculation of the mitigation outcome resulting from the cooperative approach as further described in Annex I shall be made in accordance with the methodologies and common metrics assessed by the Intergovernmental Panel on Climate Change [and, in particular, following -----].
- 4.2 [The additionality of the measure shall be demonstrated for each sub-measure during verification, it being understood -----.]
- 4.3 Each international transfer of mitigation outcome must be notified, by 31 March of the following calendar year, specifying the amount and metric used, as well as the calendar year in which the mitigation outcome was generated; the identity and details of the transferee; and the type of use or the type of the intended use.

This letter of approval is done in [two] originals in the English language.

ANNEX I

Description of the specific cooperative approach resulting in a mitigation outcome

8. Consequences of Non-Compliance

There are different scenarios and non-action, and different layers of legal relations, in which compliance or non-compliance comes into play. Broadly, one needs to distinguish three categories of non-compliance: (1) Non-compliance by authorized non-state actors; (2) non-compliance by the investor/guarantor country; and (3) non-compliance by the host country.

8.1. Non-Compliance by authorized non-state actors

As Article 6.2 PA cooperative approaches and transactions are decentralized by nature, they lack the harmonized process and oversight of the Kyoto mechanisms. At the same time, the list of requirements to be set by the future Article 6.2 PA decision and translated into the non-Party sphere through the LoA – concerning the scope and value of potential transfers, concerning methodological accurateness, concerning safeguards as well as concerning reporting – is longer than it was for the CDM or JI. That means that much can go wrong.

A non-state actor authorized to implement a cooperative approach can violate the terms of an LoA, e.g. by implementing a different intervention from the one approved; by misstating facts on additionality; by transferring mitigation output in excess of what is permitted or to a Party not eligible to participate in cooperative approaches; or by not complying with the reporting obligations under the LoA.

8.2. Non-Compliance by an Investor or Guarantor Party

The most obvious violations for the investor or guarantor Party would be the overstatement of a mitigation output acquired in its corresponding adjustment (credit) against the corresponding adjustment of the host country and/or transferor Party (debit), on the one hand, and the denial of an alternative use commitment through a credit-adjustment towards the Party's NDC.

8.3. Non-Compliance by a Host Country

A host country may inflate the mitigation output achieved, while devaluing the need for a corresponding adjustment. It may offer a cooperative approach in a sector that it subsequently excludes from its NDC accounting or that goes against its long-term low-carbon development strategy. And it may simply trade away mitigation outcome and intentionally fail to comply with its NDC targets.

8.4. Legal Remedies

The most comprehensive compliance framework appears to exist in the non-state-actor non-compliance scenario. In all of the potential events of LoA violation, enforcement procedures may be launched by the authority issuing the LoA. The relevant law would be, in the first place, the domestic law under which the LoA was issued. In the case of Germany – assuming administrative rules will be adopted to govern the issuance of an LoA – the applicable enforcement laws would focus on the rights of withdrawal and repeal as laid down in Articles 48 and 49 of the law governing administrative procedures (VwVfG).

It is noted, however, that there is currently no mechanism under the Paris Agreement or other international law in place and no mechanism planned as part of the future Article 6.2 PA decision that would permit compliance or enforcement action against a non-state actor. This is regardless of whether the Article 6.2 PA regulatory framework directly engages with non-state actors or not (see above on caveats).

8.4.1. Party-to-Party Compliance

The compliance tools available in case of violations at the Party level – whether in the person of the investor/guarantor Party or in the person of the host Party – are less obvious. In either case – violation on the side of the investor/guarantor Party or violation on the side of the host Party – legal compliance can be primarily addressed through the enforcement of bilateral treaty or contractual guarantees. Every cooperative approach will be based on either a bilateral treaty or (more likely) a government-to-government contract. Several of the events of non-compliance will be captured as an event of default under the relevant treaty or country. However, this will not be the case for all of the potential events of non-compliance. The case in which a cooperative approach is misaligned with a long-term low development strategy of the host Party would be considered a violation with the relevant Article 6.2 PA rules, but it hardly figures as a material non-compliance provision under the bilateral transfer agreement (unless, of course, it is explicitly characterized as such).

8.4.2. Article 15 Committee Under the Paris Agreement

Bilateral treaty and contract rights aside, the Paris Agreement also offers a compliance instrument, and it may be of relevance when a host country or an investor/guarantor Party violate the terms of any cooperative approaches. This said, the facilitative instrument established under Article 15 PA is a soft and malleable tool of compliance at best. The legal basis (in Article 15.2 PA) describes the process as “expert-based and facilitative in nature... non-adversarial and non-punitive”, avoiding studiously any language that could be interpreted as hard, binding and involving any form of sanction. Nonetheless, Article 15 has created a “mechanism to facilitate implementation... and promote compliance”. It remains to be seen what the impact of the mechanism will be in practice.

The implementing legislation in place belongs to the part of the Paris Rulebook that was adopted at the Katowice conference (COP 24).¹¹ It foresees three tracks of regular Committee involvement:¹² (1) via voluntary referral of a Party (for self-examination); (2) via mandatory initiation by the Committee; and (3) via discretionary initiation by the Committee.

Track (2) and track (3) are the closest to compliance procedures proper. Track (2) – in which the Committee opens proceedings without discretion and without right of veto for the Party concerned – is applicable only for a set of core violations concerning the failure to provide information, in particular the failure to communicate an NDC, a national inventory or a BTR, when due.

Track (3) is arguably the most contentious mode of Committee involvement. It aims at resolving cases of “significant and persistent inconsistencies” of the information submitted as part of a Party’s inventory report or BTR. The Committee considers for its decision the recommendations included in the technical expert review (“TER”) reports established under Article 13.11 and Article 13.12 and further described in the Transparency

¹¹ Decision 20/CMA.1: Modalities and procedures for the effective operation of the committee to facilitate implementation and promote compliance referred to in Article 15, paragraph 2, of the Paris Agreement.

¹² The decision also gives the Committee the right to “identify issues of a systemic nature with respect to the implementation of and the compliance with the provisions of the Paris Agreement” but those systemic issues must go beyond a single Party dossier and instead be “faced by a number of Parties” (para. 32).

Decision. Importantly, the Party concerned must consent for the Committee's Track (3) procedure to be initiated, although the sequence of events is not entirely clear.¹³

Assuming Party consent does not constitute an obstacle (it very well might), the benchmark for Committee involvement in this track is high: "significant and persistent inconsistencies". While there is no guidance on interpretation of this benchmark yet, a *pattern of material irregularities*, as highlighted in the same or in subsequent TERs will need to be demonstrated.

¹³ Cf. para. 22 b: "[The Committee may] with the consent of the Party concerned, engage in a facilitative consideration of issues..."; and then para. 24: "Where the Committee decides to initiate a consideration..., it shall notify the Party concerned and request it to provide the necessary information..." There is no clear indication when and how the consent of the Party is obtained.

9. Appendix: Annotated Version of the Model LoA (Article 6.2 PA)

For ease of reading and discussion, in the below a commented version of the two work models is presented.

| | |
|---|--|
| <p>Issuing Authority</p> <p>Approval Notice concerning the international transfer of a mitigation outcome</p> <p>(Article 6.2 Paris Agreement)</p> | <ul style="list-style-type: none"> • National authority/focal point. • Integrated Letter of Approval covering all required approvals and authorizations of the host country • The PA expressly foresees an approval for the use of internationally transferred mitigation outputs (ITMOs) only (Article 6.3); • However, Article 6.2 defines more broadly the engagement in cooperative approaches as a whole as voluntary, and the concept of “mitigation outcome” argues for a mandatory link between a specific intervention and the transfer; • The Draft LoA draws on Article 6.2 to outline four distinct approval layers: <ul style="list-style-type: none"> ○ Approval of the measure underlying a specific mitigation outcome; ○ Approval of the international transfer; ○ Approval of use towards a foreign NDC; ○ Authorization of participation of non-state actors (currently not specifically included in the Article 6.2 negotiation text). |
| <p>[Recipient of Notice:]</p> <p>-----</p> | <ul style="list-style-type: none"> • Replicating the practice from the Clean Development Mechanism (CDM) and Joint Implementation (JI), a non-state actor (in the wide meaning of the Paris Agreement, i.e. including sub-national authorities) would propose a mitigation measure and ask for a letter of approval; this non-state actor would be the recipient of the notice; • In case the central government is the proponent of the measure (e.g. a national emissions trading scheme whose mitigation outcome is traded internationally), the government authority in charge of organizing the ITMO would be the recipient of the notice. |
| <p>[With respect to your request of _____, we issue the following approval notice:]</p> <p>[With this letter, we present and make public the following approval:]</p> | <ul style="list-style-type: none"> • The standard process would consist in the relevant proponent submitting an approval request; • As an exception, in case the central government is responsible for the measure and the transfer, the issuing authority – representing the government – could issue the letter of approval independently. |

| | |
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| 1. International Transfer of Mitigation Outcome | <ul style="list-style-type: none"> ITMO as the central structuring element. |
| 1.1 The cooperative approach as further described in Annex I is recognized as generating a greenhouse gas (GHG) mitigation outcome in [host country] and serves the implementation of [host country]'s nationally determined contribution. | <ul style="list-style-type: none"> Approval of the underlying measure; Measure must – at least partially – be covered by the host country's NDC. |
| 1.2 The mitigation outcome is accounted for in [tonnes of CO ₂ eq.] [other] and calculated consistent with guidelines established by [the Intergovernmental Panel on Climate Change ("IPCC")] [other, when non tCO ₂ eq metrics are used]. It impacts, or may impact, GHG emissions and removals for the following years (each a "Vintage"): _____, in the following sectors, [which are all covered by [host country's] NDC] [with those underlined being fully covered by [host country's] NDC]: | <ul style="list-style-type: none"> Information on the metrics for the accounting of the mitigation output with reference data, notably IPCC for tCO₂eq. metrics; Information on the vintages; Information on the economic sectors, and to what extent they are covered by the host country's NDC. |
| 1.3 The cooperative approach as further described in Annex I also supports [host country]'s sustainable development as well as [host country]'s long-term low emission development strategy. In particular, [if host country has specific SDG / low emission development / Roadmap 2050 et al. catalogue to verify]. | <ul style="list-style-type: none"> Measure must contribute to the country's sustainable development; Measure must also fit with the host country's long-term low emission development strategy. Depending on the practice of the host country, further details can be provided. |
| 1.4 The cooperative approach as planned does comply with [host country]'s safeguards [guarantees] [protocol]. [In particular, it meets...] | <ul style="list-style-type: none"> The safeguards obligations flowing from the draft Article 6.2 PA text are extensive; Host countries are probably well advised to adopt a safeguards protocol that covers relevant issues from human rights guarantees to no-harm-provisions and other. |
| 1.5 We endorse the international transfer of the mitigation outcome resulting from the cooperative approach to [specify investor country or otherwise use: "another country"] ("Investor/Guarantor Party"), subject to the receipt – and [my] [our] written appraisal – of a letter of approval authorizing such transfer issued by the Investor/Guarantor Party as further specified in section 3 below. | <ul style="list-style-type: none"> The transfer of the mitigation outcome is approved independently from the ITMO use, as the use may be different from case to case; The approval is conditioned on the receipt as well as the appraisal of the investor/guarantor country LoA; The appraisal is needed given the extensive information that the investor/guarantor country LoA needs to contain for the host country to fulfil its reporting obligations. |
| 1.6 The transfer amounts shall be limited to _____ [tCO ₂ eq.] [other metric, as applicable] | <ul style="list-style-type: none"> As any transfer creates an automatic liability for the host country, setting a ceiling is in order; |

| | | |
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| | per calendar year. | <ul style="list-style-type: none"> Also given the strict NDC-focused accounting needs as well as the BTR reporting obligations, annual transfer limits to control the process may be helpful. |
| 1.7 | [You [as well as ____] are authorized to participate in the generation and transfer of the mitigation outcome in question in accordance with [quote provision in Article 6.2 decision that authorizes non-state actors].] | <ul style="list-style-type: none"> The authorization of non-state actors is currently not in the Article 6.2 negotiation text; Host countries are free to involve non-state actors, though the legal relation would remain a purely domestic one, if the Article 6.2 decision will not allow non-state actor participation. |
| 1.8 | For the avoidance of doubt, no transfers are permitted prior to the submission and our appraisal of the Investor/Guarantor Party letter of approval. | <ul style="list-style-type: none"> Given the strict reporting requirements for host countries on the transferee and the type of use, conditional approval is recommended. |
| | 2. Authorization of Use | <ul style="list-style-type: none"> ITMO use as the second central element; The following text includes different options (“Modes”) and sub-options (“Option1” and “Option 2”). |
| 2.1 | MODE A: The mitigation outcome transferred may be used by the Investor/Guarantor Party to achieve its nationally determined contribution under the Paris Agreement. | <ul style="list-style-type: none"> Standard mode as reflected in Article 6.3 PA; |
| 2.2 | MODE B: The mitigation outcome transferred may not be used by the Investor/Guarantor Party or any other Party to achieve any nationally determined contribution under the Paris Agreement. | <ul style="list-style-type: none"> Additional option to address the need for non-Party usage (non-state actors such as private parties or non-Paris stakeholders such as ICAO) of mitigation outcomes; The Investor Party (then: Guarantor Party) has to guarantee the alternative use in the Investor/Guarantor LoA; A dedication of the alternative use by the host country is currently not directly reflected in the Article 6.2 negotiation text – for LoA governance purposes vis-à-vis non-state actors participating, however, such dedication appears useful. |
| 2.3 | B: However, the mitigation outcome transferred may be used | <ul style="list-style-type: none"> This provision includes two sub-option: <ul style="list-style-type: none"> 1. The use for any purpose other than NDC fulfilment; and 2. A specific use only (such as for ICAO/CORSIA); The authorization of use must be given (Article 6.3 PA, mutatis mutandis). |
| 2.3.1 | Option 1: for purposes other than towards achievement of an NDC; | |
| 2.3.2 | Option 2: [within the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)] [another scheme]. | |
| | The authorization granted to you under sec. 1.7 extends to such use. | |
| 2.4 | [Host country] will not use the mitigation | <ul style="list-style-type: none"> Guarantee to perform a corresponding |

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| <p>outcome transferred to demonstrate achievement of its own nationally determined contribution, and [host country] guarantees that a corresponding adjustment be made, by adding the mitigation outcome transferred to the level of anthropogenic emissions by sources and/or removals by sink covered in [host country's] nationally determined contribution.</p> | <p>adjustment;</p> <ul style="list-style-type: none"> • Particular language is informed by the EU submission of 5 October 2018 (“Views on Accounting”); • Details how the corresponding adjustment to be made still for discussion at COP 25. |
| <p>3 Investor Party / Guarantor Party</p> | <ul style="list-style-type: none"> • New provision in the model LoA; • The draft Article 6.2 provision contains a range of reporting obligation concerning the investor/guarantor country Party, which should be reflected in the host country LoA. |
| <p>3.1 This Letter of Approval requires a matching approval notice from [include specific country or state “another Party eligible to participate in cooperative approaches under Article 6.2 Paris Agreement”] (“Investor/Guarantor Party LoA”).</p> <p>3.2 The Investor/Guarantor Party LoA must include:</p> <p>3.2.1 a clear reference to the cooperative approach as further described in Annex I;</p> <p>3.2.2 a confirmation whether the mitigation outcome generated from the cooperative approach is used towards achievement of the country's nationally determined contribution (“Investor Party Use”);</p> <p>3.2.3 a clarification on the annual and cumulative corresponding adjustments planned, where applicable, and the metrics used;</p> <p>3.2.4 if the use towards achievement of the country's nationally determined contribution is not intended (“Guarantor Party Use”), information on further transfers intended and whether the ultimate use is towards achievement of another country's nationally determined contribution or towards another purpose, with details where available.</p> | <ul style="list-style-type: none"> • Cooperative approach designed as a bilateral (or multilateral) measure, which requires matching LoAs and the compliance with specific information; • The information replicates information from the Transparency Decision and the draft Article 6.2 decision. |
| <p>4 Other Provisions</p> | <ul style="list-style-type: none"> • Other Provisions; • The section complements data/reporting requirements from the draft Article 6.2 decision, while also allowing for discretionary requirements the host country may impose on the measure in question; • The section may be used, for instance, to secure additionality. |
| <p>4.1 The calculation of the mitigation outcome</p> | <ul style="list-style-type: none"> • Restatement of metrics/accounting consistency |

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| | resulting from the cooperative approach as further described in Annex I shall be made in accordance with the methodologies and common metrics assessed by the Intergovernmental Panel on Climate Change [and, in particular, following _____]. | requirements with a particular focus on IPCC guidance. |
| 4.2 | The additionality of the measure shall be demonstrated for each sub-measure during verification, it being understood _____. | <ul style="list-style-type: none"> • Optional additional test (for programs). |
| 4.3 | Each international transfer of mitigation outcome must be notified, by 31 March of the following calendar year, specifying the amount and metric used, as well as the calendar year in which the mitigation outcome was generated; the identity and details of the transferee; and the type of use or the type of the intended use. | <ul style="list-style-type: none"> • As the host country must report annually, the obligation should be passed on to the specific ITMO level, with details on the transferee and the type of use. |
| This letter of approval is done in [two] originals in the English language. | | <ul style="list-style-type: none"> • Depending on the number of participants, the letter may be issued in one or several originals. |
| <p style="text-align: center;">ANNEX I:</p> <p>Description of the specific cooperative approach] resulting in a mitigation outcome</p> | | <ul style="list-style-type: none"> • Description of intervention |