

ACCOUNTING

across Articles 4, 6 and 13 of the Paris Agreement

South Africa's views should be read together with submissions by the African Group of Negotiators on mitigation (March 2018); the submission by South Africa on transparency of action and support (March 2017), and South Africa's submissions on Article 6 (April 2017)

Nature of the interlinkages

- The mitigation section of NDCs under APA item 3 include consideration of accounting for NDCs, which is closely related to Information necessary to track progress made in implementing and achieving its nationally determined contribution under Article 4 Section C of the current informal note under APA item 5
- Work in the SBSTA on cooperative approaches under Article 6 includes consideration of internationally transferred mitigation outcomes (ITMOs), and transfers of ITMOs are an important input to mitigation accounting and tracking progress towards the implementation of NDCs; and require robust accounting in their own right.
- The SBSTA work is also addressing guidance on governance and is mandated to produce rules, modalities and procedures for 6.2 and 6.4 respectively.

Principles and Fundamentals

- Accounting is critical to strengthening of the multilateral, rules-based regime under the Paris Agreement, which itself is agreed under the Convention. Environmental integrity and sustainable development must be the objective.
- Progression applies to many Articles of the Paris Agreement, and specifically to NDCs under Article 4. An inventory-based approach to mitigation accounting should be the fundamental basis. (Flexibility shall be provided those developing country Parties that need it in the light of their capacities).
- Accounting in markets is crucial to ensure that double counting is avoided. The basis of avoiding double counting is a corresponding adjustment by Parties for both anthropogenic emissions by sources and removals by sinks covered by their nationally determined contributions for Article 6.2 and to develop and recommend rules, modalities and procedures (RMP) for the mechanism referred to in Article 6.4.
- Counting, accounting and accounting for NDCs
 - Counting (adding up, subtracting, etc);
 - Accounting (comparing against a goal or benchmark); and
 - Accounting for NDCs (achievements of the targets in a Party's NDC and explaining this in a responsible manner).

Accounting for NDCs, Article 4.13

Critical elements

- A GHG inventory that uses the prescribed IPCC methodology, consistent with para 31 of decision 1/CP.21;
- A Party identifies a main mitigation target against which the Party will account for its NDC, when the NDC is communicated and thus *before* it is implemented (mandatory for NDCs submitted in 2025 and applicable post 2030, and encouraged in updating or submitting new NDCs in 2020); and
- Defines key indicators for accounting, sources of information and methodologies when communicating successive NDCs, from those identified in modalities, procedures and guidelines (MPG) on information necessary to track progress made in implementing and achieving its nationally determined contribution under Article 4 of the Paris Agreement; including
- a NDC GHG balance sheet, defined over a period of implementation of its NDC and expressed in units of Gg CO₂-eq, and report this sheet as part of the information necessary to track progress in implementing its NDC (i.e. *during* the period);
- *after* the period of implementation of the relevant NDC, the Party accounts for its NDC, including the main target identified beforehand.
- Increasing the coverage of their NDC, recalling that over time, all NDCs will be economy-wide and striving to include all gases in the scope of successive NDCs; all of which will necessitate;
- Further work on methodological approaches under the SBSTA, including a tabular format for the balance sheet; and
- continuous and adequate support provided to developing country Parties to increase their relevant capacities on implementing the guidance on accounting;
 - The critical elements above show the linkage between information and mitigation accounting under APA item 3 and tracking progress under APA item 5. Reference to guidance specific to Article 6 will need to be cross-referenced, to ensure the environmental integrity of the balance sheet.
 - In this context, there are many elements that require the development of guidance under 6.2 and rules, modalities and procedures under 6.4.

Counting and Accounting for “Markets”

Avoiding Double Counting

- **When might double counting occur?**
 - When two or more Parties count the same emissions reductions towards the achievement of their NDCs, including when a host Party and the financing Party both account for the same emissions reductions.
 - When a Party counts the emissions reductions towards their NDC and another Party counts the same emissions reductions in their inventories (and that inventory is the basis for accounting, as is South Africa’s view)
 - When financing and emissions reductions are counted towards a Party’s targets,
 - When the same emission reductions are accounted by multiple parties (more than two).
- Accounting guidance under Article 6.2 will require all the elements specified in the previous slide. In addition to these elements, environmental integrity in markets must ensure that double counting is avoided by means of corresponding adjustments.

Corresponding Adjustments (1)

- Corresponding adjustment must mean that the adjustments add up to zero – to ensure environmental integrity, so that the atmosphere sees no extra ton of GHG after the transfer of an ITMO.
- Careful counting is important and requires that ITMOs are reflected for the same year, are of the exact same magnitude, with opposite signs; and information about ITMOs must include the proposed quantity, given year, and year of transfer of the covered ITMOs. The NDC GHG balance sheet (which will be elaborated) is critical.
- *What* is adjusted is NDC GHG balance sheet, not the GHG inventory nor the NDC *per se*. *When* to adjust is at time of use. We also think that Article 6 must only be applied to sectors inside the NDC, for reasons of environmental integrity and to ensure progression.
- **Vintage**
 - ITMOs may be considered a stream of future emission reductions. Each ITMO must have a vintage, that is, the year in which is intended to be used, and actually used after verification.
- **Verification of ITMOs**
 - Verification of ITMOs is important in accounting. South Africa considers that the supervisory body could approve the arrangements that a Party puts in place *ex ante*, but the technical expert review teams (TER) could have a role *ex post*.
- **Share of proceeds**
 - South Africa's view is that the proceeds pursuant to Article 6 shall be [X] percent of internationally transferred mitigation outcomes. We believe it is of the utmost importance that the funds from the share of proceeds be used to provide support for adaptation in developing countries.

Corresponding Adjustments (2)

- **Eligibility for markets**

- Some eligibility criteria must apply for participation in markets: being a Party; mitigation targets quantified in GHG terms, reported in a balance sheet defined in Gg CO₂ eq over a period of implementation.
- At the same time, we stress that participation in markets is voluntary, so none of the rules above are imposed on any Party. However, once a Party chooses, at its discretion, to participate in markets, then stringent rules must apply – otherwise environmental integrity is at risk.

- **Governance and robust systems**

- Given the nature of cooperative approaches, there are opportunities for synergy and optimisation of infrastructure and systems for both 6.2 and 6.4.
- Generally, we favour a governance system under the supervisory body. Article 6.4 specifies that such a body is designated by the CMA. We are of the view that the supervisory should govern Article 6, and that robust systems be developed
- The Governance structure should include:
 - Supervisory Body to check the eligibility criteria (outlined above);
 - Supervisory Body for ex ante review of intended transfers of ITMOs and ex post review of transfers of ITMOs (6.2)
 - Supervisory Body for ex ante review of intended emission reduction activities and ex post review of emissions reductions (6.4)
 - Methodology panels to review and recommend relevant methodologies
 - Systems to be established should include
 - use registry systems for the purpose of tracking and reporting of issuance, transfer, acquisition and use of ITMOs
 - Secretariat maintain international registry for the purpose of consolidating and reporting information on the issuance, transfer, acquisition and use of ITMOs and units under 6.4
 - Ensuring that the vintage of each ITMO is unambiguous.

NDC GHG Balance Sheet (1)

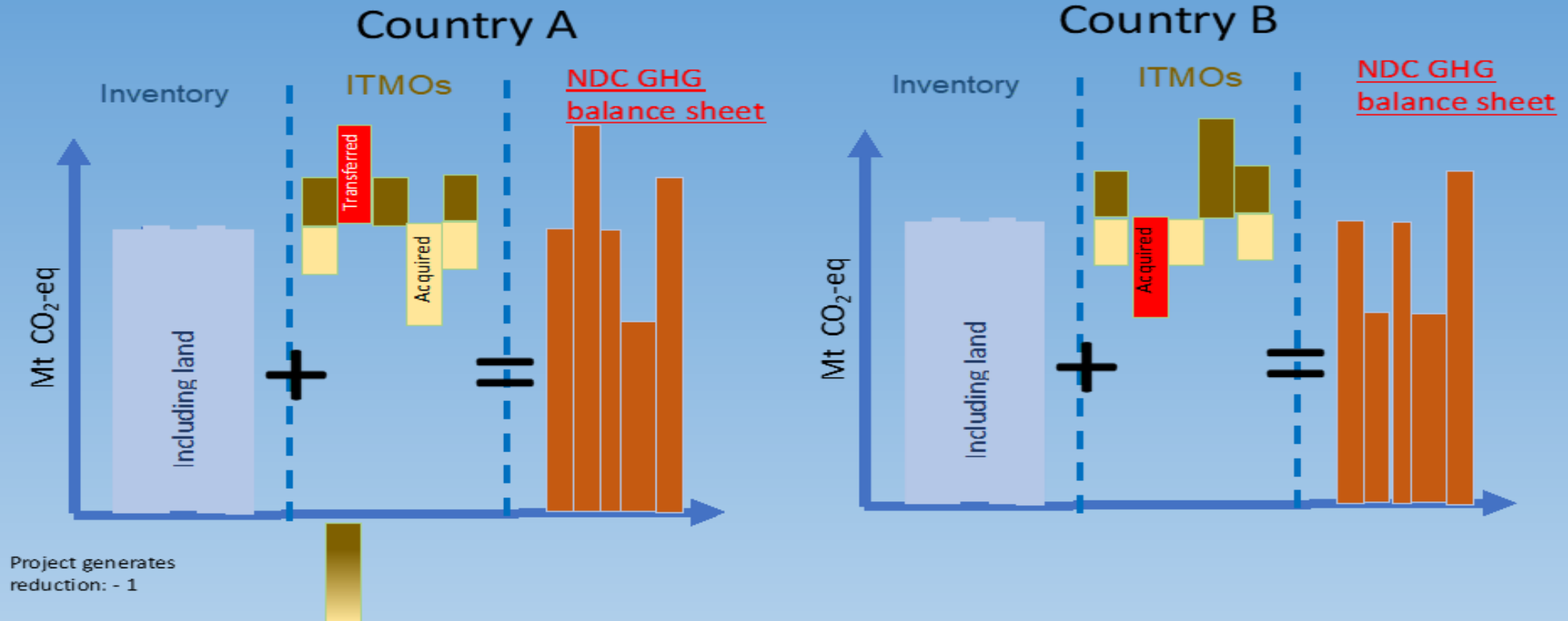
Our view is that the balance sheet is essential for counting, accounting and accounting for NDCs:

- a. Mitigation accounting under Article 4.13, and a balance sheet against which the main target in a NDC is accounted for;
- b. Tracking progress in implementing and achieving NDCs, under Art 13.7 (b), necessitates including balance sheet in biennial transparency reports; and
- c. Robust accounting under Art 6 requires a balance sheet, to provide a robust basis to ensure that corresponding adjustments are made when ITMOs are used and as a robust accounting in relation to transfer of units under Article 6.4 and ITMOs pursuant to Article 6.2.

How does the balance sheet work?

Taken together, the balance sheet is essential for environmental integrity and to ensure double counting is avoided

NDC GHG Balance Sheet (2)



The basis of a balance sheet is the country's GHG inventory. The balance sheet starts from the GHG inventory. The middle section of illustrates that ITMOs acquired are a 'minus', while ITMOs transferred are a 'plus' which would be done by counting under Article 6 resulting in net ITMOs (transfers minus receipts). Under Article 13, the balance sheet is reported by the Party as the sum of net GHG emissions and the net ITMOs, for each of the five years in a period of implementation (common time-frame, negotiated in SBSTA item 5). It should be noted that GHG emissions are reported for historical years (x-2 for developed countries and x-4 for developing countries), while ITMOs have specific vintages (established under Article 6), the year in which it is used.

NDC GHG Balance Sheet (3)

- **Each Party has a balance sheet, corresponding adjustments enabled across two Parties**
 - The balance sheet is shown for two countries, to illustrate how balance sheets enable corresponding adjustments. For example, assume that a project (or mitigation measure) generates a reduction, notionally 1 Mt CO₂-eq; then corresponding adjustment requires that Country A and Country B make adjustments, which is corresponding. In this example, Country A has +1 and Country B -1. More generally, the adjustment is corresponding if the units are reflected for the same year, and are of the exact same magnitude, with opposite signs. In simple terms, they must add up to zero.
- **Units of tons**
 - The units for a balance sheet must be Gg CO₂ eq
- **Multi-year**
 - Balance sheets are for the years in a period of implementation. This is essential to environmental integrity and a form of temporal flexibility. We assume this period implementation will be five years, subject to the outcome of negotiations on common time-frames, with possible further flexibility for Parties to communicate two NDCs, each applicable for a period of five years.
- **Balance sheet for markets, information to track progress and accounting for NDCs**
 - For markets, the balance sheet provides a basis for corresponding adjustments and accounting for transfer of units. Under transparency, the balance sheet is essential for Information necessary to track progress made in implementing and achieving its nationally determined contribution under Article 4. It is under Article 13 that the balance sheet is reported every two years. In this way, a Party is enabled to account for its NDC, and specifically the main mitigation target in its NDC can be understood against its balance sheet. Biennial reporting of balance sheets thus enables mitigation accounting; and it enables each Party to explain in a responsible manner how it implemented and achieved its NDC.

We are of the view that the NDC GHG Balance sheet will facilitate the achievement of environmental integrity of mitigation activities and show this in a simple, easily reportable manner.