'Straw man' guidance on cooperative approaches referred to in Article 6, para 2 of the Paris Agreement

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Introductory Note

- Intention:
  - Provide a useful basis to discuss the structure, components and options for an Article 6.2 negotiating text.
  - Reorganize and explain the SBSTA text

- Methodology:
  - Consider primary source material (1) Co-Facilitator's informal note from SBSTA 47 and (2) Party submissions to SBSTA;
  - Supplement with informal input from negotiations as well as peer review
  - Remove duplication for ease of comprehension
  - Apply logical sequencing
  - Do not delete Options from SBSTA text, even if they don't have a direct hook in the PA

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Challenges vs Opportunities

- The weight of prior discussions and assumptions
- Limited corridor for introducing fresh perspectives
- Too much optionality and not enough linkage between consequences

- To question the current perspectives
- To introduce minor variations within existing themes
- To draw on lessons from prior climate cooperative experiences

Some assumptions

- It was not necessary to define Environmental Integrity (EI) separately for the Article 6.2 guidance

- It was not necessary to define Sustainable Development (SD) separately for Article 6.2 guidance

- But that the guidance will assume cooperative approaches leading to the transfer of ITMOs will have both EI and SD to a level and standard consistent with requirements of EI and SD in other parts of the PA

- An "option" (as proposed) means it is one of the routes for the Parties to chose from but not that it must be included in the final text.

- Where there is no Option included, a binary Y/N outcome may be expected

Cooperative Approaches

- Use it – the SBSTA text hardly does
- Allows for the avoidance of confusing the ITMO (i.e. the outcome) from the activity that leads to its creation
- Recognise that it cannot happen through the efforts of a Party acting alone
- Cooperative approaches don't have to involve ITMOs - but when they do, they must comply with Article 6.2 (& 6.4) and its guidance
- Facilitates the narrative around:
  - GHGs Inside vs outside scope of NDC
  - Sectors inside vs outside of scope of NDC

Corresponding Adjustment (CA) vs NDC Accounting

- Relationship between Corresponding Adjustment (CA) and NDC Accounting is challenging.

- Article 6.2 of the Paris Agreement retains ambiguity when reference is made to CA.

- Opens the door for multiple interpretations

Corresponding Adjustments

Para 36 Decision 1/CP.21

"guidance to ensure that double counting is avoided on the basis of a corresponding adjustment"

As long as it avoids double counting, does 'corresponding adjustment' need to do any more?

Avoids confusion between Article 4 accounting and the requirement for "robust accounting" required under Art. 6.2 PA
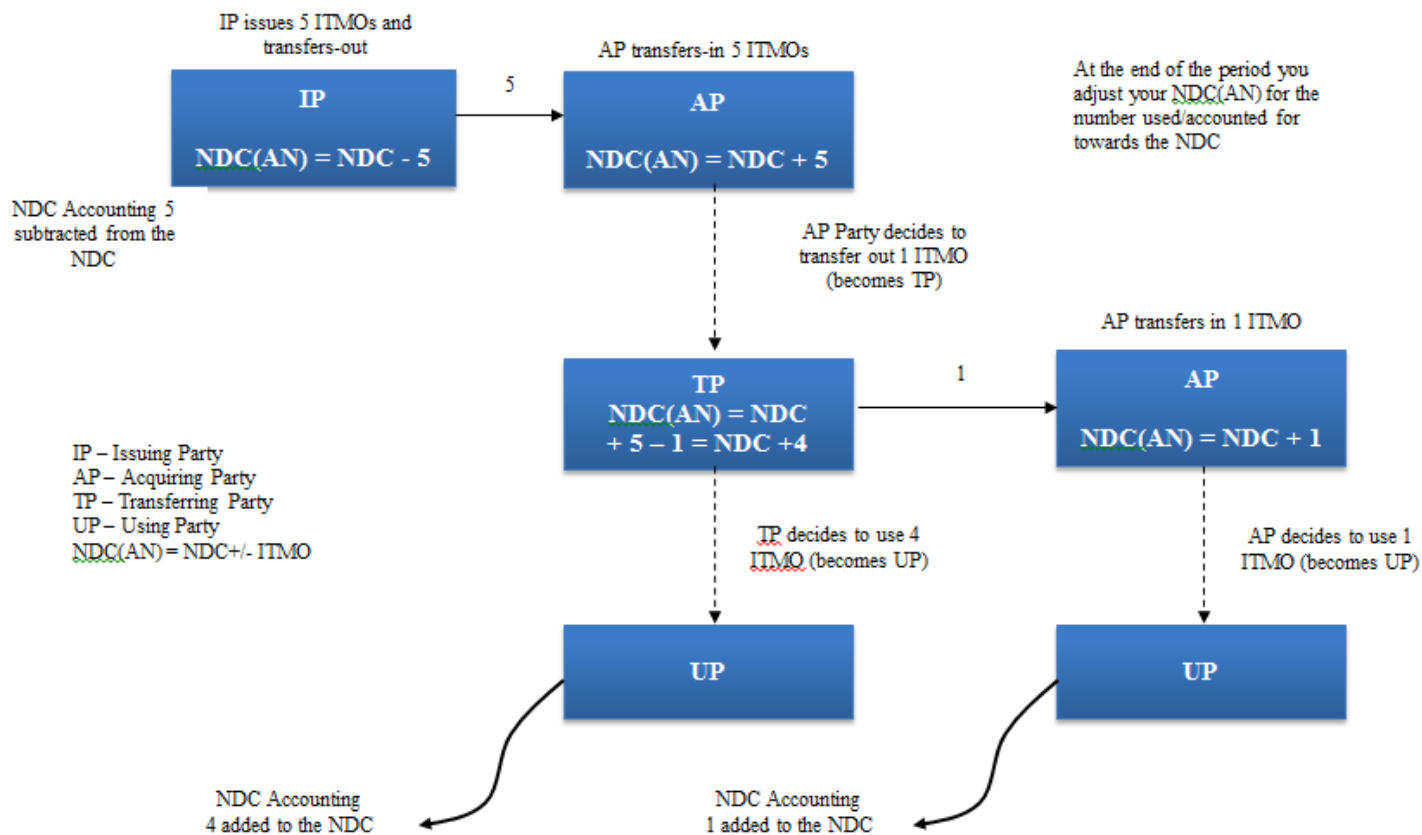
Proposed solution

- Treat CA as a avoiding double counting & tracking solution, and not the same as Art 4 accounting towards NDCs

- Adopt a differentiation between the transfer of the ITMO between various Parties and the use of the ITMO for NDC purposes

- Need to track transfers between NDC periods, be aware where ITMOs reside at any time, and especially at the end of an NDC period (even if they are not used).

- Adopt a subtlety between a Party wearing many hats – e.g.
  - Issuing Party is also the 1st Transferring Party
  - Acquiring Party is never the Issuing Party (for that CA) but may or may not be a Using Party
  - Using Party is always an Acquiring Party but may also be a Transferring Party

- CA applies to all of the above but Article 4 accounting only relevant when the ITMO is used towards a Party NDC

- Timing of CA and Article 4 accounting therefore not identical

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NDC Adjusted Number & Inventory Adjusted Number

NDC (AN) = Party NDC -/+ the number of ITMOs used toward the NDC

I(AN) = Party Inventory +/- the number of ITMOs used toward the NDC

CA using the NDC(AN)

IP issues 5 ITMOs and transfers-out

AP transfers-in 5 ITMOs

At the end of the period you adjust your NDC(AN) for the number used/accounted for towards the NDC

IP	5 →	AP
NDC(AN) = NDC - 5		NDC(AN) = NDC + 5

NDC Accounting 5 subtracted from the NDC

AP Party decides to transfer out 1 ITMO (becomes TP)

AP transfers in 1 ITMO

IP – Issuing Party
AP – Acquiring Party
TP – Transferring Party
UP – Using Party
NDC(AN) = NDC+/- ITMO

TP
NDC(AN) = NDC + 5 – 1 = NDC +4

1 →

AP
NDC(AN) = NDC + 1

TP decides to use 4 ITMO (becomes UP)

AP decides to use 1 ITMO (becomes UP)

UP

UP

NDC Accounting 4 added to the NDC

NDC Accounting 1 added to the NDC

NDC Accounting:	NDC – 5	NDC +4	NDC +1
Corresponding Adjustments:	NDC (AN)= NDC - 5 +5 = NDC	NDC (AN)= NDC +4 - 4 = NDC	NDC (AN)= NDC + 1 - 1 = NDC

Figure 1- Corresponding Adjustments and Accounting using NDC-based approach

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Application of NDC(AN) to Art. 4 accounting

Accounting on a Target (budget) based approach.

For the Issuing Party, there is a subtraction, and for the Using Party there is an addition.

The Using Party can transfer 1 ITMO and still meet its target.

The Issuing Party's inventory emissions are 7Mt lower than its target, so even after selling 5Mt to the Using Party it still over-achieves its target by 2M.
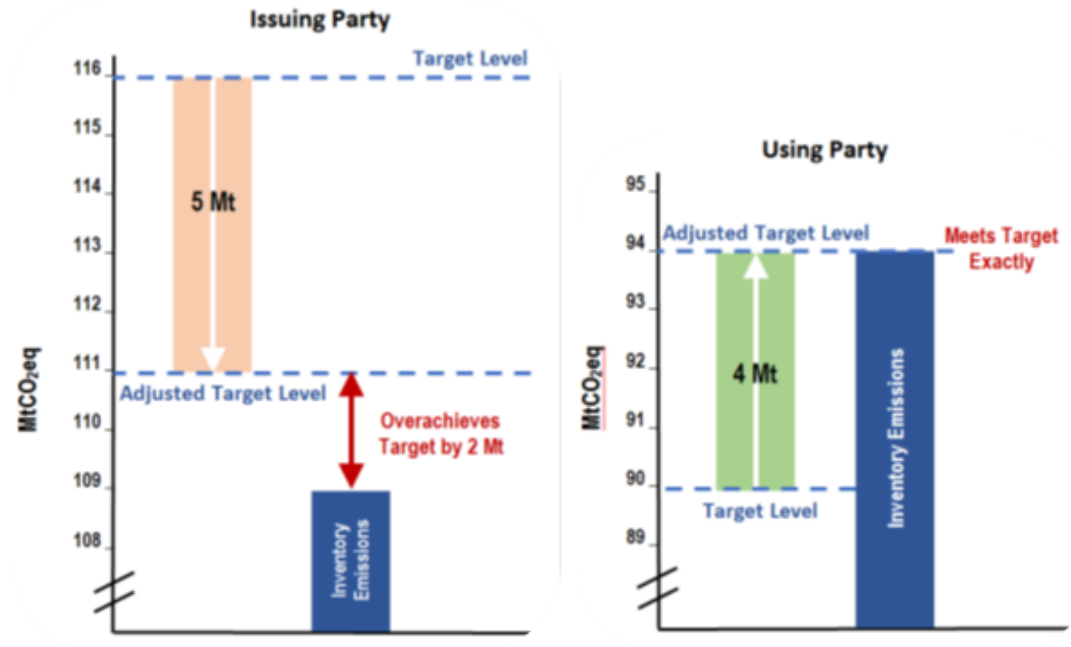

Figure 2 - Visualisation of accounting using a NDC-based approach. Figure adapted from Hood, C. (2017). OECD/IEA Workshop on "Corresponding Adjustment" as part of Article 6 accounting
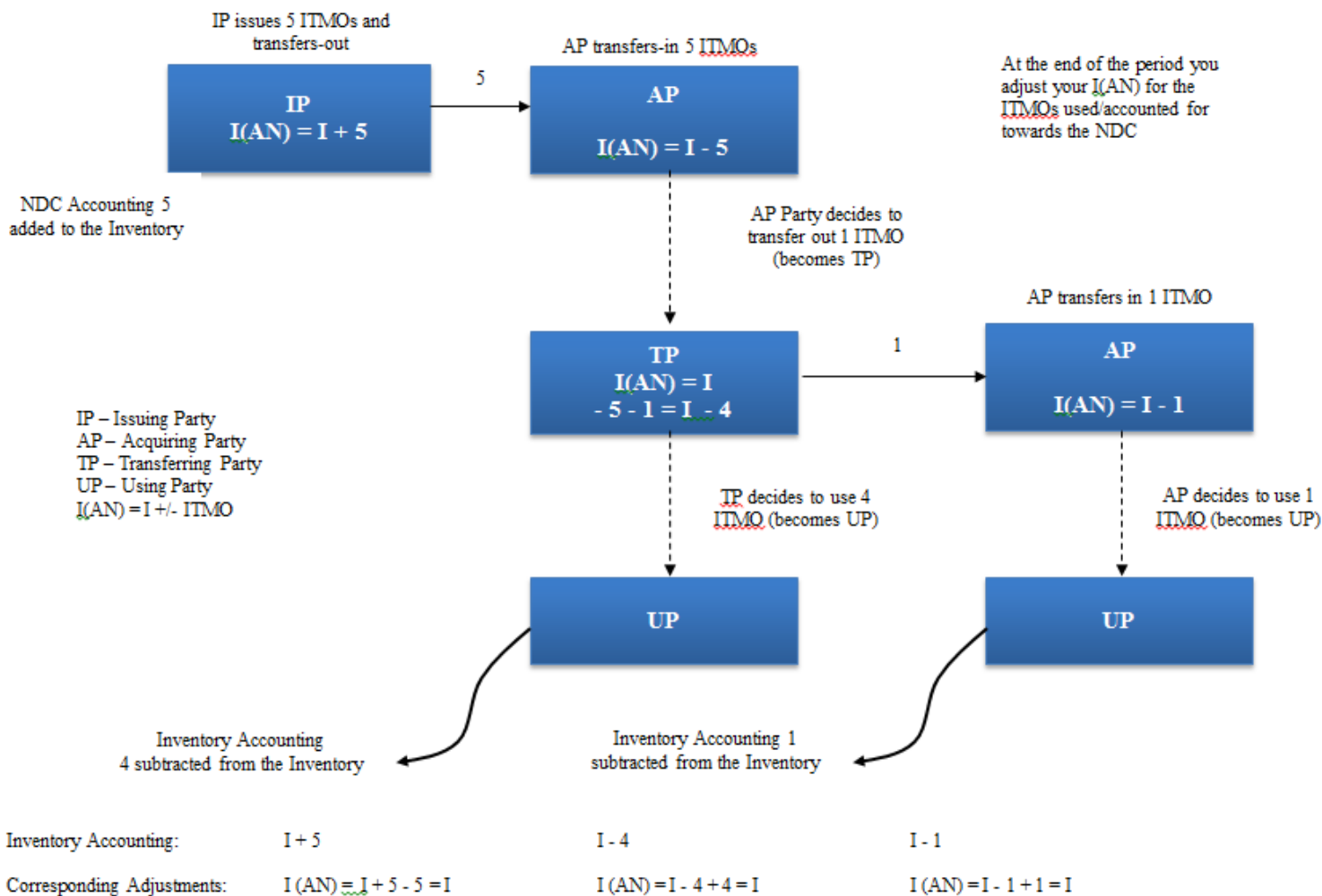
CA using the I(AN)

Figure 3 - Corresponding Adjustments and Accounting using an Inventory-based approach

IP issues 5 ITMOs and transfers-out

AP transfers-in 5 ITMOs

At the end of the period you adjust your I(AN) for the ITMOs used/accounted for towards the NDC

IP
I(AN) = I + 5

5 →

AP
I(AN) = I - 5

NDC Accounting 5 added to the Inventory

AP Party decides to transfer out 1 ITMO (becomes TP)

AP transfers in 1 ITMO

TP
I(AN) = I - 5 - 1 = I - 4

1 →

AP
I(AN) = I - 1

IP – Issuing Party
AP – Acquiring Party
TP – Transferring Party
UP – Using Party
I(AN) = I +/- ITMO

TP decides to use 4 ITMO (becomes UP)

AP decides to use 1 ITMO (becomes UP)

UP

UP

Inventory Accounting 4 subtracted from the Inventory

Inventory Accounting 1 subtracted from the Inventory

Inventory Accounting:	I + 5	I - 4	I - 1
Corresponding Adjustments:	I (AN) = I + 5 - 5 = I	I (AN) = I - 4 + 4 = I	I (AN) = I - 1 + 1 = I

Application of I(AN) to Art. 4 Accounting

Accounting on an emissions-based approach.

For the Using Party, there is a subtraction, and for the Issuing Party there is an addition.

The Using Party can transfer 1 ITMO and meet its target.

The Issuing Party's inventory emissions are 7Mt lower than its target, so even after selling 5Mt to the Using Party it still over-achieves its target by 2Mt.
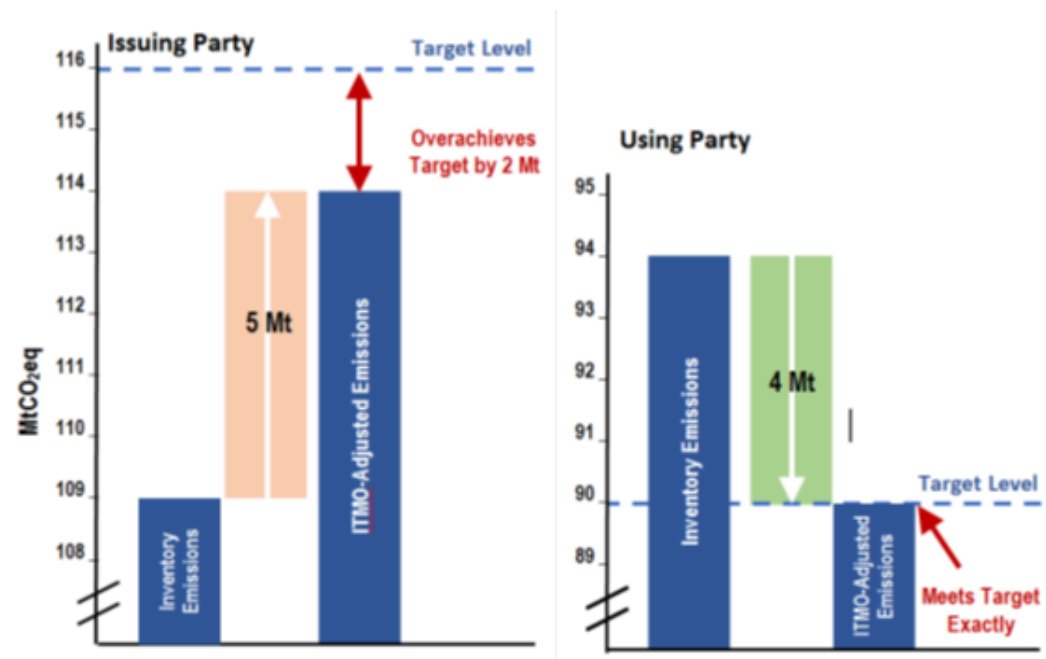

Figure 4 - Visualisation of accounting using an inventory-based approach. Figure adapted from Hood, C. (2017). OECD/IEA Workshop on "Corresponding Adjustment" as part of Article 6 accounting.

Impact on 'Straw man' guidance text

- Use of definitions reduces ITMOs carrying the weight of the whole of Art 6.2 for the purpose of the guidance text

- Leads to accounting for NDC purposes and applying robust accounting tools (e.g. tracking tools and databases) as being recognised as distinct

- Reduces circularity and duplication in choice of alternatives.

Coverage within the guidance

- Governance
- Participation Requirements
- Corresponding Adjustments
- Accounting
- Reporting
- Infrastructure
- Share of Proceeds
- Guidance for non-Party Actors
- Use for more than one purpose

Governance

- Role of the CMA
  - To have or not to have a Supervisory Body?

- Functions of the CMA/SB
  - Issue guidance on (i) accounting, (ii) EI, (iii) review guidance, (iv) issue ITMOs, (v) Act as appellate body

- Functions and role of a Secretariat
  - Check CA info
  - Compile and cross-check CA information
  - Maintain centralised database and ITL
  - Report on (i) SoP (if any) (ii) overall ITMO cancellation etc.

Participation Requirements

Requirements common to all Parties (e.g.)

- Be a party to the PA
- Submit and maintain an NDC and have a focal point

Distinct requirements for the Issuing Party (e.g.)

- Only ITMOs generated post 2020 can be issued and transferred
- Party has a baseline for the underlying activity

Distinct requirements for the Transferring Party

- Has not exceeded the Party's reserve limits

Distinct requirements for the Using Party

- Has a system for recording the use of ITMOs for NDC purposes

Accounting towards NDCs

- Use in Art 4.13
  - Forward Buffer number to Art 412 as a line item
  - Use with Inventory and NDC to show that it meets its NDC

- Report under Art 6.2
  - At the end of the NDC period
    - UP will use ITMO(s) towards NDC
    - Cancel ITMO(s) equal to the ones used towards NDC
    - Adjust NDC (AN) or I(AN) as applicable with the ITMOs used towards NDC

- Accounting limits
  - Quantitative
  - Qualitative

- Specific guidance for single year NDC

Reporting

- Reporting
  - Tabular information
  - Demonstration of EI of ITMOs
  - Additional info on accounting approach for those not following Art 4.13
  - Annexes containing info on
    - Party of origin of ITMOS
    - Etc.
- Timing options
  - Ex ante
  - Periodically
  - At time of transfer
  - Etc.

Infrastructure (options)

- Parties to a cooperative approach which produces ITMOs must have a national registry connected to an ITL

- Parties to a cooperative approach must use a standard reporting table/format and retain as central database/registry for CA

- Parties to a cooperative approach must have a database using distributed ledger technology

- Some or all of the above

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