

# Informal Forum on Implementation of Article 6 of the Paris Agreement under UNFCCC process

## **Paragraphs 4 – 5 – 6 – 7 on the co-chairs informal note on Article 6.4**

# MISSING ELEMENTS

- Project / programme / activity cycle;
- Management of the share of proceeds;

# ELIMINATE OVERLAPS AND PROVIDE CLARITY

- Need to explain the dual system [both centralized and host Party-led (decentralized) systems]
- Have a unique heading on **Governance** with sub-headings on:
  - Role and functions of the CMA
  - The project/programme/activities cycle
  - Governance and functions of the supervisory body
    - Including the management of SoP
  - The DOE
  - The Host Party
    - Including role of the DNA
    - Relationship with the NDC
  - The Acquiring party
  - Management of the registry

## 4. SCOPE AND PURPOSE OF RULES, MODALITIES AND PROCEDURES

- No provisions in the informal text?
- Generation and certification of units, crediting activities (project-based, programmes), sectoral approaches, transfer, etc....;
- Activities inside only or inside and outside NDCs;
- Relationship with NDCs ;
- Relationship with Cooperative approaches (6.2)
- Etc....

# 5. ROLE OF CMA

- **A. Authority of the CMA over the Article 6.4 mechanism**
  - No provisions
  - Potential element : Similar to the CMP of the K.P. subsequent CMP decision .
- **B. Guidance of the CMA**
  - No provision
  - Potential element : Similar to the CMP of the K.P. and subsequent CMP decision.
- **C. Review of the rules, modalities and procedures**
  - *Possible further elements*
    - (i) Timing of review
    - (ii) Process for review

## 6. SUPERVISORY BODY

- **A. Membership of the supervisory body**
  - Current CDM rules, M&P + CMP decisions
  - Improvements current CDM taking into account
- **B. Rules of procedure of the supervisory body**
- **C. Governance and functions of the supervisory body**
  - Centralized;
  - Host Party-led (decentralized);
  - Dual system (both centralized and host Party-led (decentralized) systems)
- **D. Role of secretariat**
  - Technical support of the supervisory body and other stakeholders
  - Capacity building of stakeholders
- **E. Additionality ???????**

## 7. REGISTRY

- No provisions
- Potential element:
  - Similar to the CMP of the K.P and subsequent CMP decisions on the registry
  - National registry for all Parties;
  - International transaction log

**THANK YOU FOR YOUR ATTENTION**

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# Article 6.4 Informal Note

## Commentary Sections 16-18

20 – 21 February 2018  
ICTSD Informal Forum on Implementation of Article 6  
Tokyo, Japan

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## Overview

**Informal note section 16:** Avoiding use of emissions reductions resulting from mitigation activities by more than one Party

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**Informal note section 17:** Emissions reductions applied to purposes other than towards achievement of NDCs

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**Informal note section 18:** Limits to trading/use of emission reductions from mitigation activities towards NDCs

## 16. Avoiding use of emissions reductions resulting from mitigation activities by more than one Party

### Potential elements:

- a. All emission reductions, consistent with Article 6.2 guidance
- b. Corresponding adjustment for emission reductions with transfer of national allowances for Parties with absolute national emission caps
- c. Inside the host Party's NDC, consistent with Article 6.2 guidance, outside the host Party's NDC, no application of Article 6.2 guidance
- d. Article 6.2 guidance does not apply to Article 6.4 initial transfer (forwarding) from the central registry to national registry. Article 6.2 guidance only applies to second and subsequent international transfers
- e. Corresponding adjustment for all emission reductions, consistent with Article 6.2 guidance, at the point of international transfer.
- f. Corresponding adjustment for emission reductions inside the host Party's NDC, consistent with Article 6.2 guidance at the point of international transfer, no corresponding adjustment for emission reductions outside the host Party's NDC
- g. Article 6.2 guidance applies to units issued under the Kyoto Protocol after 2021
- h. The potential elements above are not applicable to LDCs and SIDs

## Section 16 summarized

### Potential element (a) brings Art 6.4 under Art 6.2 guidance:

- a. All emission reductions, consistent with Art 6.2 guidance

### Others contain relevant exemptions:

- b. Corresponding adjustments are applicable for Parties with absolute national emission caps
- c. Guidance only applicable inside the host Party's NDC
- d. Guidance does not apply to Art 6.4 initial transfer, only for second and subsequent international transfers
- e. Corresponding adjustment for all emission reductions at point of international transfer.
- f. Combination of c and e
- g. Guidance applicable for units under Kyoto Protocol after 2021
- h. Not applicable to LDCs and SIDs

# Observation #1

- Sections 16 addresses double counting in the context of the Art 6.4 mechanism
- Application of the Art 6.2 guidance is the only mentioned concept
- It therefore appears to be the relevant implementation of Art 6.5 PA
- Do Parties agree with that or is this a gap in the text?

## Article 6.5 PA

Emission reductions resulting from the mechanism referred to in paragraph 4 of this Article shall not be used to demonstrate achievement of the host Party's nationally determined contribution if used by another Party to demonstrate achievement of its nationally determined contribution.

## Section 16 further observations

### Observation #2

Elements (a), (c), (d) and (g) refer to *consistency with Article 6.2 guidance*, whereas elements (b), (e) and (f) refer to *applicability of corresponding adjustments*. Are these terms equivalent?

### Observation #3

Elements (e) and (f) suggest a timing of the corresponding adjustment, to be made *at the point of international transfer*. This does not correspond to the timing options for CA in the 6.2 informal note

## 17. Emissions reductions applied to purposes other than towards achievement of NDCs

### Possible further elements

- i. Towards other international mitigation action
- ii. Towards voluntary climate actions, climate finance
- iii. May require accounting in accordance with Article 6.2 guidance if used for non-UNFCCC purposes if created/issued from within the scope of a host Party's NDC
- iv. Require accounting in accordance with Article 6.2 guidance if used for non-UNFCCC purposes

## Observation #4

### **Should all non-UNFCCC purposes be treated equally?**

Section 17 lists “other international mitigation action” (e.g. CORSIA) and voluntary climate action, climate finance. There are important conceptual differences between the categories because in some cases, emission reductions are transferred and used as offsets (CORSIA), whereas in other cases, emission reductions would stay in the country (climate finance).

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## Observation #5

**Should guidance for non-UNFCCC purposes be mandatory or facultative?**

Could it be left to the non-UNFCCC user of the credits to decide whether accounting under Article 6.2 is necessary?

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# 18. Limits to trading/use of emission reductions from mitigation activities towards NDCs

## Possible further elements

- i. Issuance in a manner that avoids market fluctuations

How? Can fairness be ensured among activity implementers? How to ensure certainty of investment?

- ii. Use of emission reductions must be supplemental to domestic action

Principle already found in KP flexible mechanism but without quantification

- iii. No secondary trading

May be technically feasible through enabling only single transfers in the ITL. Would restrict market access for activity implementers that cannot contract directly with final users and reduce capital in the market

- iv. No speculative trading

Ditto

- v. Quantitative restrictions on transfers, e.g. to address complementarity or overselling

As ii. but also placing restrictions on the exporting side. May require quantification of NDCs

- vi. Restrictions on types of transfers

What does that mean?

# 18. Limits to trading/use of emission reductions from mitigation activities towards NDCs

## Possible further elements

vii. Quantitative restrictions on carry-over

Carry over rules of CDM: 2.5% of a Party's AAUs from first to second KP CP. Carry-over was limited to the using Party.

viii. Restrictions on use of vintages of emission reductions

Needs precision. Relating to acceptance of pre-2020 CERs?

ix. Restrictions in sectors with a high degree of uncertainty in emission estimates

CDM: exclusion of avoided deforestation, nuclear

ix. No limits to trading

x. No limits to use

xi. No use of pre-2020 units post-2020

Relates to Section 19 (transition). A more radical version of viii?

# Thank you!



# **Informal Note Article 6.4 10 – 12**

- 10. PARTICIPATION BY OTHER ACTORS**
- 11. DESIGNATED OPERATIONAL ENTITIES ELIGIBLE**
- 12. MITIGATION ACTIVITIES**

# 10. PARTICIPATION BY OTHER ACTORS

## **A. Incentivizing and facilitating participation by public and private entities authorized by a Party**

*Possible further elements*

- (i) Use of emission reductions by non-State actors
- (ii) Use of emission reductions by non-State actors authorized by a Party
- (iii) Acquisition, transfer and use of emission reduction

## **B. Authorization of participation by public and private entities**

# What is unavoidable to regulate on UNFCCC level for the participation of public or private entities?

## **Selling side**

- Host country related perspective
- Define necessary deliverables

## **UNFCCC overview**

- Dealing with NDC policies and overall mitigation

## **Buying side**

- Following host country and UNFCCC rules
- Demonstrating that the use of international certificates is going beyond its domestic NDC, when it is accounted versus NDC

10. Incentivizing and facilitating participation by public and private entities authorized by a Party

1. Domestic context

2. International Cooperation

- Domestic basis for using A 6.4
- LEDS or any other climate-related master plan
- Introduction of Carbon Pricing Instruments
- Allowing investment-based certification as compliance tool
- Emission reduction as single project activity or as up-scaled activity
- Depending on national frameworks, such as benchmarks and baselines



10. Incentivizing and facilitating participation by public and private entities authorized by a Party

1. Domestic context

2. International Cooperation

## International requirements for using A 6.4

### **Entity level**

domestic or foreign entities

- Application of UNFCCC registered methodologies
- Following UNFCCC agreed procedures
- UNFCCC approval process (overview)

### **Domestic administration level**

before UNFCCC approval

- Explanation of alignment with LEDS or any other climate-related master plan
- Confirmation that A 6.5 has been applied:
  - Corresponding adjustments being performed
  - No claim of ER will be done by the host country

# 11. DESIGNATED OPERATIONAL ENTITIES

## A. Accreditation of designated operational entities

- Possible further elements

- (i) New accreditation
- (ii) Regional availability

## B. Validation of mitigation activities

## C. Verification and certification of emission reductions and/or emission avoidance

# 11. DESIGNATED OPERATIONAL ENTITIES

## A. Accreditation of designated operational entities

### Possible further elements

- (i) New accreditation
- (ii) Regional availability

## Designated operational entities

- Are key for the credibility of A 6.4
- Their involvement in other parts of A 6 should strongly recommended (A 6.2 Guidance)
- Their functions have to be re-defined with regard to NDCs and up-scaled mitigation activities (strong policy component)
- We can build on existing procedures and requirements, but for the new function further qualification is needed
- However a complete renewing of accreditation of the existing DOEs is not appropriate
- With regard to the policy component DOEs should be available in all regions. A support process should be set up. This would be one of the components to address regional distributions and distortions

# 11. DESIGNATED OPERATIONAL ENTITIES

## B. Validation of mitigation activities

## C. Verification and certification of emission reductions and/or emission avoidance

### Validation of mitigation activities

- The concept of validation, verification and certification as central parts of the project-cycle should be changed
  - Verification should be mandatory, certification should be considered as a subsequent step, while validation will be not needed in every case and should be voluntary.
1. However there will be interest of performing a validation process in programmes and scaled-up activities, especially when government-backed activities occur
  2. In case of bi- or multilateral frameworks for A 6 activities, private and public entities have less uncertainties, especially when a high degree of standardization has been implemented.
  3. In single projects, especially on the base of standardized baselines, entities may take the risk of limited uncertainty or may ask DOEs for validation

# 12. ELIGIBLE MITIGATION ACTIVITIES

## A. Mitigation activities - context of the host Party NDC

- Potential element a:  
Mitigation activities can be outside or inside the host Party's NDC
- Potential element b:  
Mitigation activities can only be inside the host Party's NDC
- Potential element c:  
Mitigation activities can only be outside the host Party's NDC
- Potential element d:  
Mitigation activities can only be inside the host Party's NDC, except for LDCs and SIDS
- Potential element e: Not applicable

## 12. ELIGIBLE MITIGATION ACTIVITIES

- **Mitigation activities - context of the host Party NDC**

- Potential element a:

Mitigation activities can be outside or inside the host Party's NDC

For PA Parties:

All activities should be eligible

- [uni-, bi- and multilateral driven]
- Regarding the function of A 6, defined in A 6.1, there are shortcomings in the explanation of the additionality and the ambition raising of activities,
- When referencing this question only to one point, whether the emission reductions are in or outside the scope of the NDC, the term „scope“ must be questions:
- Is this a formal coverage or does emissions reductions are incentivized ?

## 12. ELIGIBLE MITIGATION ACTIVITIES

- **Mitigation activities -  
context of the host Party  
NDC**

- Potential element b:

Mitigation activities can  
only be inside the host  
Party's NDC

### What does it mean?

NDC might be split into conditional and unconditional parts. Relevant is here the inside consideration.

Two questions to clarify for potential emission reduction activities (ERA):

1. Covered by measures?
2. When covered, could the reductions be higher on the basis of A 6.4 (6.2) cooperation?

When it comes to ERAs within the NDC scope, their is still to ask, whether additionality is ensured. If not, then the NDC is below the BAU scenario.

This will cause problemes for the implementation of the ERA, which are identified as additional.

Expectable shortcomings could not be solved under the Paris Agreement.

Arguments, reflecting lock-in has to be addressed in other places: technical details crediting periods, renewing of periods, baseline updating, etc. and the Global Stocktake

## 12. ELIGIBLE MITIGATION ACTIVITIES

- **Mitigation activities - context of the host Party NDC**
- Potential element c:

Mitigation activities can only be outside the host Party's NDC

### What does it mean?

NDC might be split into conditional and unconditional parts. Relevant is here the outside consideration.

Questions to clarify for potential emission reduction activities (ERA):

1. A CDM like situation
2. The host country should develop measures for the BAU part



## 12. ELIGIBLE MITIGATION ACTIVITIES

- **Mitigation activities - context of the host Party NDC**

- Potential element d:

Mitigation activities can only be inside the host Party's NDC, except for LDCs and SIDS

Certainly very controversial:

The wrong way to boost LDC und SIDS participation

LDCs and SIDs should be supported in capacity building and with alleviated access to means of implementation

If ERA are outside the NDC only in SIDSs and LDCs, please explain why these ERAs are acceptable, but in other countries not.

# 12. ELIGIBLE MITIGATION ACTIVITIES

## B. Mitigation activities – requirements/standards

### Further possible elements

(i)	Deliver real, measurable, and long-term benefits
(ii)	Be additional
(iii)	Approved methodology and baseline determination
(iv)	Approved crediting periods
(v)	Permanence
(vi)	Avoiding technical lock-in
(vii) Promotion of sustainable development	
(viii) Guidance for stakeholder consultation	
(ix)	Refrain from activities that may cause environmentally negative impacts
(x)	Fostering transition to low carbon economy
(xi)	Approval by host Party
<b>Mitigation activities - scope of activities</b> <i>Possible further elements</i>	
(i)	Projects
(ii)	Programmes of activities
(iii)	Sectoral approaches
(iv)	Other approaches approved by the supervisory body
(v)	Certification of non-UN protocols

## 12. ELIGIBLE MITIGATION ACTIVITIES

B. Mitigation activities –  
requirements/standards

Possible further elements:

- Approved methodologies and baseline determination
- Approved crediting periods

### **CDM methodologies needs upgrade**

Especially in regard to the following dimensions:

- Scale of Activities
- Overall mitigation
- Alignment with concrete policies
- Reference to NDC
- Transformation outlook (?)

### **Crediting periods should be analyzed more deeply**

Short periods challenge the financial additionality.

Therefore no renewing of crediting periods, however re-application should be allowed.

In this case a standard crediting period should be shorter as under the CDM.

## 12. ELIGIBLE MITIGATION ACTIVITIES

B. Mitigation activities –  
requirements/standards

Possible further elements:

- Permanence
- Avoiding technology lock-in
- Fostering transition to a a low carbon economy
- Approval by host party

Permanence! Suggest that „markets“ and other cooperation formats under A 6.2, A 6.4 and A 6.8

Should explore „Permanence“ and „Additionality“ requirements (there is strong pressure resulting from CORSIA programm testing phase)

Technology lock-in and transition is host country driven and not an issue of regulation

However „Approval“ should explain, how the Emission Reduction Activity supports the host country’s LEDS or other relevant strategies, including the reference to NDC

## 12. ELIGIBLE MITIGATION ACTIVITIES

B. Mitigation activities –  
requirements/standards

Possible further elements:

- Promotion of sustainable development
- Guidance for stakeholder consultation

Promotion of SD should be performed permanently as a „Dialogue“ (PSD)

Reporting should be mandatory

List of reporting elements

Development of supportive SD tools

„Permanent SD Dialogue“ on experiences and for knowledge sharing should be performed within the UNFCCC on a regularly basis

Guidance for stakeholder consultation as part of this SD Dialogue

## 12. ELIGIBLE MITIGATION ACTIVITIES

B. Mitigation activities –  
requirements/standards

Possible further elements:

- Projects
- Programmes of Activity
- Sectoral Approaches
- Other approaches approved by the Supervisory Body

RMPs for different scale of activities

No limitation on the

Supervisory Body should work on  
standardization in order to facilitate  
Emission Reduction Activities (ERA)

Complicated issue, when Supervisory  
Body align standards with host  
country's policies and measures

Therefore: clear definition of role and  
functions of the Supervisory Body

## 12. ELIGIBLE MITIGATION ACTIVITIES

B. Mitigation activities –  
requirements/standards

Possible further elements:

- Certification of non-UN Protocols

Two options:

Should be left open as option, when  
needed for the implementation of  
Emission Reduction Activities (ERA)

or

Left completely to cooperation of  
parties

# Article 6.4

Sections 1, 2, 3, 12



# Section 1

## .Preamble

- Having a preamble
- Not having a preamble

# Section 2

## .Principles

- List of principles
- List of preambular principles
- Specificf elements
  - (v) Deliver an overall mitigation in global emissions
  - (vii) Adaptation ambition

# Section 3

## .Definitions

- Additionality
- Emission reductions
  - . CO2e or something else?
  - . Vintage
- NDC Quotient
- Overall mitigation

# Section 12

- Eligible mitigation activities
  - In/Out of the host Party's NDC
  - Requirements/Standards
    - (ii) Be additional
    - (vi) Avoiding technical lock-in
  - Scope of activities
    - Projects/Programs/POAs/Sectoral
    - Certification of non-UN protocols





# Rebuilding or clean slate?

- We cannot go on the way we have.
  - The climate agreement architecture has evolved from Kyoto Protocol to Paris Agreement
  - Mandate of 6.4 mechanism is different from CDM/JI mandate
- There are trust issues to be addressed.
  - Additionality
  - Baselines
  - Accounting
- There's a lot of baggage.
  - Hot air
  - Regional distribution
- What about the children?
  - Project pipeline
  - Investment in mitigation efforts
- What to do with family home?
  - Institutional arrangements
  - CDM rulebook

# Implications of no agreement on transition

- Implications to Article 6
    - Use of activities/units towards NDC achievement under 6.2 is contingent on 6.2 guidance
    - Registering CDM project activities as 6.4 activities is possible but requires agreement on 6.4 rules, modalities and procedures
    - Drawing from CDM methodologies, institutional arrangements, etc. is possible in developing 6.4 rules, modalities and procedures
  - Implications to CDM: existing activities and units
    - Transition is technically a separate question from CDM continuation
    - Uncertainty affects operations
- **Is there merit to an explicit decision on CDM/JI transition?**



- **A. Mitigation activities under the Kyoto Protocol**

- Potential element a: Existing CDM/JI activities may become Article 6.4 activities
  - Potential sub-element (a): JI activities
  - Potential sub-element (b): CDM activities
  - Potential sub-element (c): JI and CDM activities
- Potential element b: Existing CDM/JI activities may become Article 6.4 activities if they meet certain conditions and categories
- Potential element c: Existing CDM/JI activities may become Article 6.4 activities if the host Party so agrees
- Potential element d: No existing CDM or JI projects may become Article 6.4 activities

- **B. Mitigation activities/units issued from CDM to Article 6.4**

- Potential element a: Transition
  - *Possible further elements*
  - (i) Eligibility of CERs
  - (ii) Continued validity of methodologies
  - (iii) Issuance of Article 6.4 emission reductions for CDM
  - (iv) Transposition of accreditation system
  - (v) CERs issued from the CDM prior to 2021 to Article 6.4
- Potential element b: No transition

- **C. Mitigation activities/units issued from JI to Article 6.4**

- Potential element a: Transition
  - (i) Eligibility of ERUs
  - (ii) Continued validity of methodologies
  - (iii) Issuance of Article 6.4 emission reductions for JI
  - (iv) Transposition of accreditation system
  - (v) ERUs issued from JI prior to 2021 to Article 6.4
- Potential element b: No transition
- A potential decision would benefit from slight restructuring
- Now text has eligibility, rulebook, institutional, unit issues bundled up
- Various drafting choices, one fundamental is
  - Put all under one article or
  - Plant transition guidance under other headings
  - For operator easier if all is under one heading

# Decision structure

- Transition / No transition
  - Host Party approval
  - Prerequisites/Filters/Limitations
    - Must meet PA requirements
    - Restrictions on activities/vintages/host Parties/volumes
  - Transition period
  - Activities
  - Units
  - Rules
  - Institutions
  - CDM and JI
- **What would be the necessary level of detail for PAWP?**
- **How should a mandate for further detail be formulated?**

# Linkages to other sections and agenda items

- Eligibility:
  - Section 3: Definitions
  - Section 13: Mitigation activity cycle/Registration
- Governance:
  - Section 6: Supervisory body
- Accounting
  - Section 16: Avoiding double use
  - Section 17: Use towards other goals than NDCs
- Limits to trading (Section 18)
  
- SBI: CDM Review (EB Guidance)
  - Stalled progress due to future uncertainty
- CMP: CDM EB Guidance
- APA3 and APA5: Transparency framework and accounting

➤ **Where should potential CDM/JI transition be discussed?**

➤ **How should potential CDM/JI transition be reflected under other relevant agenda items?**

# Timing

- CDM and JI will continue to operate under KP at least until the end of CP2
- Need to encourage early action, provide a price signal, and give confidence to operators would warrant a timely decision
- **Should potential CDM/JI transition be agreed at COP24?**
- **What aspects of potential transition could be deferred beyond COP24?**

# Article 6.4

## Co-Chair Informal Note

Sections 20 and 21

## 20. Adaptation Ambition

- “allow for higher ambition in mitigation and adaptation” (Article 6.1)
- Mitigation co-benefits of adaptation and economic diversification can contribute to mitigation outcomes (Article 4.7)

# 21. Negative socioeconomic impacts

Sustainable development...

- Nationally defined, not subject to definition or testing (e.g., via a tool)
- Promotion: national prerogative through authorization
- Consistent application: SD harmony (social, environmental and economic)
- Negative socio-economic impacts (Art 4.15)