Share of proceeds

Overall mitigation of global emissions

SOP for adaptation in 6.4 text

VII. Levy of share of proceeds for adaptation [and administrative expenses]

74. The SOP from an Art. 6.4 activity for .. needs of PV countries … shall be delivered to the Adaptation Fund

Option A

75. The SOP for adaptation shall be set and levied at **[2] [5] [X]** per cent at **issuance.][X] per cent at forwarding] [first transfer]** increasing by [Y%] at each subsequent transfer.

Option B

76. The SOP for adaptation shall be set and levied at [X] [at registration] [issuance] [text for monetary rate to be developed]

SOP for adaptation for 6.4 - issues

- **Form of levy**
  - Percent of units monetized as with CDM/JI/AAUs – 2% 5% X%
  - Fee – Y
  - Mix of percent of units (%) plus fee
- **Timing – front end or back end**
  - Total at issuance
  - Part at registration / part at issuance
- **Quantum**
  - 2% 5% X%
- **Single or multiple applications**
  - One off of X%
  - Increasing by Y% at each subsequent transfer
- **SOP for 6.2**
  - Balanced / equal application

OMGE options in the 6.4 text

VIII. Delivering overall mitigation in global emissions (78-82)

Option A

- **Menu of voluntary approaches - any one or combination of the following approaches**
  - Voluntary cancellation of 10% paired with corresponding adjustment at issuance for full amount of issued A6ERs to be first transferred, with cancelled units not usable toward NDC or other purpose or voluntary cancellation
  - Source of outcomes enables Parties to select higher ambition
  - Voluntary cancellation by Parties and stakeholders
  - Voluntary measures to be selected by participating Parties
  - Conservative baselines
  - Conservative emission factors

Option B1

- **Defined mandatory approach**
  - host makes corresponding adjustment for full amount of issued A64ERs;
  - **registry transfers fixed percent** [X/10/20/30] of total A6.4ERs to cancellation account for OMGE at issuance / first transfer

Option B2

- **Defined mandatory approach**
  - host makes corresponding adjustment for full amount of issued A64ERs;
  - Acquiring/using Party **discounts by fixed percent [X/10/20/30]** of total A6.4ERs to cancellation account for OMGE at acquisition/use

Option C

- **Use of the mechanism itself ensures mitigation in global emissions**

Why OMGE through % mandatory cancellation at issuance, paired with adjustments?

- **It's mandated**
  - OMGE must be delivered - 6.4()d provides that **the mechanism** shall aim to deliver an overall mitigation in **global** emissions
  - so this is a design issue – not for individual Parties to decide whether the mech shall deliver against this requirement
  - 6.4(d) language cannot be surplusage: follows from negotiations over options to deliver a net atmospheric benefit in CDM Review, JISC Review processes; noted by commentators as innovative aspect of Article 6.4
    - Yet some proposed options in current text would not guarantee delivery of OMGE (voluntary cancellation, voluntary approaches);
    - Yet some proposed options in current text do not deliver OMGE, but instead only protect EI or generate greater contribution toward host Party NDC (e.g., conservative baselines, conservative emission factors, shortened crediting periods where these approaches are not accompanied by corresponding adjustments for the additional reductions)

- **It’s needed politically and practically**
  - Ensure that countries that do not use markets toward NDCs or host projects derive some benefit (e.g., SIDS, LDCs) from Article 6
  - Ensure all countries benefit from net global emission reductions
  - Provide justification for UNFCCC involvement in markets
  - Design markets to go beyond offsetting in recognition of the emissions gap and 1.5 Report
  - Beneficial for confidence in markets under the UNFCCC

- **It’s beneficial for the market and host Parties**
  - A6.4ERs in the market will already have had OMGE applied
  - A reduction in volume will increase price: price effects will out weigh reduced volume, driving further investment in emission reduction opportunities
  - Increases internal rate of return for projects
  - Greater mitigation will take place in host Parties

- **It’s simple and straight forward method for implementation, equitable in application**
  - Easy to apply, no differentiation among project types, Parties needed
  - Can point to a quantum delivered, satisfying 6.4(d)

Study on Overall Mitigation in global emissions

- Study finds while X% is a political number, a substantial % cancellation is supportable and helpful for delivering overall mitigation and will benefit developing countries
- **Study finds that voluntary approach, conservative baselines, or voluntary cancellation <u>without corresponding adjustments,</u> all will not deliver OMGE**
- **Study finds that cancellation or discounting when paired with C/A can be said to deliver an OMGE**
- FAQ on OMGE produced in June (New Climate / Oko Institute)

Operationalizing an "overall mitigation in global emissions" under Article 6 of the Paris Agreement

REPORT

Berlin / Cologne, 9 November 2018

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Table 2 *Implications of overall mitigation relative to the reference case under different scenarios*

SCENARIOS			RELATIVE CHANGE DUE TO OVERALL MITIGATION IN COMPARISON TO THE REFERENCE CASE					
Demand curve	Supply curve	Rate of overall mitigation	Credit price	Credits transacted	Abatement[1]	Market value	Supplier rents	Costs of buyers
Inelastic	Flat	10%	11%	0%	11%	11%	11%	11%
		30%	43%	0%	43%	43%	43%	43%
		50%	100%	0%	100%	100%	100%	100%
	Steep	10%	11%	0%	11%	11%	11%	11%
		30%	43%	0%	43%	43%	43%	43%
		50%	100%	0%	100%	100%	100%	100%
Elastic	Flat	10%	11%	-1%	11%	10%	9%	11%
		30%	41%	-3%	41%	36%	32%	40%
		50%	93%	-8%	92%	79%	65%	90%
	Steep	10%	7%	-3%	11%	4%	3%	7%
		30%	26%	-10%	39%	13%	9%	24%
		50%	53%	-21%	79%	21%	11%	47%
Very elastic	Flat	10%	10%	-2%	11%	8%	6%	10%
		30%	39%	-7%	40%	30%	21%	38%
		50%	88%	-15%	85%	60%	36%	81%
	Steep	10%	6%	-4%	11%	1%	-1%	6%
		30%	20%	-15%	36%	2%	-5%	18%
		50%	40%	-30%	70%	-3%	-17%	34%

Note: The simplified model and its parametrization are described in Annex II. 1) The change in abatement is determined in comparison to the verified emission reductions or removals in the transferring country in the reference case.

Study on Achieving OMGE under 6.4 – April 2019

- Study draws distinction between
  - options that relate to a Party raising its own ambition on its own initiative (e.g. voluntary cancellation by Parties)
  - options under which the mechanism rules delivers global benefits via regulation – measures embedded in the rules, modalities and procedures (e.g., by requiring cancellation, discounting)
- **Study considers that the contribution to OMGE – net climate benefit - will be achieved and determined by decisions on the mechanism's design under 6.4**, regardless of whether Parties raise their ambition when using the mechanism

Assessment of options?

- Looks at 4 options
  - cancellation at issuance, or at transfer or use, plus C/A
  - discounting at issuance, or at transfer or use, plus C/A,
  - shortened crediting periods, plus C/A
  - stringent baselines, plus C/A
- Applies these considerations:
  - Ease of implementation
  - Applicability to different activities and sectors
  - Transparency of the option
  - Potential for overall mitigation
  - Option’s impact on the internal rate of return
  - Confidence that surplus reductions will be achieved.

Study findings

- Implementation at UN level yields most positive outcomes
- Differentiation of the options according to activities, sectors or geographical regions could boost effectiveness, but difficult to reach political agreement
- Cancellation or discounting when paired with corresponding adjustment is most straight forward approach
- Limitations on crediting periods, stringent baselines contribute to own benefit, and only contribute to OMGE if they are paired with further accounting provisions that deliver corresponding adjustments:
  - E.g., Stringent baselines - only produce OMGE if difference between stringent and unstringent baseline is quantified and corresponding adjustment made to host country’s NDC achievement

Table 1: Assessment of options for obtaining overall mitigation in global emissions

Assessment field	Cancellation at issuance	Cancellation at transfer or use	Discounting at issuance	Discounting at transfer or use	Shortened crediting periods	Stringent baselines
1. Implementation	Easy to apply without differentiation, more difficult with differentiation	Easy to apply without differentiation, more difficult with differentiation	Easy to apply without differentiation, more difficult with differentiation	Easy to apply without differentiation, more difficult with differentiation	Easy to apply without differentiation, difficult with differentiation Installation operators have no incentive to continue monitoring after end of crediting period	Application methodologically challenging even without differentiation
2. Applicability to different activities and sectors	Applicable to all activities, more difficult with differentiation	Applicable to all activities, more difficult with differentiation	Applicable to all activities, more difficult with differentiation	Applicable to all activities, more difficult with differentiation	Feasible for types of activities that are likely to continue operation after the crediting period	Most feasible for activities for which baselines can be set relatively straightforward
3. Transparency	Depends on implementing entity	Depends on implementing entity	Depends on implementing entity	Depends on implementing entity	High as administration most likely at UN level	Medium to high: administration most likely at UN level, but complicated calculations
4. Potential for overall mitigation	Depends on percentage of units to be cancelled	Depends on percentage of units to be cancelled	Depends on discount rate	Depends on discount rate	Postponed benefits to the atmosphere when applied to end of life cycle, but then high potential	Stronger incentives to maximise reductions
5. Impact on internal rate of return	Positive impact of overall mitigation on unit price outweighs higher unit costs	Positive impact of overall mitigation on unit price outweighs higher unit costs	Positive impact of overall mitigation on unit price outweighs higher unit costs	Positive impact of overall mitigation on unit price outweighs higher unit costs	Positive impact of overall mitigation on unit price outweighs higher unit costs. Backloading of reduced revenue further lowers impact of higher unit costs. Frontloading of reduced revenue strongly impairs IRR.	Positive impact of overall mitigation on unit price outweighs higher unit costs
6. Confidence that surplus reductions will be achieved	Medium to high as certified reductions are removed without counting for compliance	Medium to high as certified reductions are removed without counting for compliance	Medium to high as verifiable reductions are not credited	Medium to high as certified reductions are removed without counting for compliance	Medium to low as surplus reductions depend on continuation and additionality beyond crediting period	Medium to high as verifiable reductions are not credited

Source: Own compilation expanded on synthesis of CCAP (n.d.), Lazarus et al. (2013), Schneider (2008, 2009), Schneider et al. (2018), Strand (2016) and Vrjoljik and Philips (2013).

** Note – paper considers crediting periods and stringent baselines options that are paired with corresponding adjustments

SOP and OMGE - Relationship with 6.2

- 6.4 units/6.2 ITMOs likely to compete in the market, where fungible in their use
- 6.6 SOP and 6.4(d) OMGE requirements must be met
- 6.2 should not be designed in a way that undermines 6.4
  - Competition v no competition?
  - Centralisation v decentralisation?
  - Baseline and credit, ETSs
- SOP can readily be applied to 6.2
- OMGE % discount or cancellation can readily be applied to 6.2
  - E.g., apply at first transfer or use for baseline and credit
  - to ETS net flows
- No persuasive rationale for different treatment between 6.2 and 6.4, as discussions re the nature of 6.4 and 6.2 have evolved
- No legal impediment

Precedent for extension via decision, where fungibility recognized

- **Joint Implementation (KP Article 6): Decision 1/CMP.8**
  - "Decides also that for the second commitment period, the Adaptation Fund **shall be further augmented through a 2 per cent share of the proceeds levied on ... the issuance of ERUs for Article 6 projects immediately upon the conversion to ERUs of AAUs or RMUs** previously held by Parties." (para. 21)

- **International emissions trading (KP Article 17): Decision 1/CMP.8**
  - "Decides that for the second commitment **period, the Adaptation Fund shall be further augmented through a 2 per cent share of the proceeds <u>levied on the first international transfers of AAUs</u>...**"