

How “standard” A6 reporting and accounting could work

(Or, How are we still talking about this in 2019?)

Not every NDC is a special snowflake.

For the sake of time and sanity, this discussion focuses on “standard” approaches. Mostly. (*Does this tell us something about what goes in initial text versus a 2020 work program?*)

- ▶ **STANDARD APPROACH:** An approach from the “menu” for single- or multi-year NDC accounting using emissions-based approach, *regardless of timeframe or GHG-based target type*
- ▶ **SPECIFIC APPROACH:** An approach to accounting and reporting on ITMOs and NDCs using *non-GHG* indicators; or NDC *scope/coverage* that is not economy-wide

Partner 1 NDC Type	Partner 2 NDC Type	<i>Standard or specific approach?</i>
Absolute economy-wide GHG	Absolute economy-wide GHG	Standard —if experts resolve the “pairing” business.
<u>5-year</u> GHG	<u>10-year</u> GHG	Standard —really.
<u>Multi</u> year GHG	<u>Single</u> year GHG	Standard —hence “menu”
<u>Relative</u> (Baseline scenario; intensity level)	<u>Absolute</u> target (Base year)	Standard —but more information may be needed.
<u>Unconditional</u> NDC target	Conditional NDC target	Standard —a target is a target, how Parties structure their cooperation is their business.
<u>Economy-wide</u> target	<u>Non-economy wide</u> target(s)	Specific —if Parties land on universal corresponding adjustments, <i>what to adjust</i> for ITMOs from “outside”?
<u>Policies and Measures</u>	<u>GHG</u> (or any other) target	Specific —if Parties don’t quantify, track progress in tCO ₂ e, and even if they do, double-counting still possible
<u>Non-GHG</u> target (e.g., increase % share of renewables)	<u>GHG</u> (or any other) target	Specific —e.g., Partner 1 imports or installs Partner 2’s RE while Partner 2 accounts for avoided emissions

A6 Process Flow: *Something like this...:*

1. Fulfill Participation Responsibilities
2. Demonstrate this in Initial Report
3. Transfer, acquire, use the things. (*Oh right! Markets.*)
4. Report + Record “Regular Information”
5. Review of Article 6 information
6. (Rinse, lather, repeat)
7. Demonstrate NDC achievement (4. and 5., but with more press(ure)?

Step 1: Participation Responsibilities: *Are you ready?*

- ▶ Party Responsibilities signal that Parties are expected to have a few things sorted out—by no later than the *first* first-transfer or acquisition (or, option b: at the start of an NDC implementation period. More on that later.)
- ▶ A Party must have this all up and running when it submits its Initial Report—to demonstrate its readiness take the next steps.
- ▶ These responsibilities include, e.g.:
 - ▶ Ensuring that it's a Party to the Paris Agreement
 - ▶ Communicating an NDC according to relevant paras and decisions for Article 4
 - ▶ Having a set-up to track ITMOs
 - ▶ Providing the most recently required inventory report *ala* Decision 18/CMA.1
 - ▶ Not expected for all Parties until after such reports are required in 2024
 - ▶ [Having a national registry connected to an ITL]
 - ▶ [Voluntarily contributing an OMGE through, e.g., discounting or set-aside]
 - ▶ Authorizing use; making this publicly available (No, this doesn't work. More on that later.)

(Included in) Step 1: ITMO Authorization— what is the form of an authorization?

- ▶ ITMO authorization is a “shall” requirement under Article 6.3 for Parties participating in a cooperative approach (i.e. *any/all* Participating Parties).
 - ▶ (Yes, a “using” Party would authorize its own use of ITMOs. Yes, that’s weird).
- ▶ Some Parties understand *Authorization* as a commitment to account for the things that are authorized. I mean, they are being *used*.
 - ▶ (This assumes a Party would describe, in some form, e.g., *what* is authorized, and *who* is authorized to use it—even if the answer to “Who?” is *any user*.)
- ▶ Authorization could be communicated in many forms—e.g., in an MoU, in A6 reporting, in a Party’s project/program approval documentation.
- ▶ This diversity is why it’s helpful to not prescribe the *form* of authorization—but rather focus on *when* authorization should be evidenced.

Who, what, when? Possible approaches to authorizations...

Who?

- Party A authorizes *Party B* to use...
- Party A authorizes *any Party* to use...
- Party A authorizes *any use*...
- Party A authorizes *System A* to use...

When?

- ...toward 2030 NDC achievement...
- ...ITMOs representing units created in years 2023—2028
- ...ITMOs representing units surrendered in the first three compliance cycles...

What?

- ...ITMOs representing the net quantity of units created in Party A and surrendered by Party B's compliance entities...
- ...ITMOs representing the net quantity of units created in Party A and surrendered by Party B's compliance entities... up to 40 MtCO_{2e}...
- ...ITMOs representing units transferred from any projects registered under System/Program A and created in Party A...
- ...ITMOs representing units transferred from any projects registered under System/Program A that are implemented in Party A's Favorite Sector

Step 2: Initial Report—the function of up-front disclosures

- ▶ The Initial Report is about *confirming* Party “readiness” to use markets (i.e. fulfillment of Party Responsibilities) when the cooperation impacts NDC achievement.
- ▶ Parties demonstrate that they, e.g.:
 - ▶ Fulfill participation responsibilities
 - ▶ Communicate the years when the NDC implementation period begins and ends
 - ▶ Choose, communicate, and consistently apply an approach to account for markets
 - ▶ Provide other reported information *as applicable* (i.e. if submitting the Initial Report at the time of first-transfer, *also* information on the cooperation and amounts transferred)
 - ▶ Quantify key variables describing their NDC in tCO₂e, or provide a methodology for doing so (option d)

OR

- ▶ Quantify the NDC, or the relevant portion of the NDC, in a metric determined by the Party if/where it will account for amounts using that non-GHG metric (option e)

Step 2: Initial Report—issues with the current draft approach

1. Timing or trigger for submitting Initial Report

- ▶ Draft guidance contains two options for timing of the Initial Report: a) *Prior to or at the time of its first-transfer or acquisition* OR b) *at the outset of the NDC implementation period*.
 - **If b)**, this seemingly prevents Parties that develop markets *later in the decade* from being able to leverage them for NDC (or other) purposes.
- ▶ Draft guidance is unclear that “Initial” means *one-time-only*

2. Authorization in Participation Responsibilities

- ▶ In the Initial Report, Parties show they fulfill the Participation Responsibilities.
- ▶ This includes evidence of authorization.
- ▶ BUT authorizations may be specific to, and *different for*, each cooperative approach.

Step 2: Initial Report—possible solutions to the current draft issues

Possible solution to Timing/Trigger issue:

- ▶ Revise Initial Report trigger (in Paragraph 38) to clarify that *Initial* means *one-time-only* per NDC period, and *on the sooner side*.

Possible solution to Authorization “placement” issue:

- ▶ Revise Participation Responsibilities to pertain to *Party-readiness to authorize ITMOs*.
 - “Party readiness” is currently addressed in **Regular Information** and still at the Party-level, not at the Cooperative approach-level. (current para 39b).
- ▶ Request evidence and description of authorization in **Regular Information on cooperative approach(es)** (current para 40)

Step 3: First-transfer, acquisition, use. (Oh, here we go...)

- ▶ Understanding what a “first-transfer” is inevitably leads Parties to ask, “But what is an ITMO?”. Sigh.
- ▶ **Three key questions** seem to arise from this discussion:
 1. Are ITMOs underpinned by tradable units in a market system?
 2. Are ITMOs themselves tradable serialized units *in their own right*, created and administered by the UNFCCC in a centralized registry?
 3. Does an ITMO represent a tonne of CO₂e mitigated, or is it a net amount of mitigation (as in, tonnes)?
 - Related question: Does it matter?

Step 3: First-transfer, acquisition, use

- ▶ Are ITMOs underpinned by units traded in a market or system? Many Parties think so (and for the purposes of this presentation, let's go with it), and see guidance as relating to *Party-level* obligations, in that...
 - ITMOs represent the amounts of mitigation that are issued as allowances or credits, and internationally transferred at a *market level* by private actors or even by/between Parties.
 - Parties authorize and account for the transfer and use of these amounts in relation to their national total emissions when tracking progress toward and demonstrating NDC achievement.

Step 3: First-transfer, acquisition, use

- ▶ In other words, ITMOs *represent and account* for underlying mitigation associated with traded units—*they are not themselves units*.
 - **NOT AN ITMO** (for Party-level guidance purposes): Market Actor A (headquartered in Party A) creates and transfers an offset to Market Actor B (headquartered in Party B).
 - **YES AN ITMO**: Party A authorizes Party B to subtract *the tonne of mitigation associated with that offset* from Party B's NDC achievement-year emissions total.
- ▶ Also, technically, ITMOs could *represent* units created and traded *before or after* a Party decides to authorize/account for them under A6.
 - ▶ **Forward-looking authorization (in 2021)**: “Party B can account for an amount of mitigation representing the net amount of allowances surrendered under Linked Scheme over the first NDC implementation period.”
 - ▶ **Retroactive authorization (in 2026)**: “Any Party can account for the amount of mitigation representing Mechanism units created in 2021-2024 and cancelled by a Party through 2030”.

Step 3: First-transfer, acquisition, use

► All of this implies...

- ...that authorization could occur *after underlying units* are traded, but authorization cannot happen *after ITMOs* are transferred at the Party level—because they have not been authorized, so it's unclear that they can be used toward an NDC and will be accounted.
- ...that if Parties will report transfers / acquisitions as *aggregate amounts*, then what an ITMO *amounts to* **doesn't matter** (e.g., “one tonne”; “an amount of tonnes”; “a net amount of tonnes”)
- The bigger question seems to be what ITMOs *represent*, i.e. outcomes denominated in CO₂e or... also something else?

Step 3: First-transfer, acquisition, use— one way to look at it...:

1. “First-transfer” refers to the first time a Party relinquishes to someone else—e.g., another Party or a company—the claim to mitigation achieved in its jurisdiction.
2. Corresponding adjustments avoid double-counting (we know this, *right?*)
3. *When* a Party points to inventory emissions totals (plus or minus ITMOs) to demonstrate achievement of an NDC depends on the structure of its NDC.
4. There *is* a meaningful difference between *tracking progress* and *demonstrating achievement*.
5. But regardless, Parties are tracking progress toward NDC achievement for *each year*.

NDC type	Emissions years referred to for NDC achievement	Adjustments Recorded in implementation period	Adjustments recorded in achievement year(s)
Single-year	Final year in implementation period (also mid-point?)	<i>Indicative</i> (?) annual (?) adjustments based on accounting approach	Corresponding adjustment based on accounting approach
Multi-year	All years in NDC implementation period (Budget-based? Annual?)	Corresponding adjustment probably for cumulative transfers	Corresponding adjustment probably for cumulative transfers

Step 4: Report Regular Information

When all these transactions occur, they're reported...

A. ...In the Initial Report

B. ...In the Database (i.e. **quantitative info**): Parties “record” the ITMOs first-transferred / acquired / used, alongside details about the ITMOs

- ▶ Is this annual information *submitted annually*?
- ▶ Are the CARP ☺ and the Database the same thing?

B. ...In narrative “**Regular information**” (i.e. **qualitative info**): Parties’ narrative reporting on cooperative approach(es), Partners, authorization(s).

- ▶ Clearly information submitted biennially.
- ▶ (Also reflected in the CARP/Database?)

C. ...In BTRs under Article 13: Information is also reported in or appended to BTRs.

- ▶ *Appended to* BTR: Database information
- ▶ *Reported in* BTR: Narrative information and *summary* of database information (in 77d)

Step 4: But wait a minute, some of these reporting steps don't... can't... compute...

What's the trigger for reporting *narrative* Regular information in para 40?

- ▶ There's not one.

Do Parties report on *each* cooperative approach?

- ▶ Para 40 requires reporting on *cooperative approaches*, not “*each*” approach

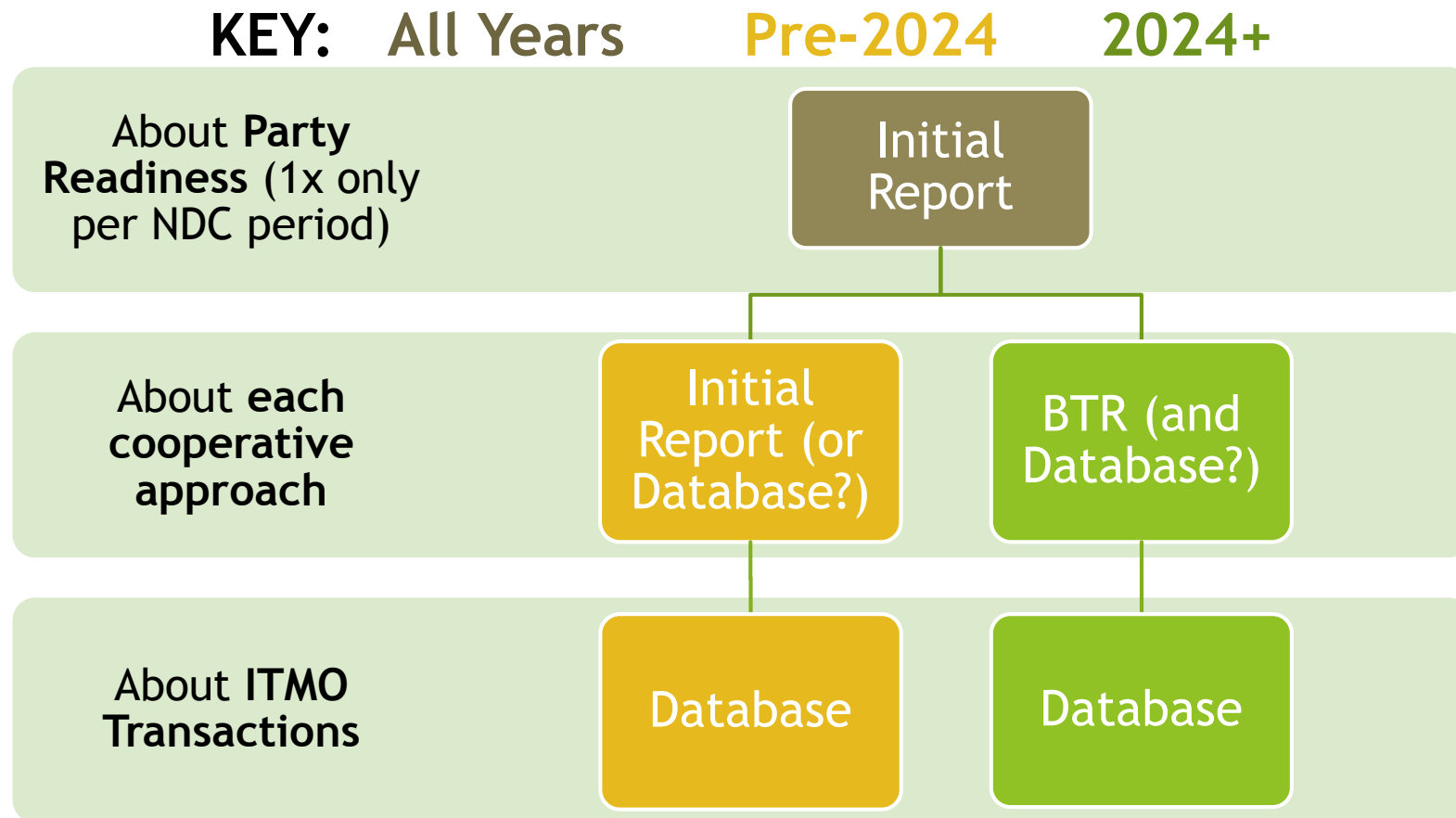
Are authorizations (39c) and double-use solutions (39d) Party- or Cooperative Approach-specific topics?


- ▶ In para 39, they're reported as components of *Party participation*, not as elements that might vary for *each cooperative approach*. But won't they?

If the contents of 39a and 39b are captured in the Initial Report (they are or should be), and 39c and 39d are Cooperative Approach-level topics (i.e. should be moved to para 40)...

- ▶ Do we need para 39 at all? Maaaaaybe not.

Step 4: With revisions in this deck, reporting flow would look something like... (*niiiiice...*)



The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. The shapes are primarily triangles and polygons, creating a dynamic, layered effect. The central area is white, providing a clean space for the text.

Today, Article 6.
Tomorrow, the world!

Simple Example of First “Steps”: ITMO transfers / acquisitions reported

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
ETS net units to Party B		24 Mt				15 Mt				19 Mt
Party A (net first-transfers)										
ITMOs: First-Transfers		24 Mt (reported in 2024)				15 Mt (reported in 2028)				19 Mt (reported in 2032)
Rolling average:		12 Mt (=24 Mt ÷ 2 yrs)	8 Mt (=24 Mt ÷ 3 yrs)	6 Mt (=24 Mt ÷ 4 yrs)	4.8 Mt (=24 Mt ÷ 5 yrs)	6.7 Mt (=39 Mt ÷ 6 yrs)	5.6 Mt (=39 Mt ÷ 7 yrs)	4.9 Mt (=39 Mt ÷ 8 yrs)	4.3 Mt (=39 Mt ÷ 9 yrs)	+5.6 Mt (=58 Mt ÷ 10 yrs)
Party B (net acquisitions)										
ITMOs: Acquired		24 Mt (reported in 2024)				15 Mt (reported in 2028)				19 Mt (reported in 2032)
Running Total		24 Mt				39 Mt				58 Mt

Simple Example of First “Steps”: ITMO-adjusted emissions reported

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Party A: Tracking Progress, Demonstrating Achievement (TARGET: 85 Mt in 2030)										
Annual Emissions	100 Mt	105 Mt	98 Mt	91 Mt	87 Mt	90 Mt	86 Mt	82 Mt	79 Mt	77 Mt
Rolling average:		12 Mt	8 Mt	6 Mt	4.8 Mt	6.7 Mt	5.6 Mt	4.9 Mt	4.3 Mt	+5.6 Mt
Adjusted emissions	100 Mt	117 Mt	106 Mt	97 Mt	91.8 Mt	96.7 Mt	91.6 Mt	86.9 Mt	83.3 Mt	82.6 Mt
Party B: Tracking Progress, Demonstrating Achievement (TARGET: 2030-2030, total <1,000 Mt)										
Annual Emissions	125 Mt	117 Mt	120 Mt	110 Mt	107 Mt	105 Mt	100 Mt	96 Mt	90 Mt	90 Mt
Indicator emissions	125 Mt	242 Mt	362 Mt	472 Mt	579 Mt	684 Mt	784 Mt	880 Mt	970 Mt	1060 Mt
Total ITMOs acquired		24 Mt				39 Mt				-58 Mt
Adjusted emissions	125 Mt	218 Mt	338 Mt	448 Mt	555 Mt	645 Mt	745 Mt	841 Mt	931 Mt	1002 Mt