

SOP & OMGE in Article 6.4 and 6.2

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Share of Proceeds (SOP) and Article 6 – main choices

➤ Coverage

- Only Article 6.4
- Article 6.4 & 6.2
- Article 6.4 & baseline and crediting approaches under Article 6.2

➤ How to levy?

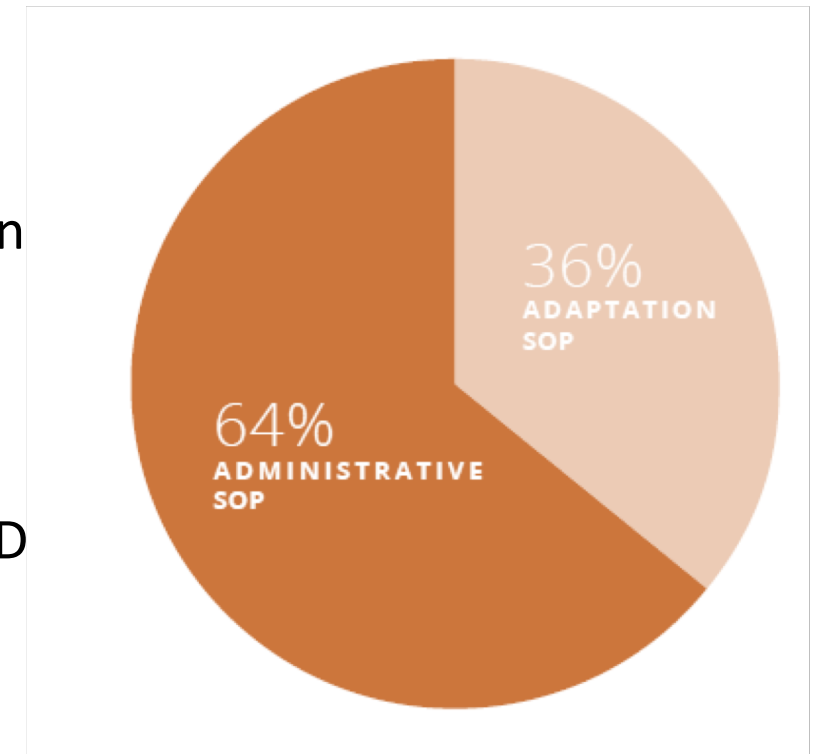
- In-kind or monetary
- How much?
- At registration & issuance or at transfer

➤ Use of the proceeds

- Adaptation and administration
- How do you share between the two?
- Where does the money go?

Lessons from the past

- The CDM combined **monetary** (USD 0.10-0.20 per CER) and **in-kind** fees (2% CERs)
- Under the CDM the **administrative** SOP was **much larger** than the **adaptation** SOP
 - USD 365 million for the CDM EB through monetary fees
 - USD 200 million for the Adaptation Fund levied in-kind
- This generated a large reserve for the CDM EB (still about USD 100 million left)
- Volatility of carbon prices had a huge impact on the adaptation SOP
- No corrective action ever taken

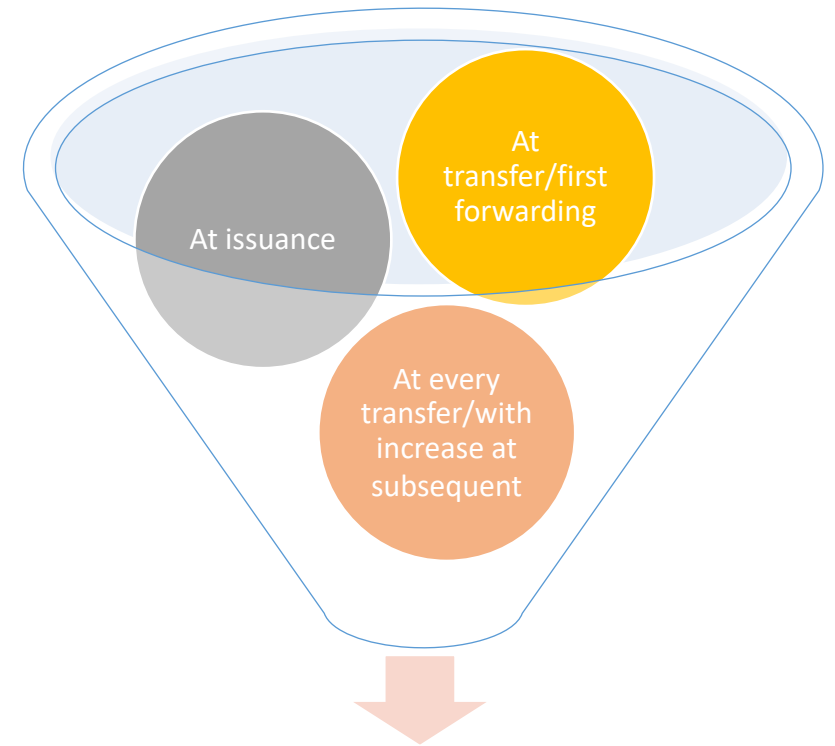


Revenues through SOP under the CDM 2003-2017.

Source: Michaelowa, Axel, Sandra Greiner, Aglaja Espelage, Stephan Hoch, and Nicole Krämer (2019) Operationalizing the Share of Proceeds for Article 6. Climate Finance Innovators.

The SOP under Article 6.4

- **SBSTA 50 Art 6.4 text, para 74-77:**
 - Adaptation SOP to be delivered to Adaptation Fund
 - Adaptation SOP to be levied in-kind (Option A) or as monetary fee (Option B)
 - Admin SOP to be levied as monetary fee
- **Alternative: mix of in-kind and monetary levy** (text to be developed)
 - CMA to biennially agree on the shares between AF and Supervisory Body
 - administrative expenses to be covered, but any surpluses to go to the AF
- Other decisions
 - **Height of the levy** (link to other decisions, i.e. SOP under Art 6.2 and OMGE)
 - **Point of collection**
 - **Exceptions** (LDCs, small scale?)



Point of collection options

The SOP under Article 6.2, a contentious debate

Arguments in favour

- Adaptation is structurally underfunded
- Market mechanisms to contribute to both mitigation and adaptation (Art 6.1)
- Decision 1/CMP.8 already extended SOP beyond CDM to all markets
- Ensuring that all Parties benefit from market mechanisms
- Balanced treatment of 6.4 and 6.2

Arguments against

- 6.2 does not explicitly mention SOP
- Don't want to disincentivize cooperation through a 'tax'
- Difficult to operationalize in-kind because there is no global market for ITMOs
- 6.2 cooperation is already more cumbersome to design

How could the SOP under Art 6.2 be operationalized?

1. A **monetary levy per ITMO** for all approaches
 - Levied on annual net flows (at reporting)
 - Collected by transferring party or paid by acquiring Party
 - Set at fixed amount per ITMO or linked to market prices
 - Exception for A6.4ERs to avoid double taxation
 - Apply to international transfers for purposes other than the achievement of NDCs, e.g. CORSIA?
 2. Alternatively: SOP for **baseline-and-credit approaches as under Art 6.4, monetary levy for linked ETs**
- Is there a need for an **admin SOP** to fund centralized costs arising under Art 6.2 or will these be funded through voluntary contributions?

Overall Mitigation in Global Emissions (OMGE) in Article 6.4

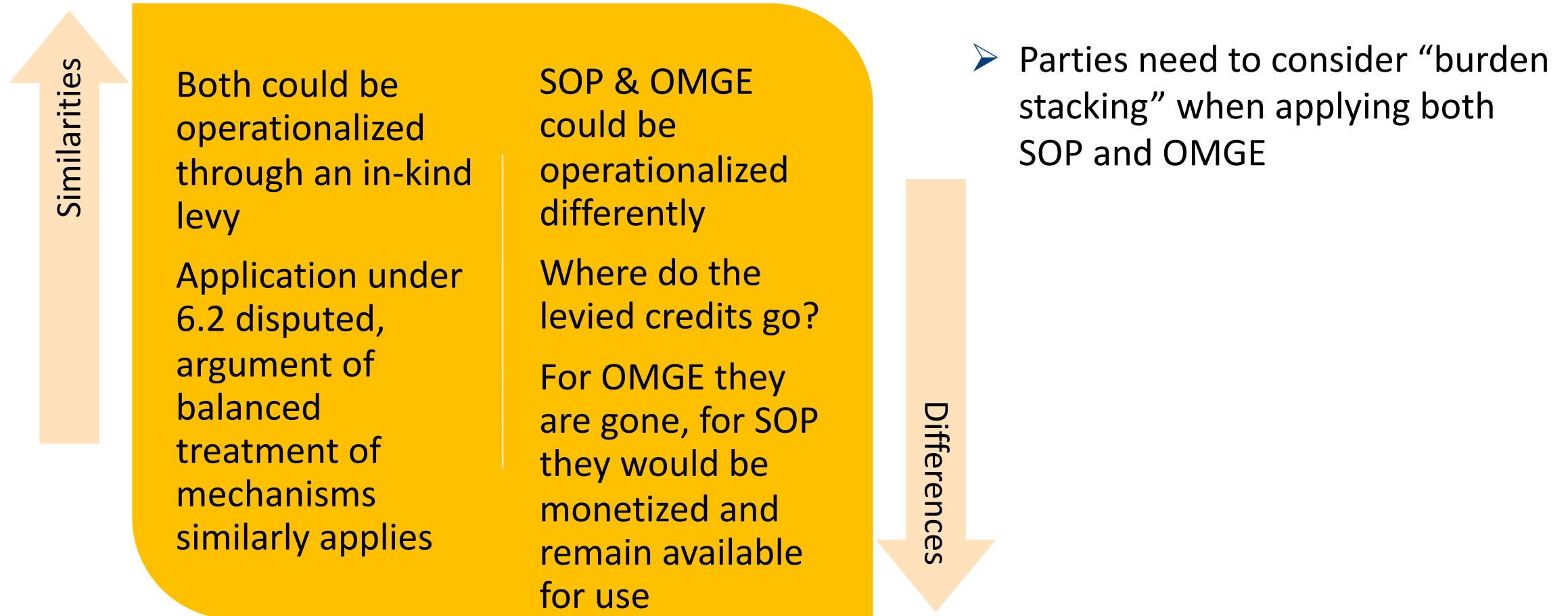
➤ There are **four** basic concepts for the operationalization of OMGE

1. Mandatory (voluntary) cancellation of a percentage A6.4ERs
2. Conservative baselines or default factors
3. Menu approach of 1., 2. and cooperation specific forms of additional mitigation
4. Engagement in the mechanisms represents OMGE

➤ Key decisions for operationalizing **cancellation approach**

1. % rate (X/10/20/30)
2. Levied at issuance or first transfer
3. Levied on host or acquiring Party

SOP and OMGE – why are they linked?





Thank you!