

Chair's reflection note
ERCST Informal Dialogue on Article 6
April 26, 2021

*Outcomes of the SBSTA chair meeting on 19-20
April and accounting for multi-metric ITMOs*

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This note is meant as an aide-memoire and reflects issues and a logic that has captured the attention of the Chair of the meeting that took place on April 26, 2021. It is in no way meant as a summary, or an endorsement by the author, or the participants in the meeting, of any of the issues or views captured in this note.

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Outcomes of the SBSTA chair meeting

The discussion reflected on the previous SBSTA chair informal technical meetings, namely on financing for adaptation/SOP and avoiding double use for outside the NDC for Article 6.4.

In terms of **financing for adaptation/SOP**, many agreed that there is a dire need to scale up adaptation finance. While SOP can be a potential contributor, it should not be considered the main solution but a complementary finance stream. Discussions at the informal technical meeting were constructive and there is a general sense that Parties have a clear focus on reaching an agreement.

- For Art 6.4, proposals have been made concerning how to improve the operationalisation of SOP considering lessons learned from CDM. An important issue in this regard relates to raising more appropriate proportion of funds going to administration and how to maximise beneficial use of SOP for adaptation. Proposed solutions need to be further explored in this regard.
- For Art 6.2, several Parties indicated strong support for equal treatment of both Art 6 instruments, hence requiring SOP for Art 6.2 as well.
 - o The urgency to commit, currently in the draft text, is not considered satisfactory by some. However, no alternative wording was proposed. It would be useful to explore potential language that could be practically manageable for Parties who are not satisfied with the voluntary nature of the current wording.
 - o Proponents for equal treatment refer to the interchangeability of units from both instruments that effectively make them compete. Not requiring SOP for Art 6.2 units would give cooperation under Art 6.2 a competitive advantage.
 - o At the same time, the variety of activities under Art 6.2 is recognized but this is not viewed as a reason not to explore solutions to operationalise SOP for each type of activity.
- On the other hand, some raised concerns related to the predictability of adaptation finance resulting from SOP for Art 6.2. A potential middle-ground that was proposed argues for a more general wording of adaptation finance under Art 6.2, albeit not voluntary.
 - o In this case, it is necessary to further explore which kind of reporting and transparency measures are needed.
 - o Attention was brought to the need to avoid “renaming” of current financial flows for adaptation. Therefore, it is necessary to further discuss how to establish a clear connection between adaptation contributions and Article 6 markets.

In terms of **avoiding double use for outside the NDC for Article 6.4**, many stressed the importance of upholding the core principles agreed in Paris including environmental integrity and ambition. Throughout the Paris Agreement, double counting is prohibited to ensure environmental integrity including in national inventories, NDCs and emissions levels.

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Therefore, it was argued that robust accounting must be ensured, and corresponding adjustments must be applied to all 6.4 units that are internationally transferred. On the other hand, some Parties argue that 6.4 units generated outside the scope of the NDC cannot be double counted and corresponding adjustments are not required for those units.

While the issues are clear, it is a complex topic with different aspects that are difficult both technically and politically. However, it is useful that Parties who have difficulties with corresponding adjustments outside the scope of NDCs have proposed middle ground solutions with different levels of support from other Parties. These can be divided in two categories:

- Use of restrictions
- Transition period with other conditions attached

The transition period option is currently on the table in the v3 text, but it was made clear that not all support the option as it is. More clarification is necessary including in terms of how to clearly define what is inside/outside the scope of the NDC and therefore subject to a transition period, how long this period will last and who will be able to make use of the transition period.

In addition, it could be worth exploring alternative options for a compromise such as different types of authorization depending on use case and claims.

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Accounting for multi-metric ITMOs

Since there are many NDCs that use non-GHG metrics, this discussion is necessary to understand technical issues that arise when multi-metric ITMOs would be allowed under Art 6.2. Version 3 of the Madrid text shows some political compromise and a consistent understanding of the technical issues related to this topic.

- Some Parties argue that Article 6 should be inclusive for NDCs that use non-GHG metrics while others stress the importance of preserving the link between mitigation and GHG emissions, as well as preventing the issue of arbitrage which could lead to increased emission levels. Therefore, it would be useful for Parties that want to use non-GHG metrics to elaborate on how to connect and communicate on the link between mitigation output quantities and their GHG impacts, and how both relate to the NDCs.
- Some of the outstanding issues that need further clarification to explore what can realistically be achieved:
 - o How are corresponding adjustments operationalized in a situation where multi-metric ITMOs are permitted (beyond the buffer-registry concept)? In this regard it is important to elaborate on the scenarios that were presented to define relation between metric of ITMOs and metric of NDC goals and where conversions need to be made (either transferring or using Party).
 - o If Parties use or transfer ITMOs in non-GHG metrics, how do they apply single accounting methodologies and do they need to provide multi-year trajectories in GHG metrics?
 - o In a buffer-registry system, how will conversion rates be applied to avoid increasing overall global emissions? Should the text allow for flexibility to introduce new conversion formulas?
 - o What needs to be reported and how does this relate to reporting obligations under Article 15?
 - o If Parties are unable to reach an agreement on non-GHG metrics, does para 77(d), sub para 2 prevail which states that all Parties must provide adjusted emission balances for Article 6 and there are no exceptions for non-GHG metrics?
- In terms of accounting, different scenarios can be thought of how and where conversions are necessary. Apart from the anticipated conversion scenarios that were presented, it could be useful for Parties to bring forward additional potential scenarios. This way Parties get the opportunity to provide potential methodologies and elaborate on them in the reporting requirements.
- Looking at the updated NDCs, the vast majority of NDCs have targets that are expressed in GHG metrics. Therefore, non-GHG metrics could be a niche issue in terms of overall volume of ITMOs. To avoid delaying an agreement on the rules and modalities on Article 6 of the Paris Agreement, it could be beneficial to have at least

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agreement on the broad modalities for non-GHG ITMOs transfer and their conversion,
after which technical details can be sorted out at SBSTA or SB.