

Flow of tracking ITMOs & performing, reporting, recording and review of corresponding adjustments

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1. Introduction

One of the backbones of the Article 6.2 guidance is the “the flow”/process of tracking internationally transferred mitigation outcomes (ITMOs) – performing corresponding adjustments – reporting on corresponding adjustments – recording and review of corresponding adjustments.

The order, and the timing, of these functions are not clear from the texts that were discussed in Katowice, including the two that are forwarded for further consideration at SBSTA 50 in June 2019. A number of interpretations are possible. In addition, all these elements are connected and considered to be essential in ensuring environmental integrity, robust accounting, and avoid double counting, as well as ensuring market integrity and transparency.

The issues of tracking of ITMOs, undertaking corresponding adjustments, recording and reporting them, is included in sections IV, VII, IX and X of the KTP document.¹ They need to be deciphered, and if need be adjusted, in order to ensure that Parties, and stakeholders, understand what is being proposed, and finally approved.

Some have argued that discussions on this flow reached a good level of maturity at COP 24, and may be perceived as being less controversial than some other issues in the Art. 6 rulebook. However, many issues remain unsettled. To some extent these differences may not lie in how one sees the practical implications, but rather in the different understandings of the terms used. For instance, what one means by the term “tracking” can at times be different from how others may interpret it.

This reflection paper aims to explore these differences in understanding and interpretation of the flow of tracking of ITMOs and performing, reporting, recording, and review of corresponding adjustments, and tries to capture what they imply by these different views, when looking from the perspective of practical implications. The paper is not intended to advocate any particular position.

There is also an additional element that merits discussion, and from an economic point of view, maybe the most important – that of what gets counted towards NDCs, e.g. in the case of single year or multi-year targets. This issue will not be taken up in this paper.

¹ The Article 6 texts referred to in the paper are (1) the SBSTA 49 draft negotiating texts - Version 2 of 8 December 2018 (SBSTA texts); and (2) the Katowice texts proposed by the COP 24 President on 14 December 2018 (KTP texts) which are both footnoted in Decision 8/CMA.1 on Matters relating to Article 6 of the Paris Agreement.

2. Transparency: what information is made available?

One important discussion that needs to take place is what information is available in general, and then made available nationally, bilaterally and internationally under the UNFCCC. This will help understand further the discussions below on tracking, corresponding adjustments, reporting and recording information.

The overarching decision that needs to be clearly made is what does the Paris Agreement rulebook deliver in terms of information regarding ITMOs? Parties have never actually agreed on what is an ITMO. Does an ITMO only deliver the netting information (i.e. sales-acquisition of ITMOs), which is necessary to avoid double counting and tells the progress of the Party towards meeting its NDC, OR does it also deliver the information that is behind the netting amount, related to individual transfers?

It is clear that for a Party to deliver the netting amount on a yearly basis, or at the end of the NDC period, it needs to keep track bilaterally (with its cooperating partner) of flows as a result of each transfer.

The issue is not whether this information is available, but whether it is kept between the cooperating Parties only, bilaterally, or it is also made available to the UNFCCC process. The statement that providing this information imposes onerous efforts on Parties, is one that needs to be considered in light of this reality.

Other questions are whether this detailed information, showing individual transfers, is made

- a) available internationally;
- b) is made available to the international regulator or to all stakeholders;
- c) the timing of the disclosure (time delay).

Another issues that needs to be clarified, left over from the KP governance of markets, is the difference between the function of reporting individual transfers/flows, and that of approvals of international transfers. They are different functions and not to be confused.

The consensus seems to be that the international governance of the Paris Agreement is focused not on approvals, but on transparency, and as such, should information on individual transfers be made available, it would be for the sole purpose of transparency, and not for the approval of transfers.

3. Tracking of ITMOs

In general, “tracking” relevant to the context of Article 6, can refer to:

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- (1) Tracking of ITMOs (as a unit, amount, asset, or a net flow) themselves; and
- (2) Tracking of progress made in implementing and achieving NDCs, which is demonstrated in the Biennial Transparency Report (BTR) as part of the transparency framework under Article 13, and also relevant to Article 6 in terms of avoidance of double counting.

These are two are distinct processes, but they are clearly not in isolation from each other. “Tracking” is specifically mentioned in both versions of the Article 6 texts forwarded to SBSTA 50, and it seems to refer to the tracking of ITMOs (Section IV of the KTP text), while the linkage to tracking of progress towards NDCs is reflected in the reporting section of the text (Section VII.B of the KTP text).

When referring to tracking of ITMOs, there is a general understanding that this would be the role of a registry. The texts lay out the key functions that registries need to have to be able to perform their assigned role. However, there seems to be different understanding on two key issues:

- a) whether it is a tracking of an individual unit/amount/asset, or a net flow of mitigation outcomes; and
- b) whether it is done on a “real-time”, or on an “annual”, or even “biennial” basis.

Arguably, these two different views may come from the understanding of tracking ITMOs as two different functions:

- a) **The function of recording transfers** and keeping track where the assets (ITMOs) are at any time. It is important to stress the importance of ensuring that the whereabouts of the asset are well determined when a mitigation outcome is transferred in order to ensure that property rights are protected.
- b) **The function of reporting the ITMO balance (netting)** in order to be able to track progress towards the NDC and avoid double counting.

These functions are both important and the responsibility of “a regulator” – they can be addressed at the national/bilateral level; and/or at the international level, through provisions under the Paris Agreement rulebook.

From the way the current texts from Katowice are written, the function, which the Registries will be capable to fulfill, will very much depend on the information that is in the Registries. A number of pieces of information (accounts?) are referred in the current text: first transfer, transfer, creation, acquisition, etc.

Other information, not included, but which should be made available, is the quantity and the origin/destination of the ITMOs. If this information is available, then ITMOs transfers can be tracked, and record of the transfers made available.

One other issue that needs to be highlighted is that of the timing of tracking ITMOs. Is timing an issue to be discussed under “tracking” or under “corresponding adjustments”? Currently it is being discussed mostly under corresponding adjustments, but it must be clear to everybody that even if netting takes place once a year, the detailed information on transfers, for every transfer, must also be available. If ITMOs are a net, then tracking is done once a year, but the detailed information must be available ... somewhere.

4. Undertaking/performing corresponding adjustments

The basis for corresponding adjustments will depend on whether Parties choose CO₂e or another NDC indicator.

This highlights the connection between the “indicator(s)” Parties select to track progress towards their NDC, and the basis for corresponding adjustments. Para. 77(d) of the Annex to Decision 18/CMA.1 on the MPGs for the transparency framework provides for the use of emissions and removals covered by the NDC (as derived from the national inventory report?), as the basis for corresponding adjustments (where ITMOs are measured in tCO₂e), and reflecting the result in an emissions balance.

The issue that was not clarified is which “emissions and removals” gets adjusted at any time. It could be the starting inventory, which can be seen as the baseline, or the most current inventory.

In the end it also does not matter, as the adjustment is only used to track progress and avoid double counting. The equation that does matter has three elements:

- (1) the starting indicator (or a number associated with it);
- (2) the current (or end of NDC period) indicator; and
- 3) the corresponding adjustment.

Whether (1) or (2) gets adjusted or not, the indication of progress will nevertheless be the same.

However, it is also clear that the use of “emissions and removals” as the basis for corresponding adjustments is an approach, which, while supported by many Parties, was not the choice of others, which may want to stick with the indicators that they have selected in their NDCs.

In terms of timing, corresponding adjustments can be undertaken at each transfer, or can be done at the end of each year. They will be reported as seen below through their BTR, but since there is reporting of an annual series, it has to be undertaken every year.

The end result has to be the same whether you adjust a number (be it inventory or another indicator) each time you transfer, or you adjust it at the end of the period based on the netting result during that period. This needs to be seen in light of the discussion above, whether the rulebook will deliver international information for each transfer, or only netting information.

5. Reporting on corresponding adjustments

Reporting is done according to Section VII of the KTP text, which specifies the periodicity and the type of information to be provided.

What emerged from COP 24 was that the reporting of information related to corresponding adjustments will be included in the BTRs, with an annual time series. The outcome of Article 13 MPGs affirms this approach by incorporating the demonstration of corresponding adjustments in the “structured summary” in Chapter III (13.7(b)) of the BTRs.

In terms of practical implications for those that are using inventories to do corresponding adjustment, as Parties are required to submit the first BTR at the latest by 31 December 2024 and the latest reporting year for the inventory is to be no more than two years prior to its submission or three years for developing country Parties that need flexibility – taking the case of Parties with a single-year 2030 target as an example, the timing and time series for the reporting of corresponding adjustments could be reflected as follows:

Table 1: Time series for corresponding adjustments (in case of single-year 2030 NDC, using inventories as the indicator)

Year	Submission of BTR	Time series for corresponding adjustments	Demonstration purpose
2024	BTR 1	Emissions balance by 2022 (or 2021)	Progress
2026	BTR 2	Emissions balance by 2024 (or 2023)	Progress
2028	BTR 3	Emissions balance by 2026 (or 2025)	Progress
2030	BTR 4	Emissions balance by 2028 (or 2027)	Progress
2032	BTR 5	Emissions balance by 2030 (or 2029)	Achievement

These emissions balances would be reflected in the “structured summary” as part of the “common tabular formats” for electronic reporting on the Chapter III of the BTR. The common tabular formats will be

developed by the SBSTA according to CMA1 decision on the Article 13 MPGs and aimed for adoption by 2020. This may also reinforce, for some, the view that Para. 77(d) is still a work in progress.

6. Recording of corresponding adjustments

All three versions of the Article 6 texts from COP 24 include a section on “Recording of corresponding adjustments”, where there seems to be a general understanding that this would be the role of a database established and maintained by the Secretariat. The database is considered to perform the main function of “consistency check” by:

- (1) Compiling relevant information submitted by Participating Parties;
- (2) Performing a consistency check, including on the information on corresponding adjustments;
- (3) Notifying any inconsistencies to the Participating Parties.

The KTP text suggests that the inputs for the database should come from annual submissions from Parties. It also suggests the similarity in the list of quantitative information reported in the BTRs and recorded in the database.

It would be important to ensure that Parties are clear on what is meant by a “consistency check”. Arguably, since the database works by compiling information from several Parties in contrast to the BTR, which represents information of only each individual Party, it can be implied that the aim of the “consistency check” is to check for consistency among participating Parties who engage in the cooperative approaches. For instance, whether +5 by one Party is corresponded with -5 by its partner Party.

7. Review of corresponding adjustments

Development of the 6.2 texts on the review process directs towards establishing a separate, specific Article 6 technical expert review (Article 6 TER) (although it should be noted that this is not a view shared by all) which would review the information submitted by participating Parties, as well as the information recorded in the database, for consistency with the 6.2 guidance, make recommendations, and forward its reports to the Article 13 TER.

Unlike the Article 13 TER which has already been elaborated in the Article 13 MPGs, there seems to be substantial further work required with regard to Article 6 TER, including the format, procedures, institutional arrangements, and formulation of recommendations and reports. Also, questions remain whether Art. 6 TER and Art. 13 TER may be duplicative, or the scope of the Art. 13 TER could be enlarged and eliminate the need for Art. 6 TER.

8. Flow: performing, reporting, recording and review of corresponding adjustments

In this discussion there are different issues that need to be identified, including:

- a) What is the relationship between “reporting” and “recording” of corresponding adjustments – Is recording done prior to reporting or the other way around? Is one a prerequisite for another or are they separate from each other in terms of process? Will one draw information from, or be informed by, the other?
- b) What is the relationship and difference between the consistency check performed by the Secretariat and the review process by the TER, - Is there a clear separation between these two functions? Will one be informed by the other? How will it be ensured that there would be no overlap or inconsistency between the two functions, both in terms of procedural and substantive aspects?
- c) Another issue is the frequency of performing, reporting and recording of corresponding adjustments.
- d) Finally, what is the level of granularity which was discussed above?

These issues relate to how one sees the overall flow of tracking ITMOs and performing, reporting, recording, and review of corresponding adjustments, in particular in terms of order and timing. Arguably, this can be reflected in different scenarios (Table 2).

Deciding which scenario from the three mentioned in Table 2 (or others, if there are other possible scenarios which have not yet been explored) would be appropriate would depend on how much Parties expect from these functions. Importantly, Parties would need to strike a balance between any additional burden created and the benefits gained from the resulting functions and ensure that there is sufficient international oversight which at the same time does not overly burden participating Parties.

Table 2: Possible scenarios of the flow of tracking ITMOs and performing, reporting, recording, and review of corresponding adjustments

Order	Scenario 1	Scenario 2	Scenario 3
i.	Parties track ITMOs in the registries (Section IV)	Parties track ITMOs in the registries (Section IV)	Parties track ITMOs in the registries (Section IV)
ii.	Parties net ITMOs (annual and cumulative) every time there is a transfer/every year (internal process)	Parties net ITMOs (annual and cumulative) every time there is a transfer/every year (internal process)	Parties net ITMOs (annual and cumulative) every time there is a transfer/every year (internal process)
iii.	Parties perform corresponding adjustments on the basis of netted ITMOs (internal process)	Parties perform corresponding adjustments on the basis of netted ITMOs (internal process)	Parties submit information on netted ITMOs to the Secretariat to record in the database every year (Section IX)
iv.	Parties submit information on corresponding adjustments to the Secretariat to record in the database every year (Section IX)	Parties report on corresponding adjustments in the BTR (with annual time-series) every two years (Section VII.B)	The Secretariat performs consistency-check and makes non-confidential information publicly accessible (Section IX)
v.	Secretariat performs consistency-check (Section IX) and the TER reviews recorded information (Section VIII)	The TER reviews reported information (Section VIII)	The following steps taken only in 2024, 2026, ...
			Parties perform corresponding adjustments on the basis of netted ITMOs (internal process)
vi.	Parties report on corresponding adjustments in the BTRs (with annual time-series) every two years (Section VII.B)	The Secretariat draws reported information from the BTRs into the database (Section IX)	Parties report on corresponding adjustments in the BTR (with annual time-series) (Section VII.B)
vii.	The TER reviews reported information (Section VIII)	The Secretariat performs consistency-check and makes non-confidential information publicly accessible (Section IX)	The TER reviews reported information (Section VIII)
viii.			The Secretariat draws reported information from the BTRs into the database (Section IX)
ix.			The Secretariat performs consistency-check and makes non-confidential information publicly accessible (Section IX)

Notes **Why this scenario may make sense** – annually updated information

Why this scenario may make sense – parties submit information only once, progress demonstrated in the same framing as the transparency framework, no duplication of review process

Why this scenario may make sense – annually updated information, progress demonstrated in the same framing as the transparency framework, no duplication of review process