



What can be learned from current pilots/on-the-ground activities towards Art. 6 negotiations

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Overview

- I. Germany's non-compliance approach to explore Article 6
- II. „NACAG“ - the first NDC related market activity
- III. „TD Losses“ - the Article 6.2 pilot
- IV. Pilots based on strategic capacity building



Exploring Article 6

Piloting without compliance

Looking back

- Under the KP Germany used CDM and JI mainly through the EU-ETS.
- No purchase for compliance, only voluntary cancelation and support of PoAs.

Point of departure under the PA

- Political interest to finalize the Paris Rule Book with the missing element on A6
- From the German perspective it is too early to decide on the use of Article 6, but there are high expectations on A 6.4 as the substitute for the CDM
- Purchasing for compliance but for voluntary compensation activities
- A purchase program is not on the agenda, but piloting experience under Art. 6.2 are under consideration



Point of departure under the PA

- No decision on purchasing for compliance has been taken but it is likely to continue with voluntary compensation activities

What is actual going on based on committed financial resources:

- Limited financial contributions to international facilities, such as TCAF and the ADB A6 Support Facility
- NACAG: a low hanging fruit activity to raise ambition beyond current NDCs. Financial resources for investments are committed to this initiative.
- Piloting activities under Art. 6.2 are under consideration. The example of TD losses will be presented. Financial resources are reserved in the BMU budget.
- A new project for the strategic preparation of the use of A6 in line with further elaboration of NDCs of transferring countries. Activity includes Capacity building and preparation of pilots. Financial resources are reserved in the BMU budget.



NACAG – Nitric Acid Action Group

An early piloting hybrid

- A mechanism for raising NDC ambition
- Could be implemented under A 6.2
- MO are not eligible for transfer
- Combining KP and PA
- Using the CDM (VCR) as technical framework
- Cancellation of transferable mitigation outcomes ahead of 2021
- Using mitigation outcomes from 2021 onwards for NDC compliance to encourage the sub-sector to be covered under the NDC
- Preparing for the use of the WB's PAF with a separate tranche (NACAP – using the auctioning framework)
- While the Article 6.4 rules are not available, the CDM still can serve as a framework and VCR is an option for post2020 reductions



Art. 6 pilot example:

Program for reducing technical losses in the power grid (“TD-Losses”)

- The TD Losses Program for testing Art. 6.2 cooperative approaches under the Paris Agreement.
- Reactive Power Compensation (RPC) equipment will be installed at industrial facilities in four African countries (ZAM, UGA, MOZ, (ZIM)).
- Result: Avoidance of emissions, improved power supply in the countries, improvement of the competitiveness of the industrial companies through reduced electricity payments.



Project development with sectoral elements

- Build on early methodological work under the CDM (SB GEF SAPP)
- Start of project development in 2018 in close cooperation with national stakeholders
- Lol with three countries – interest in Art. 6 pilot activities
- Innovative finance tool: blended financing instrument based on ECA cover (i.a. Euler Hermes), concessional loan provided by AfDB and carbon finance (BMU) and lending by a regional commercial bank (Standard Bank)



Dynamic approach to split ERs between financing country and host country:

- Providing incentives for implementing countries to send more efficient signals to their end customers for reducing load dependent technical losses (e.g. adjust electricity tariffs)
 - Financing party's share of ERs becomes smaller, but overall ER volume becomes larger (more financially attractive)
 - Transfer agreement for ITMOS is currently elaborated (this will include an algorithm for the allocation of ERs.)
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- Approach is scalable: more countries could be included
 - Project design is replicable: Other technology (e.g. cooling)



Opening the space for cooperative approaches

Strategic use of cooperative approaches of the Paris Agreement

- New IKI project: Support program for countries, which have an interest in developing a strategy to use the international carbon market mechanism to increase ambition of the NDC over time.
- Target countries: 3-4 countries in mainly middle-income countries.
- Budget 20 Mio Euros for 4 years
- Objective: Build capacity how to use MM for robust NDC implementation and to develop a strategy how to extend the unconditional part of the NDC with the support MM.



Output of the IKI-project:

- Definition of eligible sectors and activities (elaborate Art. 6 pilots) in the light of the NDC goals
- Appropriate crediting period for international transfer (depending on activity)
- Prevention of overselling
- Recommendation how the activity could be transferred to the unconditional part of the NDC and continue to mitigate under national responsibility.
- Recommendation of the role of MM for LEDS and the SDG targets.



Repercussion to raise ambition beyond current NDCs

With support of MM countries obtain readiness for domestic climate measures:

- market penetration of technology
- gathering sector emission data
- exploring reduction potential



Building sites

- Avoiding the continuation of project-based approaches
- Raising ambition in national policies by using A6
- Defining room for transferable emission reductions in line with the LTG of the PA and the country-specific neutrality strategy
- Fair allocation of mitigation outcomes
- Hedging overselling risks based on the activity boundaries
- Refraining from transfers of cheap mitigation outcomes – raising awareness in transferring countries (low hanging fruit argument)
- Strengthening SD and when possible aligning with concrete SDG strategies