

## Article 6 of the Paris Agreement

### Informal “Options Paper” by the SBSTA Chair

18 October 2021

#### Introduction

During the period April to October 2021, including during the May-June sessional period 2021, Parties met virtually in the form of informal technical expert dialogues under the SBSTA on unresolved issues in matters relating to Article 6 of the Paris Agreement. For those dialogues, submissions from Parties and Observers were encouraged, and in the dialogues in September and October, the secretariat provided informal technical information slide packs.<sup>1</sup> In total, 16 dialogues were held, and the SBSTA Chair produced an informal summary in relation to each discussion and a Chair’s summary at the end of the May-June sessional period.<sup>2</sup> In two of those dialogues, Observers had the opportunity to make interventions.

At the Petersburg Dialogue in May 2021, the incoming COP Presidency announced an informal ministerial level process to prepare for Article 6 discussions at COP26. Minister Grace Fu of Singapore and Minister Sveinung Rotevatn of Norway were nominated to run these discussions and during July, two Ministerial level discussions on Article 6 were held.<sup>3</sup> Further discussion took place during the July Ministerial meeting in London, UK. In September and October, in the run-up to and after the Pre-COP hosted by Italy, the Heads of Delegation of Singapore and Norway held informal bilaterals with interested groups and Parties. In the closing plenary of the pre-COP, Ministers concluded that it would be helpful for the SBSTA Chair to provide a single informal document ahead of COP26 that would complement the negotiating texts<sup>4</sup>, to summarize discussions to date and the options on the table for Parties.

This options paper is informal in nature, has no status and is produced under the authority of the SBSTA Chair drawing on the informal technical expert dialogues, including the summaries, and discussions held under the informal Ministerial track. It aims to assist Ministers, Heads of Delegation and experts to navigate the key remaining unresolved issues and the relationships between them, so that the possible packages for Article 6 can be identified. The key remaining issues to be solved in Article 6 are presented with a very succinct identification of the issue. Then, the main options that appear to have broad support are set out. Links to other issues that need resolution are also indicated and there is a short assessment of progress towards resolution. This options paper does not contain all options on all issues as the summaries on the informal technical expert dialogues collectively create a comprehensive record of the issues that remain unresolved. This options paper is supplementary to the work of the SBSTA and informal Ministerial processes and is and without prejudice to final resolution of these issues.

This paper does not cover issues where Parties appear to be comfortable with the COP25 3<sup>rd</sup> Presidency texts (PT), where hard work has already been done and considerable compromise has already been made by all Parties. A number of other issues that were the subject of informal technical expert dialogue discussions could still benefit from some limited further work at expert level in the SBSTA in the first week of COP26 to refine or improve text. Many of those issues do not appear to be contentious in nature such that there are no strong “options” for resolution that would need to be included in this options paper. An example could be the reporting and review cycle for cooperative approaches, where the discussions as captured in the

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<sup>1</sup> <https://unfccc.int/process/the-paris-agreement/cooperative-implementation>

<sup>2</sup> [https://unfccc.int/sites/default/files/resource/IN.SBSTA2021.i15a.2\\_i15b.2\\_i15c.2.pdf](https://unfccc.int/sites/default/files/resource/IN.SBSTA2021.i15a.2_i15b.2_i15c.2.pdf)

<sup>3</sup> Summaries are available here: <https://unfccc.int/process/the-paris-agreement/cooperative-implementation#eq-2>

<sup>4</sup> <https://unfccc.int/process/the-paris-agreement/cooperative-implementation#eq-6>

informal technical expert dialogue summary<sup>5</sup> mainly identified improvements to the information requirements and the detail on sequencing, with some limited choices to be made.

This paper is sorted into two sections. Section A, where the options that have been the focus of Ministerial work in 2021 are set out. Section B contains the cluster of other issues that many Parties have identified as either linked to the issues in Section A and/or essential to solve as part of a package for Article 6.

Parties have been informed of the virtual informal Heads of Delegation on Article 6 under the SBSTA on 22 October 2021, that is being convened with the aim of hearing views on the remaining work in the SBSTA, in order to move Article 6 towards adoption at CMA.3.

In the SBSTA, during the first week of COP26, it would appear important to ensure that experts finalize as many matters as possible in Section B, including with the support of Heads of Delegation as needed, and ideally arrive at settled text. In some cases, there may still be two or three options for those issues. In relation to matters in Section A, the SBSTA should ensure that the main options are crisply and clearly indicated in the relevant places in the draft texts, in a manner that could be operationalized. In this way, the draft texts that will need to be forwarded from the SBSTA at the end of the first week of the COP would be ready for swift completion following agreement on the outstanding key matters. More details on process for the SBSTA are available in the Scenario Note.<sup>6</sup>

Parties have already indicated, in a number of discussions this year, their expectation that the CMA can and should adopt decisions with annexes that are sufficiently comprehensive such that operationalization of Article 6 may finally commence in earnest and so that Parties may unlock the potential for further ambition in mitigation and adaptation through cooperation. This options paper is one of the numerous tools available to Parties to help to achieve that goal.

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<sup>5</sup> [https://unfccc.int/sites/default/files/resource/2021\\_A6ITEDonReportingandreviewunder6.2\\_SBSTA%20Chair%20summary.pdf](https://unfccc.int/sites/default/files/resource/2021_A6ITEDonReportingandreviewunder6.2_SBSTA%20Chair%20summary.pdf)

<sup>6</sup> <https://unfccc.int/documents/307295>

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## Section A. Issues that have been the focus of Ministerial discussions during 2021

Section A contains the three issues that have been the focus of Ministerial engagement during 2021. The section also references the links with other issues listed in Section B that have been identified by groups and Parties as collectively needing resolution in order to adopt the three Article 6 decisions at COP26 (CMA3).<sup>7</sup>

### 1. Adaptation financing or a share of proceeds for adaptation from cooperative approaches (6.2)

{Paragraphs 37 and 38 of COP25 3<sup>rd</sup> Presidency text (PT), paragraphs 37 and 38 of COP25 2<sup>nd</sup> PT}.

*This issue relates to contributions to adaptation financing and whether contributions could, should or must be made when Parties engage in cooperative approaches under Article 6, paragraph 2 of the Paris Agreement.*

#### Primary option:

- Nature and reference
  - No mention in text
  - Contribution on a voluntary basis by participating Parties
    - Encouragement to make voluntary contributions
    - Encouragement to commit to make voluntary contributions
  - Contribution is mandatory for participating Parties

#### Related options:

- Amount of contribution
  - No specified amount
  - Commensurate to levels set for share of proceeds for adaptation in 6.4 mechanism
- Method and point of collection
  - Levy a proportion of internationally transferred mitigation outcomes (ITMOs) transferred or a proportion of annual volume of ITMOs used towards a nationally determined contribution (NDC)
  - Financial/monetary contribution derived from the net amount of ITMOs transacted by the acquiring Party
  - Direct financial/monetary contribution to adaptation by participating Party/Parties
- Applicability of method and point of collection
  - One method applies to all cooperative approaches
  - Cooperative approaches that are baseline and crediting approaches akin to the 6.4 mechanism use a similar method as applied under 6.4; other types of cooperative approach use an alternative method (to be developed in work plan)
- Destination of the contribution
  - Adaptation Fund

<sup>7</sup> <https://unfccc.int/sites/default/files/resource/Art.%206%20presentation%20ITEDs%20CDM%20transition.pdf>  
Contains UNFCCC/Adaptation Fund sourced data on relevant matters.

- Encouragement to deliver to the Adaptation Fund, and/or any other vehicle for delivery of adaptation finance, such as the Green Climate Fund
- No specification of the destination/vehicle, but to be adaptation targeted/focused.
- Reporting
  - Nature of obligation
    - Voluntary reporting or encouraged to report
    - Mandatory to report
  - Method
    - Report through Article 6 annual information/annual information report and contribution recorded in the centralized accounting and reporting platform
    - Report per Article 9 for developed country Parties (no proposals for how developing country Parties would report)

#### *Linkages*

*Interventions have indicated that the discussions are linked to the requirement for a share of proceeds for adaptation for the 6.4 mechanism and the level and method for implementing it (see Article 6, paragraph 6 of the Paris Agreement), the wider need for sustainable and predictable finance for developing country Parties, in particular adaptation finance, and ensuring that the guidance for cooperative approaches is consistent with the provisions of Article 6, paragraph 2.*

#### *Progress on resolution*

*As yet, while Parties concur on the importance of sufficient and predictable finance for adaptation, an acceptable solution for this issue has not yet been identified. While many Parties have been clear that this issue must be resolved within Article 6, it may also be helpful for Parties to consider how this issue relates to wider finance discussions, including on adaptation finance, at COP26, while recognizing that contributions to adaptation finance in Article 6 would be from all participating Parties and not only developed country Parties.*

#### **2. Avoiding double use from units from outside the NDC in the 6.4 mechanism**

{Paragraph 70 of COP25 3<sup>rd</sup> PT and 7 (a) of draft cover decision, paragraphs 81 to 83 of COP25 2nd PT}

*This relates to whether Parties hosting activities under the 6.4 mechanism are required to account for mitigation generated by activities in the 6.4 mechanism that are transferred internationally, where the mitigation is achieved outside the NDC of that Party. This is an issue relating to the scope of the NDC (such as sectors, GHG, implementation of policies) and to the provisions in relevant COP and CMA decisions relating to indicators and the requirement to account for progress in implementing and achieving the NDC of the Party, including when using voluntary cooperation per Article 6.*

#### Primary options:

- Generation of 6.4 units from activities outside the NDC
  - Only activities that are inside the NDC (e.g. scope, greenhouse gases (GHG), covered by the NDC) may generate 6.4 units
  - Activities that are outside the NDC may also generate 6.4 units.

- Accounting for 6.4 units generated from activities outside the NDC
  - Like 6.4 units generated from activities inside the NDC, the host Party must account for 6.4 units generated from activities outside the NDC when they are internationally transferred (*no exemption, full accounting*).
  - A time-bound exemption can apply, and in the context of that exemption, the host Party does not have to account for 6.4 units generated from activities outside the NDC when they are internationally transferred for a certain time (*time-bound exemption*).
  - 6.4 units generated from activities outside the NDC do not have to be accounted for by the host Party if they are not used towards an NDC (*alternative use*).

Related options (*for time-bound exemption/alternative use*):

- Time-bound exemption from the requirement to account for 6.4 units generated from activities outside the NDC
  - Until end of 2025
  - Until end of 202X
  - Until end of 2030
- Meaning of outside the NDC (*scope of NDC*)
  - Not included in the sectors and GHG of the NDC
  - Not included in sectors and GHG of the NDC and also not included in the policies/measures implemented by the Party to achieve their NDC, as identified by the Party
- Identifying the relevant 6.4 units
  - Identification through information provided by the Party at the start of its participation in the mechanism
  - A special identifier as part of the 6.4 unit’s unique serial number

#### *Linkages*

*Interventions have indicated that this issue is linked with the wider issue of ambition and the following issues in Article 6: the use of pre-2020 Kyoto Protocol units towards NDCs; baselines and additionality approaches for the 6.4 mechanism; implementation of overall mitigation in global emissions in the 6.4 mechanism; CDM activity transition and use of mitigation outcomes for other international mitigation purposes.*

#### *Progress on resolution*

*Consideration has been given to the possibilities of time-bound exemption periods but Parties have not identified any time-bound exemption period that could be acceptable (with 2025 and 2030 being each too long or too short for many Parties). It may thus be worth considering whether alternative ways of resolving the issue should now be the focus of discussions.*

### **3. Use of pre-2020 Kyoto Protocol units towards NDCs**

{Paragraph 75 of COP25 3<sup>rd</sup> PT and 7 (a) of the cover decision, paragraphs 88-91 of COP25 2<sup>nd</sup> PT}

*This issue is about whether mitigation credits known as certified emission reduction credits (CERs) that were achieved before the end of 2020 under the Kyoto Protocol’s crediting mechanism (the clean development mechanism, CDM), can be used by Parties towards their first NDC. The issue is about recognizing the*

*investment made in the CDM by developing countries and the private sector and trying to balance that interest with ensuring ambitious action in the first NDC cycle and ensuring incentives to undertake new mitigation action through Article 6.*

Primary option:

- Use of CERs for first NDC
  - No use of CERs or any other Kyoto Protocol units towards first or any subsequent NDCs
  - Some CERs may be used towards first NDCs subject to limitations/under certain conditions, no use for subsequent NDCs

Related options (relevant only where CERs may be used):

- Conditions
  - Date conditions
    - Registration date condition: from CDM activities registered on or after 1/1/2013
    - Registration date condition: from CDM activities registered on or after 1/1/2016
    - Generation date condition: from emission reductions achieved on or after X date
  - Volume conditions
    - Maximum volume per using Party
    - Maximum volume per active CDM activity
  - Which Parties may use CERs
    - Host Party may use own CERs that meet the conditions towards its own first NDC (own use only)
    - Host Party may use any of own CERs towards its own first NDC, other Parties may use CERs subject to the conditions
    - Any Party may use any CERs that meet conditions
- Implementation options
  - Accounting for CERs used towards first NDCs
    - Accounting by both Parties
    - Accounting only by the using Party
    - Own use by host Party only, accounting is required because the CER comes from the time period outside of the first NDC (pre-2021)
  - Identification for use for first NDC
    - No requirements
    - Identify by 2023
    - Identification through placing in a “reserve”/“reserves”

- Retagging as useable for first NDCs
- Reporting of CERs used towards first NDCs
  - Identification of the CERs used (serial numbers)
  - Reporting in 6.2 reporting and BTR reporting

#### *Linkages*

*Interventions have indicated this is linked to the wider issue of ambition and the following issues in Article 6: avoiding double use of 6.4 units from outside the NDC; CDM activity transition; CMP CDM matters; implementation of overall mitigation in global emissions in the 6.4 mechanism; baselines and additionality for the 6.4 mechanism.*

#### *Progress on resolution*

*Parties have made progress on this issue in understanding the possible maximum quantum of CERs<sup>8</sup> that might be available for use by some Parties towards NDCs and on how any use of pre-2020 CERs towards NDCs could be managed at a technical level. However, it is clear that resolution on this issue is contingent on broader agreement on the Article 6 package, and in particular on the issue of avoiding double use of 6.4 units from outside the NDC.*

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<sup>8</sup> <https://unfccc.int/sites/default/files/resource/Art.%206%20presentation%20ITEDs%20CDM%20transition.pdf>

## Section B. Other significant issues that require resolution

*This section contains those issues that, while not being the focus of Ministerial discussions during 2021, have been clearly identified by Parties as needing resolution in order to reach a balanced outcome across Article 6 so that decisions can be adopted.*

### 1. 6.8 governance arrangements

{Paragraphs 4-6 of COP25 3<sup>rd</sup> PT}

*This issue is about ensuring that the governance arrangements for the framework for non-market approaches are optimal for delivery of the framework work programme, including being well-designed for facilitating non-market approaches while also avoiding duplication with other arrangements under the UNFCCC.*

Primary option:

- Governance arrangements
  - The SBSTA
  - The NMA Forum per COP 25 3<sup>rd</sup> PT, operating from 2022, with provision for a review of governance arrangements
  - Task force<sup>9</sup>, NMA facilitative mechanism<sup>10</sup> and NMA network of coordination<sup>11</sup>
  - An ad-hoc working group<sup>12</sup>
  - Article 6 committee
    - Including a representative from GCF
    - Excluding a representative from GCF

Related option (relevant to non-body institutional arrangements):

- Timing of CMA decision on the need for new institutional arrangements
  - At CMA9 (2027 – as per COP25 3<sup>rd</sup> PT)
  - At CMA8 (2026 – combined with the decision on the review of the work programme)

### Linkages

*Interventions have made links to oversight and governance arrangements for Article 6.2 and 6.4; the rate of operationalization of all instruments; the work of and potential overlaps with other constituted bodies under the UNFCCC.*

### Progress on resolution

*Parties have recognized the importance of balance within Article 6, and the importance of ensuring that the governance arrangements for the 6.8 framework are fit for purpose. At the end of COP25, no Party raised*

<sup>9</sup> Function: Undertake the work programme in order to make additional recommendations on the arrangements for the framework at CMA4 in 2022

<sup>10</sup> Function: Support Parties to implement their NMAs by mobilizing resources based on the information in the registry

<sup>11</sup> Function: Enhance communication among existing instruments of the UNFCCC on the NMAs in the registry

<sup>12</sup> Function: Implement initial activities and make recommendations on the institutional arrangements of the framework at CMA4 in 2022

concerns or objections to the COP25 3<sup>rd</sup> PT. During 2021, other options have been proposed and Parties have been working to deepen their understanding as to the differences to the COP25 3<sup>rd</sup> PT and the implications for delivery of the work programme.

## 2. Implementing share of proceeds for the 6.4 mechanism

{Paragraphs 63-65 of COP25 3<sup>rd</sup> PT} {Paragraphs 72-74 of COP25 2<sup>nd</sup> PT}

*This issue is about how to implement Article 6, paragraph 6 of the Paris Agreement, a levy for adaptation. The implementation aims to learn from how a similar levy has been implemented under the Kyoto Protocol and ensure that the levy is effective. It appears settled that the share of proceeds will be delivered to the Adaptation Fund.*

### Primary option:

- Method of collection and level
  - Levy at issuance of a percentage of 6.4 units, at a rate of 2 per cent or 5 per cent.
  - A mix of a monetary levy (e.g. X cents per volume measured in tonnes Co2e) and a levy at issuance of a percentage of 6.4 units.

### Related option:

- Additional resources for Adaptation Fund
  - Allocation by CMP Parties of some funds from the CDM trust fund to the Adaptation Fund, through a CMP decision
  - Allocation of any excess or surplus administrative fees for the 6.4 mechanism (i.e. that are not needed for the operation of the 6.4 mechanism), at the end of a given period

### *Linkages*

*This issue has been linked to the question of adaptation financing or share of proceeds from cooperative approaches (see above) and to the implementation of overall mitigation in global emissions in 6.4.*

### *Progress on resolution*

*Parties have identified that the collection of the share of proceeds for adaptation could be improved based on experience from existing systems under the UNFCCC but have yet to finally set the level or the method for collection. The method of collection seems capable of technical resolution in the SBSTA, while recognizing that the level may be something that is impacted by issues in Section A of this document.*

## 3. Overall mitigation in global emissions

{Paragraphs 66-69 of COP25 3<sup>rd</sup> PT for 6.4, paragraphs 75-80 of COP25 2<sup>nd</sup> PT for 6.4, paragraphs 80-89 of COP25 1<sup>st</sup> PT for 6.4}

{Paragraphs 39-40 of COP25 3<sup>rd</sup> PT for 6.2, paragraphs 39-40 of COP25 2<sup>nd</sup> PT text for 6.2, paragraphs 45-50 of COP25 1<sup>st</sup> PT for 6.2}

*This issue is about implementing Article 6, paragraph 4(d) of the Paris Agreement in the mechanism and the question of whether a similar contribution to overall mitigation should be included in the guidance for cooperative approaches under Article 6, paragraph 2.*

Primary option for 6.4:

- Nature of obligation
  - Mandatory cancellation at issuance of proportion of total issued volume
    - 2 per cent, as a floor, reviewable for increase at any time by the CMA (per COP 25 3<sup>rd</sup> PT)
    - X/10/20/30 per cent
  - Voluntary cancellation
    - Voluntary cancellation (at issuance or other point) by either or both Parties
    - Voluntary cancellation of 6.4ERs that were levied for the share of proceeds for adaptation (purchase and cancellation)
  - Implementation through other means
    - Conservative baselines
    - Limited crediting periods

Related options for 6.4:

- Reporting and review
  - Voluntary reporting
  - Mandatory reporting and review (initial report, regular information, Article 6 technical expert review)
- Accounting
  - Corresponding adjustment for full volume issued (i.e. including the percentage that is cancelled at issuance)
  - No corresponding adjustment for OMGE portion where there is no international transfer (domestic use)
  - Corresponding adjustment only for transferred volume (i.e. excluding the percentage that is cancelled at issuance)

Primary option for 6.2:

- Nature of obligation
  - Encouragement to voluntarily cancel ITMOs in relation to the cooperative approach, for OMGE
  - OMGE is achieved in a similar manner as for the 6.4 mechanism (dependent on that outcome)
  - Mandatory OMGE contribution through cancellation of ITMOs at issuance

Related options for 6.2:

- Reporting and review
  - Voluntary reporting

- Mandatory reporting and review (initial report, regular information, Article 6 technical expert review)
- Accounting
  - Corresponding adjustment for the full volume issued (i.e. including the OMGE percentage that is cancelled at issuance)
  - No corresponding adjustment for the OMGE portion where there is no international transfer (domestic use)
  - Corresponding adjustment only for the transferred volume (i.e. excluding the percentage that is cancelled at issuance)

#### *Linkages*

*Interventions in relation to OMGE make a linkage between both 6.2 and 6.4 and the need for balance between, and ambition in, both. Interventions have opposing views on the link to or need for distinct treatment of the share of proceeds for the 6.4 mechanism and/or adaptation finance in 6.2. Interventions address the need for balance but also not overburdening participants through disincentives for cooperation, and identified the different basis as compared to share of proceeds ("shall aim" in paragraph 6.4 for OMGE, "shall" in 6.6 for share of proceeds). It is also linked to 6.4 baselines and additionality, the ambition that Article 6 will deliver, CER use for NDCs, CDM activity transition.*

#### *Progress on resolution*

*For 6.4, Parties have made some progress on the method, but views on the appropriate level of OMGE remain divergent and may be linked to the wider outcome on Article 6. Interventions in relation to cooperative approaches (6.2) have indicated that most Parties support the COP25 3<sup>rd</sup> PT, which enables voluntary cancellation of ITMOs towards OMGE but others refer to the COP25 1<sup>st</sup> PT.*

#### **4. Baselines and additionality in 6.4 mechanism**

{Paragraph 36 of COP25 3<sup>rd</sup> PT and 5(a) of the cover decision, paragraphs 38-44 of COP25 2<sup>nd</sup> PT}

*This issue is about the basis on which emission reductions are calculated under the 6.4 mechanism. It is a fundamental design aspect of the mechanism and involves how to determine whether the activity is additional to what would otherwise have occurred, and if so, against what level the emission reducing action would be compared such that the resulting credits can be calculated.*

#### Primary options:

- Principles for baselines (*not mutually exclusive in all cases*)
  - Alignment with the NDC and LT-LED of the host Party, and 1.5
  - Ambition over time
  - Enabling broad participation
  - Real, transparent, conservative and credible
  - Avoiding leakage
  - Recognizing suppressed demand

- Below business as usual
- Range of baseline approaches to include in menu or hierarchy (*where still unresolved - general understanding that range would include best available technology, performance based and benchmark, so these are not included in this list*)
  - Historical emissions
    - Includes historical emissions as a basis for calculating the baseline
      - With a discount factor when calculating 6.4 ERs to be credited
      - Without a discount factor when calculating 6.4 ERs to be credited
    - Historical emissions for some scopes, sectors and activity types only
    - Does not include historical emissions as a basis for calculating the baseline
  - Business as usual/projected emissions
    - Includes business as usual/projected emissions
    - Does not include business as usual/projected emissions
- Menu or hierarchy
  - Hierarchy of baseline approaches (*in this order*: best available technology, performance based (including benchmark), business as usual (taking into account economic attractiveness) and actual/historical) with justification by the participants for a given choice where not best available technology
  - Menu (best available technology, performance based (including benchmark), business as usual (taking into account economic attractiveness) and actual/historical) with justification by the participants for a given choice
- Additionality
  - Definition
    - Would not have occurred in the absence of
      - The activity
      - The 6.4 mechanism
    - Complementary to the implementation of the NDC (unconditional component, inside NDC)
    - Outside the NDC (conditional component)
    - Regulatory additionality
  - Additionality exemptions
    - Deemed automatically additional when from certain activities in LDCs and SIDs
    - No such deeming for certain activities in LDCs and SIDs

Related options:

- Role of host Party
  - Baseline approaches
    - Host Party may determine which baseline approaches apply in its country
    - The Supervisory Body approves all baseline approaches in all participating countries
- Principles for baselines, application to 6.2 cooperative approaches
  - General baseline principles should be set for 6.2 and 6.4, but implementation will be different between cooperative approaches and the 6.4 mechanism because of their different natures
  - Cooperative approaches that are baseline and crediting approaches akin to the 6.4 mechanism use a similar baseline approach as applied under the 6.4 mechanism

Linkages

*Interventions indicate this issue is a key part of the delivery of an Article 6 package, in part because of its linkages to other key issues including: CER use for NDCs, avoiding double use of 6.4 units from outside the NDC, CDM activity transition and OMGE in 6.4 and enabling Article 6 to incentivize ambition in NDCs*

Progress on resolution

*Considerable work on this issue has been undertaken by experts but views remain divergent. A particular issue is the feasibility and capacity of Parties to implement some baselines and the impact on scale and usability of the 6.4 mechanism, while ensuring ambition. It may be necessary to seek to resolve the issue in a different manner than was attempted in Madrid (hierarchies versus menus), and address this at a higher level in the guidance, or address it in the context of types and scales of activities, while empowering the Supervisory Body with the host Party to implement through methodology and additionality decisions and tools. An alternative approach might consider phases for baseline approaches in the rules, modalities and procedures such that the rules evolve over time (e.g. XYZ approach apply for activities registered by date A, after which only YZ apply).*

**5. Implementation of non-GHG cooperative approaches and non-GHG metric ITMOs**

{Paragraphs 7,10 and 11 of COP25 3<sup>rd</sup> PT, and 2(b) of the cover decision}

*This issue is about how to implement cooperative approaches with non-GHG metric ITMOs in a way that: balances the need for an inclusive approach whilst ensuring robust accounting; makes it possible to track progress towards NDCs and ensure cooperation does not lead to an increase in global emissions, particularly when such ITMOs are expressed in a metric that is not the same as the NDC of the participating Parties.*

Primary option:

- Implementation
  - There are sufficient provisions in the COP25 3<sup>rd</sup> PT to enable non-GHG metric cooperative approaches to commence, and further work should be undertaken between CMA.3 and CMA.4
  - Further guidance needs to be elaborated by the CMA before non-GHG metric cooperative approaches may commence and it should be done by CMA.4.

Related options:

- Conversion
  - Only like to like trades for non-GHG metrics are allowed such that no conversion is needed
  - Conversion between metrics and to understand GHG impact is to be worked on as part of SBSTA work plan:
    - Pending which, no trading can be done
    - Pending which trading can be done only within the buffer registry and use of such ITMOs is dependent on further guidance
    - Pending which, only like to like trades can be done
    - Pending which, Parties can use their own conversion factors/methods on an interim basis
  - Participating Parties may determine their own conversion factors/methods

Linkages

*Interventions have indicated this is an issue that is an important part of ensuring balance in Article 6 and inclusivity in enabling engagement in voluntary cooperation. It is linked at a technical level to the reporting and review and accounting provisions of the Article 6, paragraph 2 guidance and the Enhanced Transparency Framework (decision 18/CMA.1), in relation to the structured summary.*

Progress on resolution

*This discussion has made good progress over 2021 and Parties have engaged in understanding implications of possible types of non-GHG ITMOs. This issue is capable of being resolved in the SBSTA, potentially through further detail on what issues could be covered in the work plan.*

## **6. CDM activity transition to the 6.4 mechanism {Paragraphs 72 to 74 of the COP25 3<sup>rd</sup> PT}**

*This issue is about the transition of CDM activities from the CDM under the Kyoto Protocol to be activities under the 6.4 mechanism.*

Primary options:

- Which CDM activities may transition<sup>13</sup>:
  - Active CDM activities (operational, with a current crediting period, per COP25 3<sup>rd</sup> PT)
  - Only small scale and POA activities
  - Only vulnerable CDM activities in respect of which mitigation would cease without the CDM/6.4 mechanism (possibly from a list developed by the CDM Executive Board)
- What requirements do CDM activities meet upon transition
  - All rules and requirements of the 6.4 mechanism, including the relevant new 6.4 methodology

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<sup>13</sup> Issuance under 6.4 for emission reductions from 1/1/21 onwards per COP25 3<sup>rd</sup> PT paragraph 73 (c)

- Rules and requirements of the 6.4 mechanism but using the CDM methodology (baseline) etc. until a certain date or the end of the activity's current crediting period, whichever is the earlier (end 2023, per COP25 3<sup>rd</sup> PT).

#### Related options:

- Host Party related
  - Have authorized transition
  - Have a system for cancellation of units for OMGE and for share of proceeds
  - Meet the participation requirements per 6.4
- Process related conditions for the activity to transition
  - Deregistration/withdrawal of the activity from CDM
  - Request from project participant made within a certain time (~~deadline to request~~)
  - Other Parties involved to be informed
  - Transition completed by deadline date (2023, per COP 25 3<sup>rd</sup> PT or other)
- Avoiding double use
  - Host Parties have to apply same accounting rules for transitioned activities as for new 6.4 activities (see Section A.2)
  - Corresponding adjustment is always required by host Party for 6.4 units issued from transitioned CDM activities
- Expediting the process of transitioning small scale and POA
  - Putting these activities at the front of the transition pipeline
  - Automatic transition after host Party transition approval
- CDM activity transition decisions needed from CMP
  - No decisions needed except relating to CDM trust fund
  - Following decisions:
    - Cooperation with Supervisory Body, including information sharing
    - Allocation of the CDM trust fund (in part) for 6.4
- In relation to CDM (under CMP)
  - Guidance on post-2020 operations
  - Guidance on winding down CDM, including cessation of registrations, issuances, guidance on non-transitioning activities and a deadline for requesting issuance of pre-end 2020 CERs.

#### *Linkages*

*Interventions have made clear that the transition of CDM activities is an important part of the Article 6 overall package and is linked to baselines and additionality for the 6.4 mechanism, avoiding double use from outside*

*the NDC for 6.4, OMGE and CER use for NDCs. It is also linked to the CMP consideration of the operation of the CDM after the end of the second commitment period of the Kyoto Protocol, which many groups have recognized is part of the wider package of COP26.*

#### *Progress towards resolution*

*Further work in 2021 has helped to refine which activities could transitions and how that transition would be implemented in practice but Parties have not settled on the extent of transition. Effort could be made in the SBSTA to resolve this issue further so that choices can be made in the context of the wider Article 6 outcome by the CMA and as needed, the CMP.*

### **7. Coordination of 6.2 guidance with 18/CMA.1 (particularly, paragraph 77 (d) and the structured summary)**

*This issue is about ensuring that the guidance for cooperative approaches is well coordinated with the Enhanced Transparency Framework, in particular in relation to: the information required to be reported per Article 6.2 guidance through provisions referred to in the Modalities, Procedures and Guidelines adopted by decision 18/CMA.1; and in relation to the coordination of the Article 6 technical expert review and the Article 13 technical expert review. The issue of "77(d)" has not been directly addressed by the Article 6 informal technical expert dialogues but interventions have addressed the matter in various discussions. It appears that there are emerging options in relation to ensuring that coordination. Given the need to ensure well-coordinated reporting and review processes that enable effective tracking of progress, options on this issue are included in this paper.*

#### Primary option:

- Structured summary
  - All requirements for Article 6 reporting that do not fall into 77 (d) (i)(ii) or (iv) would be reported under 77 (d) (iii), including in relation to non-GHG metrics. Article 6, paragraph 2 guidance cover decision could just refer to that provision, as could the Article 13 cover decision, for CMA 3 or with a further work plan under the SBSTA.
  - Wording of 77 (d) needs to be evolved through Article 6, paragraph 2 cover decision and guidance text and referred to in the Article 13 cover decision that adopts the structured summary for CMA 3 or with a further work plan under the SBSTA.

#### *Linkages*

*Interventions have underlined the need to solve this in the SBSTA where the linked agenda item is also under discussion. There is a linkage with the implementation of non-GHG cooperative approaches and non-GHG metrics, because 77 (d) does not cover non-GHG.*

#### *Progress towards resolution*

*While initially a sensitive issue for many Parties, progress has been made, particularly in 2021, in addressing the matter from a technical and practical perspective and further work in the SBSTA could help ensure resolution of this issue in a timely manner.*