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JOINT INPUTS ON GUIDANCE FOR ARTICLE 6 OF THE PARIS AGREEMENT ON COOPERATIVE APPROACHES

Joint Inputs from Climate Advisers, Conservation International, Environmental Defense Fund, International Emissions Trading Association* and The Nature Conservancy on Guidance for Article 6 of the Paris Agreement with a focus on the guidance referred to in Article 6, paragraph 2 on “Internationally Transferred Mitigation Outcomes”
April 2018

JOINT RECOMMENDATIONS ON KEY ARTICLE 6 DESIGN ELEMENTS

Timing and nature of corresponding adjustment and reporting

- A corresponding adjustment should be made to the host Party’s NDC emissions account at the time it transfers an ITMO or authorizes its use towards a mitigation obligation (whichever is earlier), regardless of whether the ITMO originates from within or outside of NDC coverage. The using Party should adjust its NDC emissions account at the time of use of the ITMO. Any intermediate transfers should be transparently tracked.
- Parties should report their NDC emissions account and national inventory at least every two years as well as when demonstrating achievement of the NDC, in line with the transparency framework under Article 13.
- In reporting, there should be a clear requirement for Parties to report transparently both their NDC emissions account and their adjusted NDC emissions account.

Governance

- Parties should consider how ex-post review may be conducted via the transparency framework in a manner that facilitates Parties’ ability to fulfill their responsibilities under Article 6.2 while minimizing restrictions on Parties’ efforts to cooperate on high-integrity mitigation efforts.
- There should not be any body established to authorize ITMOs.

Infrastructure

- For the purposes of transparent tracking of ITMOs, the UNFCCC Secretariat should establish and maintain a shared, publicly reviewable ITMO tracking database. A distributed ledger or other tracking device could serve this function if it can perform equivalently.

Environmental integrity and linkages to other Article 6 mechanisms and the transparency framework under Article 13

- Article 6 negotiators should ensure that the mechanism created under Article 6.4 and the non-market mechanism under Article 6.8 align and are compatible with Article 6.2.

Importantly, any transfers of units under Article 6.4 must adhere to the same accounting requirements recommended in this document.

- Parties should ensure that the transparency framework contains provisions that capture relevant information on Party governance arrangements under Article 6.2.
- Article 6 negotiators should ensure alignment and compatibility with progress on the transparency framework under Article 13.

Origination of ITMOs from sectors outside a Party's NDC

- Article 6.2 authorizes the CMA to develop guidance that applies robust accounting, including the avoidance of double counting, when ITMOs are transferred “towards” NDCs. (Article 6.2 guidance is **not** restricted to ITMOs from NDCs.) Additionally, reporting of non-NDC transfers is needed to satisfy the following mandates under the Paris Agreement:
 1. The purpose of the enhanced transparency framework under Article 13.5 (to provide “a clear understanding of climate change action in the light of the objective of the Convention”);
 2. Requirements under Paragraph 13.7 of the Paris Agreement and paragraph 90 of Decision 1/CP.21 to provide “information necessary to track progress” to NDCs at least every two years; and
 3. CMA’s guidance under paragraph 92 of Decision 1/CP.21, to ensure environmental integrity, transparency, accuracy, completeness, and avoid double counting.
- In the interim period occurring while all Parties move towards economy-wide and fully quantified NDCs, transferring units from outside of an NDC could be possible without compromising environmental integrity or creating a disincentive for progressing to economy-wide targets provided that, at a minimum, the host Party demonstrates, inter alia, robust MRV and baselines in the non-NDC sector/gas, accounts for the transfer of reductions by recording the addition of a corresponding amount of emissions in an account based on its inventory or “NDC emissions account,” and follows all relevant Article 6.2 guidance.
- Parties transferring from outside of their NDC should be encouraged to include those sectors and gases in their subsequent NDC. At a minimum, Parties should not create a disincentive for expanding NDC coverage.

Eligibility for non-Party actors to engage in cooperative approaches

- Parties should prepare guidance and the necessary systems to facilitate the acquisition of ITMOs by non-Party actors (such as aeroplane operators under the International Civil Aviation Organization’s Carbon Offsetting and Reduction Scheme for International Aviation) in a way that ensures the avoidance double counting.
- Parties should elicit input from subnational and other relevant stakeholders with expertise in subnational carbon market cooperation to inform the development of robust accounting guidance that facilitates—and does not obstruct—current and future high-integrity subnational cooperation.

* Note: While IETA largely agrees with the recommendations outlined in this paper, its views on some specific issues might differ. For information on IETA’s position please get in touch with [Stefano De Clara](#) or visit [this page](#).

INTRODUCTION

Article 6 of the Paris Agreement establishes a broad framework for voluntary cooperation among Parties in the implementation of their Nationally Determined Contributions (NDCs). The Article sets out three approaches through which Parties may voluntarily interact: 1) “bottom up,” bilateral or regional cooperative approaches via internationally transferred mitigation outcomes (ITMOs), 2) a mechanism to contribute to mitigation and support sustainable development, and 3) non-market approaches. These are outlined in Article 6.2, 6.4 and 6.8, respectively. In line with the principles of the Convention, every Party can determine its preferred approach in this new architecture and choose whether to participate.

Approximately half of all current NDCs demonstrate interest in fulfilling a portion of their emission reduction targets using international market-based approaches,¹ which may take the form of emission trading or similar mechanisms. The effective implementation of Article 6.2 can support such approaches, stimulating efficient, bottom-up, voluntary cooperation between Parties to implement existing NDCs and strengthen the ambition of mitigation actions over time. Encouraging the transfer of high-quality emission reductions generated in all sectors, including the land sector, can drive needed flows of finance to mitigation actions addressing both sources and sinks, particularly in developing countries.

At the United Nations Framework Convention on Climate Change (UNFCCC) intersessional meeting, Parties will continue negotiations to build consensus by December 2018 to finalize the rules necessary to implement Article 6 of the Paris Agreement. Climate Advisers, Conservation International, Environmental Defense Fund, International Emissions Trading Association and The Nature Conservancy have prepared the following inputs on key design elements of Article 6.2 guidance for consideration by Parties in Bonn.

KEY DESIGN ELEMENTS FOR ARTICLE 6 GUIDANCE

Timing and nature of corresponding adjustment and reporting

Relevant sections of informal draft text: Section III (Scope), potential list element (d); Section X (Corresponding adjustment); Section XI, Element A (Periodic and ex-post Party reporting)

Our organizations’ positions:

- *A corresponding adjustment should be made to the host Party’s NDC emissions account at the time it transfers an ITMO or authorizes its use towards a mitigation obligation (whichever is earlier), regardless of whether the ITMO originates from within or outside of NDC coverage. The using Party should adjust its NDC emissions account at the time of use of the ITMO. Any intermediate transfers should be transparently tracked.*
- *Parties should report their NDC emissions account and national inventory at least every two years as well as when demonstrating achievement of the NDC, in line with the transparency framework under Article 13.*
- *In reporting, there should be a clear requirement for Parties to report transparently both their NDC emissions account and their adjusted NDC emissions account.*

¹ See the IETA [INDC Tracker](#).

Suggested Text:

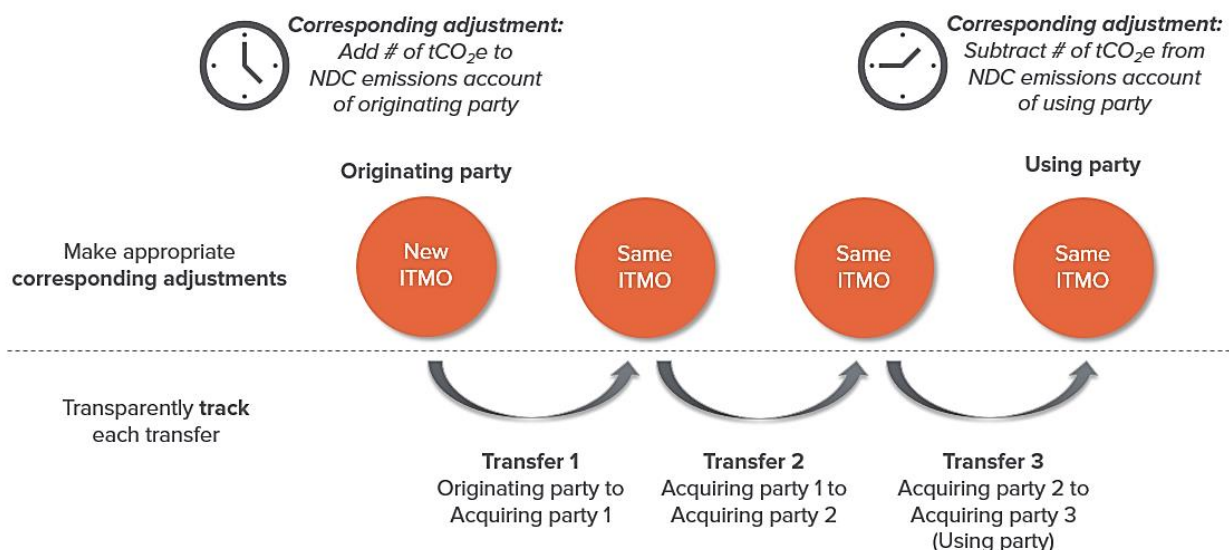
1. Any ITMO which a Party uses towards its NDC in accordance with the provisions of Article 6 shall be subtracted from the acquiring Party's NDC emissions account.
2. Any ITMO which a Party either transfers or authorizes in accordance with the provisions of Article 6 shall be added to the NDC emissions account for the transferring/authorizing Party.
3. Parties shall report transparently both their NDC emissions account and their adjusted NDC emissions account.

For the definitions section of the Paris Agreement implementation guidelines:

- NDC inventory: The portion of the national greenhouse gas inventory that reflects emissions and removals under the NDC.
- NDC emissions account: A ledger or account that reflects the total of emissions and removals calculated from the Party's NDC inventory.
- Adjusted NDC emissions account: the total of emissions and removals calculated from the Party's NDC inventory after adjustment for ITMOs.

When a Party authorizes and/or transfers NDC or non-NDC reductions it should make an addition to its NDC emissions account. Adjustments to an NDC emissions account are relevant only to the party that generates the ITMO and the party in which it is used. We believe any intermediate transfers should be transparently tracked, but a corresponding adjustment for each of those intermediate steps might not be necessary.

Figure 1. Proposed Timing of Corresponding Adjustments



Source: Authors

For emissions reductions issued by programs inside or outside the NDC, emission reduction programs should ensure that the host country has indicated it will adjust (or has adjusted) its NDC emissions account. That process ensures that the host country (a) thinks carefully about the baselines that the program is proposing; (b) recognizes that when approving emission reduction projects, the host country

is in effect allocating a scarce resource; and (c) has some incentive to safeguard against inadvertent baseline inflation, overallocation, and overselling.

As a distinct but complementary step to the corresponding adjustment, Parties should transparently communicate their ITMO acquisition, transfer, use and any permitted banking of ITMOs by reporting their NDC emissions account and national inventory periodically (e.g. at least biennially) and when demonstrating achievement of the NDC, in line with the transparency framework under Article 13.

Governance

Relevant sections of informal draft text: Section VII (Governance); Section XI, Element B (Periodic and ex-post Party review)

Our organizations' positions:

- *Parties should consider how ex-post review may be conducted via the transparency framework in a manner that facilitates Parties' ability to fulfill their responsibilities under Article 6.2 while minimizing restrictions on Parties cooperating on high-integrity mitigation efforts.*
- *There should not be any body established to authorize ITMOs.*

A key consideration when providing guidance on governance is whether any proposed governance functions of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) could place unrealistic restrictions on national sovereignty to cooperate on mitigation. The Paris Agreement and Decision 1/CP.21 do not state the need for a body to verify ITMOs, and instead devolve responsibility to Parties to fulfill mandated requirements, consistent with CMA guidance. Our organizations believe there should not be an ITMO body created to authorize transfers either ex-ante or ex-post. Instead, the technical expert review and multilateral review within the transparency framework should include consideration of ITMOs by Parties, as a means to check for no double counting and consistency with other relevant guidelines. Therefore, this review process must be sufficient to evaluate ITMOs and highlight potential discrepancies or issues that require attention.

Infrastructure

Relevant sections of informal draft text: Section XIV (Infrastructure)

Our organizations' position:

- For the purposes of transparent tracking of ITMOs, the UNFCCC Secretariat should establish and maintain a shared, publicly reviewable ITMO tracking database. A distributed ledger or other tracking device could serve this function if it can perform equivalently.

For simple government-to-government ITMO transfers, a basic database may be sufficient to track transfers and avoid double counting. For more complex transactions, a registry or similar device is an essential component for tracking international transfers. It keeps a record of transfers as they occur, establishing ownership and property rights, and in doing so avoids double counting. Registries must be compatible and link with a shared accounting database that transparently tracks all ITMO transfers.

For the purposes of transparent tracking of ITMOs, the UNFCCC Secretariat should establish and maintain a shared, publicly reviewable ITMO tracking database. A distributed ledger or other tracking device could serve this function if it can perform equivalently.

Environmental integrity and linkages to other Article 6 mechanisms and the transparency framework under Article 13

Relevant sections of informal draft text: Section XI, Elements A/B (Periodic and ex-post Party reporting and review)

Our organizations' positions:

- Article 6 negotiators should ensure that the mechanism created under Article 6.4 and the non-market mechanism under Article 6.8 align and are compatible with Article 6.2. Importantly, any transfers of units under Article 6.4 must adhere to the same accounting requirements recommended in this document.
- Parties should ensure that the transparency framework contains provisions that capture relevant information on Party governance arrangements under Article 6.2.
- Article 6 negotiators should ensure alignment and compatibility with progress on the transparency framework under Article 13.

The enhanced transparency framework of Article 13 of the Paris Agreement provides a means for Parties to report on fulfillment of Article 6.2's requirements. Each Party under Article 13.7 is required to provide both a national inventory report and "information necessary to track progress" toward implementing and achieving its NDC. These reports enable Parties and the world at large to ascertain how well the Parties and their NDCs are fulfilling the Agreement's mitigation objectives. These reports can also act as an "early warning system" to alert Parties considering or actively participating in Article 6 cooperation to any need for a course correction. These submissions are subject both to technical expert review and multilateral review under Article 13.11.

In addition, the implementation and compliance mechanism of Article 15 provides additional opportunity for transparency and oversight of Party action, including cooperation under Article 6.2. In developing the modalities and procedures for Articles 13 and 15, Parties may wish to consider what additional information and transparency requirements may be needed to properly assess Parties' fulfillment of their obligations under Article 6.2. For example, Parties are required under Article 6.2 to ensure two types of transparency: (1) transparency in outcomes and (2) transparency "in governance" of their cooperative approach. For the effective functioning of Articles 6, 13 and 15, Parties will need to ensure that the Paris Agreement transparency framework contains provisions specifically designed to capture relevant information on Party governance arrangements under Article 6.2.

Considering the provisions of Article 6.2, Parties choosing to cooperate under Article 6.2 must themselves assume a larger role in ensuring the integrity of units entering the international carbon market. At the same time, they can recognize and promote the useful role the CMA can continue to play in fully implementing other complementary provisions of the Paris Agreement, especially the transparency provisions of Article 13. Article 6 and Article 13 negotiators should coordinate to ensure alignment and compatibility.

Origination of ITMOs from sectors outside a Party's NDC

Relevant sections of informal draft text: Section XII, Element B (Specific Guidance on sectors/ greenhouse gases etc.)

Our organizations' positions:

- Article 6.2 authorizes the CMA to develop guidance that applies robust accounting, including the avoidance of double counting, when ITMOs are transferred “towards” NDCs. (Article 6.2 guidance is **not** restricted to ITMOs from NDCs.) Additionally, reporting of non-NDC transfers is needed to satisfy the following mandates under the Paris Agreement:
 1. The purpose of the enhanced transparency framework under Article 13.5 (to provide “a clear understanding of climate change action in the light of the objective of the Convention”);
 2. Requirements under Paragraph 13.7 of the Paris Agreement and paragraph 90 of Decision 1/CP.21 to provide “information necessary to track progress” to NDCs at least every two years; and
 3. CMA’s guidance under paragraph 92 of Decision 1/CP.21, to ensure environmental integrity, transparency, accuracy, completeness, and avoid double counting.
- In the interim period occurring while all Parties move towards economy-wide and fully quantified NDCs, transferring units from outside of an NDC could be possible without compromising environmental integrity or creating a disincentive for progressing to economy-wide targets provided that, at a minimum, the host Party demonstrates, inter alia, robust MRV and baselines in the non-NDC sector/gas, accounts for the transfer of reductions by recording the addition of a corresponding amount of emissions in an account based on its inventory or “NDC emissions account,” and follows all relevant Article 6.2 guidance.
- Parties transferring from outside of their NDC should be encouraged to include those sectors and gases in their subsequent NDC. At a minimum, Parties should not create a disincentive for expanding NDC coverage.

Addressing whether Parties should be allowed to transfer emission reductions from a sector outside of its NDC is an important design question to consider when developing Article 6.2 guidance. There are both advantages and disadvantages to allowing the transfer of ITMOs originating outside of a country's NDC. For example, allowing Parties to transfer ITMOs from outside of its NDC may drive investments into national actions that are additional to what was already planned under the NDC. In addition, as many Parties point out, NDCs were created before the Paris Agreement (and subsequent negotiation, including on Article 6) was finalized; it would be unfortunate for the sequencing of UNFCCC decisions and NDC submissions to stymie this additional investment. We therefore appreciate the need to avoid unnecessary disincentives for work to reduce emissions in the non-NDC sectors.

However, failure to account for the transfer of such reductions could create a disincentive for transition to economy-wide targets, making it unattractive for countries to include additional sectors in future NDCs. If they are treated from an accounting point of view the same way that, for example, CDM units are currently treated under Article 3.12 of the Kyoto Protocol, non-NDC sector transfers would in effect be an unfair subsidy to non-NDC sector activities and could create an incentive to inflate baselines.

One potential compromise would be to allow transfers from outside of a country's NDC, provided that these transfers are subject to strong rules for environmental integrity, including the robust MRV and baselines, application of ITMO accounting rules, conducting a corresponding adjustment, incorporating that sector into future NDCs, etc.

In some cases, it is somewhat artificial to distinguish between NDC and non-NDC reductions. Some projects and programs may generate reductions in both NDC and non-NDC sectors. Requiring "apportionment" of those reductions because of two different accounting rules for such projects would add unnecessary burden and additional transaction costs with no environmental benefit. This leads us to conclude that it would be simpler and more environmentally effective to have one rule with integrity requiring that all transfers be adjusted in a country's NDC emissions account, regardless of whether the reductions may wholly or partially originate "inside" or "outside" an NDC.

Non-NDC transfers may also have implications for the environmental integrity of ITMOs acquired by non-Parties toward compliance obligations (e.g., by airlines to meet obligations under the International Civil Aviation Organization's (ICAO) Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)). If CMA guidance fails to address transfers from outside of a country's NDC, how can we ensure that transfers to non-Parties are measured against robust baselines and reflected in the appropriate accounts?

Participation requirements

Relevant sections of informal draft text: Section VIII (Participation Requirements); Section XII, Element C (Specific Guidance on single-year nationally determined contributions)

The draft text raises key questions related to participation and eligibility requirements for those wishing to participate in cooperative approaches, including: NDC type, Party status and origins of ITMOs, which remain under active consideration by Parties.

The guidance (or any decisions not to provide guidance) relating to participation requirements will have implications for the remainder of the Article 6 guidance. Our organizations therefore encourage Parties to resolve these issues with guidance that both ensures environmental integrity and provides appropriate flexibility to engage in cooperative approaches amongst Parties.

For example, Parties should consider how "robust accounting" guidance might address transfers of ITMOs between different NDC types (see Figure 1). In the context of emissions trajectories, three archetype NDCs could be considered:

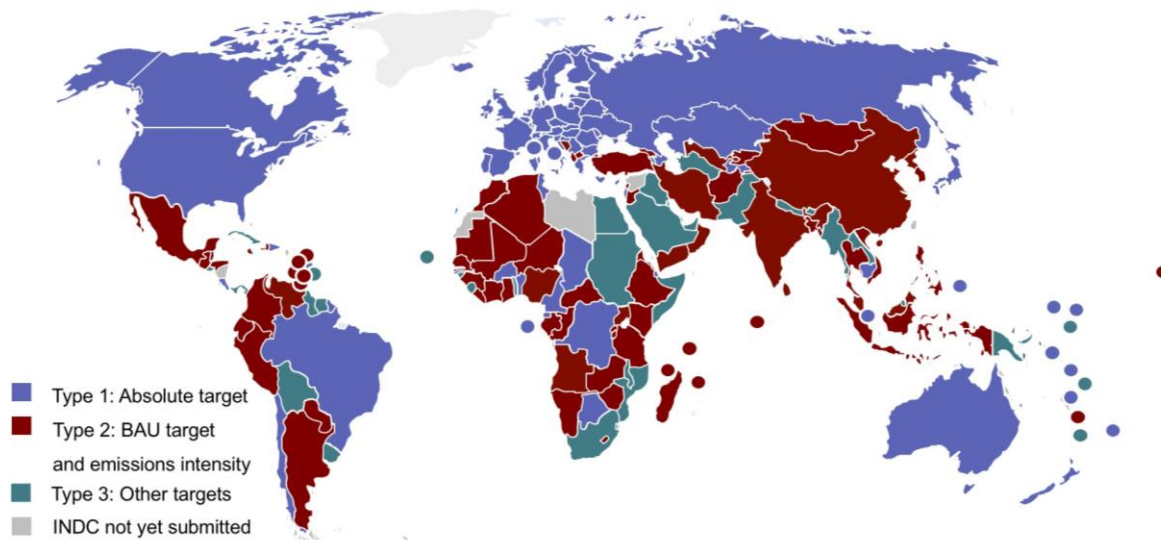
- **Type 1: Fixed Emissions Pathway** (e.g. NDCs expressed in terms of absolute emission reductions compared to a historical base year);
- **Type 2: Anticipated Emissions Pathway** (e.g. NDCs expressed in terms of an emissions intensity at some future date or a deviation from a projected business-as-usual trajectory or peak year); and
- **Type 3: Other kinds of NDCs** (e.g., NDCs based on a set of actions that are not linked to a quantified emissions trajectory).

The nature of transfers between NDCs will be influenced by the NDC type(s) involved, and, therefore, guidance needs to account for and reflect the key elements of different NDC types.

The fact that nearly all NDCs are expressed as single-year targets presents an accounting challenge that should be considered. The achievement of NDCs should represent real progress towards the Paris

Agreement’s mitigation goals, not a single-year “snapshot” of emissions that is unrepresentative of actual trends in a Party’s emissions. Multi-year targets avoid the risk that emissions in a single target year are unrepresentative of a general trend. Given that reconfiguring or redefining NDCs is beyond the scope of Article 6.2’s guidance (and beyond the scope of this paper’s recommendations), Parties should consider guidance to minimize or mitigate such risk for single-year targets, such as averaging or comparison to a linear trend that would be consistent with the NDC. Otherwise, there will be uncertainty over total emissions, complicating market transactions and reducing confidence in the integrity of units from vintages outside the target year.

Figure 2: Map depicting countries by NDC type



Source: IETA.

Eligibility for non-Party actors to engage in cooperative approaches

Relevant sections of informal draft text: Section V (Definitions); Section VII, Element D (Governance on role of other actors); Section VIII (Participation requirements); Section XV, Element B (Safeguards on uses for purposes other than towards achievement of nationally determined contributions)

Our organizations’ position:

- Parties should prepare guidance and the necessary systems to facilitate the acquisition of ITMOs by non-Party actors (such as aeroplane operators under ICAO’s CORSIA) in a way that ensures the avoidance double counting.
- Parties should elicit input from subnational and other relevant stakeholders with expertise in subnational carbon market cooperation to inform the development of robust accounting guidance that facilitates—and does not obstruct—current and future high-integrity subnational cooperation.

The provisions of the Paris Agreement apply to the majority of greenhouse gas emissions generated by countries. However, emissions that are not attributable to a single Party, such as emissions from international aviation, are governed under other United Nations bodies. For example, the airlines must

purchase CORSIA Eligible Emissions Units to meet their offsetting obligation under ICAO's CORSIA.² The sources of many of these emission reduction units will likely be countries participating in the Paris Agreement. (Work to establish the CORSIA Eligible Emissions Units under ICAO is ongoing.) While CORSIA is governed by a separate UN agency, transparent and proper accounting of transfers, including application of corresponding adjustments, is necessary when airlines use emissions units from transferring Parties for CORSIA compliance.

Article 6.2 guidance must therefore state clearly that ITMOs must only be counted once towards any mitigation target/obligation (under the Paris Agreement or other systems), and require participating Parties to certify that an ITMO used toward a Party's NDC has not and will not be offered to or claimed by any other system (e.g., CORSIA), with a continuing duty to publicly notify if changes occur. Any UNFCCC-related greenhouse gas registries or accounting systems must be linked or aligned in a formal way with those utilized in CORSIA. Coordination between the development of Article 6 guidance and registries under CORSIA is important to achieve a system with functional linkages where units are transferred transparently.

Lack of guidance on transfers between Parties and non-Parties could lead to several challenges. For example, emission reductions may be transferred without consideration for how a transfer may impact NDC achievement and could lead to double claiming. Attempting to prepare separate guidance at a later stage would prolong uncertainty surrounding transfers to non-Parties (including under ICAO).

Guidance agreed under 6.2 could also slow or accelerate growing momentum for subnational cooperation to put a price and limit on carbon pollution. Parties should elicit input from subnational and other relevant stakeholders with expertise in subnational carbon market cooperation to inform the development of robust accounting guidance that facilitates—and does not obstruct—current and future high-integrity subnational cooperation.

CONCLUSION

As the implementation details of the Paris Agreement are developed and agreed this year by negotiators, Article 6 negotiators have the task of providing guidance on an objectively difficult set of technical considerations. As our inputs above suggest, there is not necessarily one right way to move forward with Article 6.2 guidance; however, there are perhaps optimal landing zones for each design element that ensures environmental integrity, preserves national determination and the voluntary nature of Article 6, and provides sufficient direction to the private sector and other key stakeholders. If negotiators can strike this balance correctly, Parties can realize the full potential of ITMOs and Article 6 to increase mitigation ambition.

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² The current version of the CORSIA Package (or CORSIA “rulebook”) highlights the eligibility and the process by which CORSIA Eligible Emissions Units will be designated: http://icsa-aviation.org/wp-content/uploads/2018/01/ICAO_CORSIA_draft_SARP.pdf.