



Carbon Accounting and Internationally Transferred Mitigation Outcomes

ENSURING COMPLIANCE AND ESTABLISHING A CARBON MARKET VALUE FOR ITMOS

Market-based approaches have a powerful role to play in helping countries to meet their near-term commitments as efficiently as possible, and in encouraging and even accelerating the broad and ambitious long-term climate action that the Paris Agreement demands.

Article 6 of the Paris Agreement establishes a framework for international carbon market cooperation, but its success depends on robust and clear accounting. To achieve this, the Paris Agreement rulebook must include rules for frequent tracking and reporting of emissions, reductions, purchases and transfers. And it specifically includes the Guidance to Parties for so-called Internationally Transferred Mitigation Outcomes (ITMOs) of Article 6.2. ITMOs reflect emissions reductions by countries; they can be traded and used to meet national emissions targets of the National Determined Contributions (NDCs).

The principle of Article 6.2 is simple

- Suppose emissions reductions in country A are so successful that it overachieves its

NDC. Country A generates ITMOs with this overperformance.

- Country A tracks its performance and the creation of ITMOs in an annual ITMO balance.
- Country A can sell the ITMOs from its account to country B, to be used to help comply with its own NDC.
- The atmosphere doesn't care whether the emission reductions took place in country A or B, so long as overall emissions go down.

Annual ITMO balance

The Article 6.2 mechanism should have robust accounting rules to meet environmental integrity requirements, including avoiding double counting or use. Hence, emission reductions should not be used more than once to meet targets. One possible approach examined here is to use an annual ITMO balance. This allows Parties to generate ITMOs annually, provided the emissions accounting balance shows overperformance compared to the NDC trajectory. An annual ITMO balance works best with multiyear targets and/or NDC budgets, because actual progress can be tracked against these targets.

Comparing Kyoto and Paris

In the Kyoto Protocol, Parties were assigned 'ex ante' emissions budgets (AAUs). Under the Paris Agreement, Parties can generate ITMOs annually 'ex post'.

From Kyoto Protocol to emissions budgets

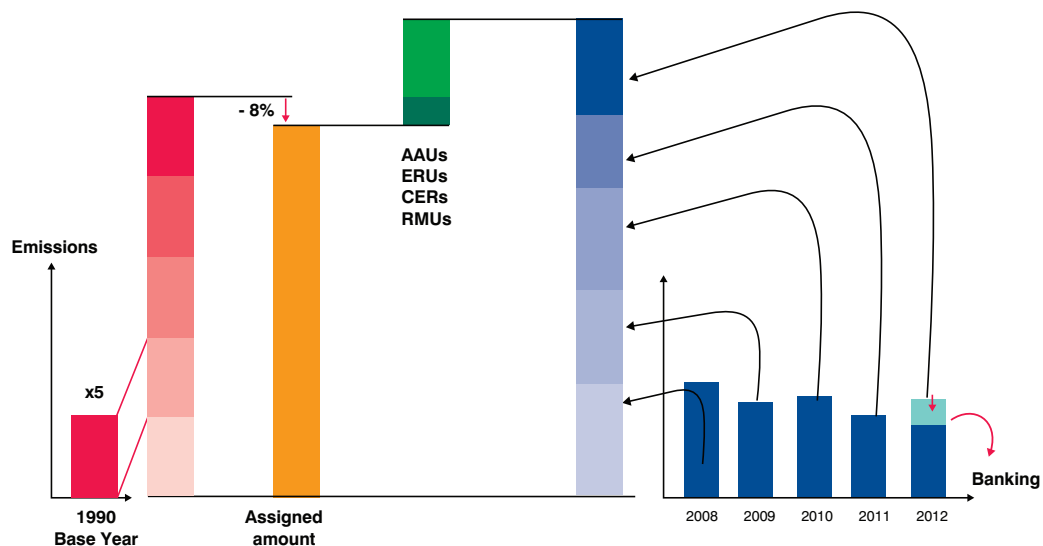


Figure 1

Left: how the emissions budget was assigned and increased by purchasing credits (AAUs, ERUs etc)
Right: how the budget is used to cover emissions

From NDCs to ITMOs

“Internationally Transferred Mitigation Outcomes”

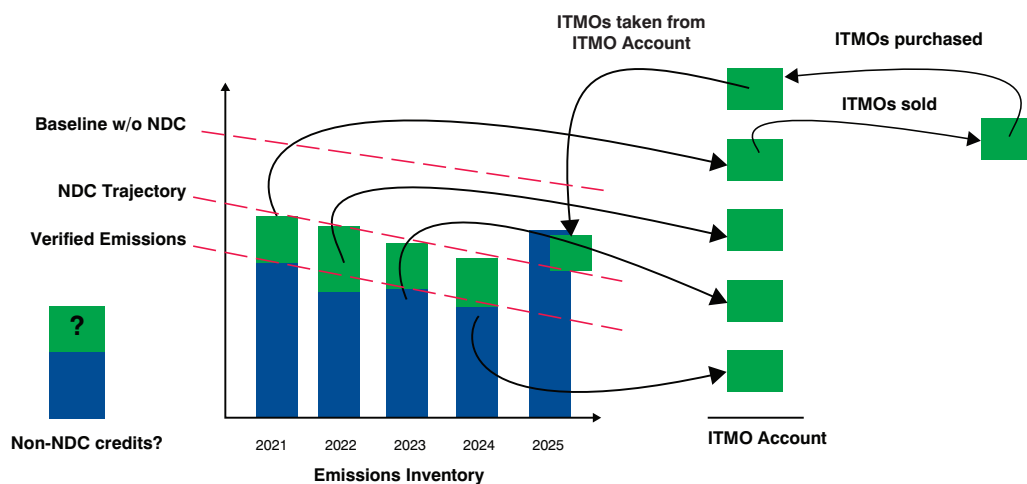


Figure 2

Center Left: how the difference between target and verified emissions generates surplus ITMOs

Left: what is the fate of credits from outside NDC?

Middle: how ITMOs are issued and registered into an ITMO balance account, and retired in 2025 to cover emissions

Right: how ITMOs are sold and purchased from/to other parties

An annual ITMO balance works as follows:

- Transacting Parties report their emissions annually, preferably peer-reviewed.
- If at the end of year 1 a Party has overachieved its NDC, it generates ITMOs with this overperformance.
- The Party can issue commensurate ITMOs in tons CO₂e into its account in a registry facilitated by the UNFCCC.
- Surplus ITMOs are eligible to meet NDCs of other Parties.
- At the end of year 2, the Party's ITMO account is checked against its total net emissions to account for any transactions.
- This approach can be delayed in time. This depends on the frequency and timing of emissions inventories delivered to the UNFCCC.

→ **Early reporting helps early generation of ITMOs**

→ **Corresponding adjustment in ITMO Balance gives ITMOs compliance & carbon market value**

Negotiating text for COP24

The draft text Parties will have on the table contains references that could incorporate an annual ITMO balance. The joint reflections note by the presiding officers of the APA, the SBSTA and the SBI; Addendum 2 of October 15, Matters relating to Article 6 of the Paris Agreement and paragraphs 36–40 of decision 1/CP.21¹ says:

- Para 63 (c): “Each participating Party [shall][should] make a corresponding adjustment for: Creations, first

transfers, transfers, acquisitions and use of ITMOs towards an NDC”

- Para 107: “A Party [shall][should] maintain a holding balance equal to X per cent of its mitigation target for that reporting period/NDC implementation period throughout the reporting period/NDC implementation period”
- Para 80 option C1: “A participating Party that has a single-year NDC [shall][should] apply the/one of the following method/s: The Party applies a corresponding adjustment for the same year as the single year NDC, that is representative of the creation and first transfer, transfer, acquisition and/or use of ITMOs by that Party over the NDC implementation period by calculating a multi-year emissions trajectory for the NDC implementation period consistent with the achievement of its NDC and applying a corresponding adjustment for each year covered by this emissions trajectory”

What if a Party reduced emissions outside its NDC. How can that Party generate ITMOs?

- A Party would transparently measure and regularly report its emissions.
- A Party would conservatively project the non-NDC emissions reductions generated.
- The Party correspondently adjusts its NDC inventory with the relevant sector emissions.
- Should be done per year; hence generally tapping future allocations for current compliance should be avoided.

See an illustrative national ledger with annual ITMO Accounting: It shows Party A reporting its emissions annually and meeting, overachieving, and missing its NDC target and creating, transferring and retiring ITMOs.

Year Ultimo Party A	2019	2020	2021	2022	2023	2024	2025	2026
1. Inventory emissions	598	597	596	595	597	595	590	
2. Trajectory emissions for NDC - NDC target 2025: 590	-	600 600-597 = 3	598	596	594	592	590	
3. Surplus / Deficit		3	2	1	-3	-3	0	
4. ITMO		+3	+2	+1	-3	-3	0	
5. Cumulative ITMO, beyond NDC		3	5	6	1			
6. ITMOs issued				2				
7. ITMOs transferred				2				
8. ITMOs purchased							3	
9. ITMOs received							2	
10. ITMOs retired								2
11. ITMO balance after transfers		3	5	4	1	-2	0	

¹See: <https://unfccc.int/documents/183194>