



CLIMATE ACTION NETWORK

Briefing on Implementation Guidelines for Article 6 of the Paris Agreement

June 2019

Climate Action Network (CAN) is the world's largest network of civil society organizations working together to promote government action to address the climate crisis, with more than 1300 members in over 120 countries.

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Introduction

At COP24 in Katowice, Poland, countries were unable to include guidance on Article 6 into the Paris Rulebook--except for paragraph 77(d) which stipulates how *"a Party participating in cooperative approaches that involve the use of internationally transferred mitigation outcomes (ITMOs) towards its NDC under Article 4, or authorizes the use of mitigation outcomes for international purposes other than achievement of its NDC"* report on such use in the structured summary of the Paris Agreement's transparency framework. Countries will work to finalize guidance on Article 6 with a view to delivering decision text by the end of COP25.

As Article 6 is one of the last pieces of the Paris Rulebook to be completed, increased high-level engagement from Ministers is possible and they require better understanding of the political issues related to Article 6 and the technical ones that still need work in advance of Katowice. This briefing provides a topline summary of CAN-I's positions on Article 6 and explains key outstanding technical issues.

Brief overview of CAN-International's position on Article 6

CAN-International supports the adoption of rules which ensure environmental integrity and the promotion of sustainable development within Article 6 of the Paris Agreement. In line with this high-level objective, Parties should¹:

- ❖ Require the application of corresponding adjustments for all credits transferred under Article 6, to ensure credits are only used, issued, or claimed once.
- ❖ Not recognize Kyoto Protocol emissions units for compliance towards NDC targets, and instead, re-assess all existing projects and methodologies from the Kyoto Protocol against stringent quality criteria before they can be transitioned under Article 6.
- ❖ Require local stakeholder consultations and compliance with human rights-based social and environmental safeguards as part of the implementation of any mitigation project under article 6.4, and set up a grievance mechanism governed by an independent body in order to respect, protect and promote human rights and the rights of all communities affected by a specific project.
- ❖ Require that baseline methodologies are accurate and conservative and set at least at or below a legitimate counterfactual scenario which should be no less ambitious than a relevant policy trajectory consistent with achieving the host country's NDC and should accurately reflect existing and planned actions and policies which could impact emission levels, and set up modalities that ensure the baseline development process is not gamed.
- ❖ Consider an appropriate discount rate or automatic cancellation of an appropriate percentage of credits applied at first transfer/point of issuance/each transfer, provided inflation of crediting baselines and other gaming can be prevented, in order to achieve an overall mitigation in global emissions.

Clarifying three outstanding technical questions in the negotiations

While CAN-I has five key asks as outlined above, in this section, we offer an insight into three key outstanding technical questions as well as addressing the relationship between Article 6 and ICAO's CORSIA .

Accounting for transfers of emission reductions under single- and multi-year targets

Among the many technical questions which still have to be solved, accounting rules to ensure environmental integrity and consistency between different types of NDC targets remain a highly complex one. As a result of the Paris Agreement's bottom-up nature, countries have adopted NDC targets which differ in many respects, including their end year and timeframe (e.g. five years or ten years).

¹ Further details can be found in CAN-International Annual Policy Document 2018

Criteria for sound accounting of transfers

To avoid double counting of emission reductions and contribute to environmental integrity, exchanges of traded mitigation outcomes should be accounted for consistently by both buyer and seller, regardless of whether they have single-year or multi-year NDC targets. **One accounting method should be identified and used consistently over time and across all Parties.**

Evaluating different accounting methods

How the accounting of ITMO transfers through linking domestic emissions trading systems might work is still a technical issue which Article 6 negotiators are seeking to understand. If such transfers are recognized under the Article 6 framework, more specific criteria might need to be adopted to reflect the high complexity of such transfers. As a result, the discussion below on different accounting methods might only be applicable to baseline and credit mechanisms.

There are various ways to account for ITMO transfers between countries, but none can promote sound accounting if it is not applied consistently over time and across Parties.

Five different ways of accounting for ITMO transfers could be adopted by Parties with single-year and multi-year emission reduction targets² :

- Target year only: A country applies a corresponding adjustment in the target year, which corresponds to the net transfer of emission reductions in that year only.
- Averaging: A country applies a corresponding adjustment in the target year, which corresponds to the annual average of net transfers over the covered NDC period, i.e. cumulative net total of emission reductions transacted, divided by the number of years covered by the NDC.
- Cumulative: A country applies a corresponding adjustment in the target year, which corresponds to the cumulative total of net transfers over the entire NDC period. This would be applied to emissions in the target year for countries with single-year targets, and to the cumulative total of emissions in the target period for multi-year NDCs.
- Multi-year trajectory: A trajectory consistent with achieving a country's NDC target is calculated, and corresponding adjustments are applied on an annual basis. From an accounting point of view, single-year targets would be viewed as multi-year targets.
- Yearly: Parties with a carbon budget would apply corresponding adjustments on an annual basis. Countries with single year targets would apply corresponding adjustments for their target year, reflecting either the cumulative net total of transfers over the NDC period, or the net transfers in the target year.

Each of these methods has specific benefits and shortcomings, but the approach chosen should ensure that the trades in emission reductions are accounted for in a way that is *representative* of the real flows of emission reductions transferred, and that corresponding adjustments *match up over time* when comparing different countries.

² See: <https://ercst.org/wp-content/uploads/2019/02/M.-Vaidyula.pdf>

Both the *target year only* approach and the *cumulative* approach can be abused by buying a significant amount of credits at the end of an NDC period (i.e. in the target year of a single year NDC), and thereby meet the target without having implemented any significant emission reduction strategy.

The *multi-year trajectory* method is unstable and easy to game, as any trajectory, including one with large overshoots, could comply with a single year NDC target. This is not adequate given that climate change is caused by the *accumulation* of GHGs in the atmosphere, which means that the net total of emissions over a given period is what determines the force of the climate impact.

Finally, it is unclear how the *yearly* approach would apply to single year targets, and it is subject to gaming over the trajectory of emissions between start year and target year, e.g. by allowing significant overshoots.

The *averaging* approach has the benefit of not allowing the generation of hot air from gaming trajectories because no artificial counterfactual is required. It also solves the “cliff” purchasing behaviour which the first two approaches would allow because only a small portion of credits purchased in the last year can actually be accounted for if no other purchases have been carried out over the rest of the NDC period. However, the averaging approach can have its own shortcomings, including related to the need to ensure representativeness of emissions traded in the target year, and the high complexity of correctly accounting for the transfer of ITMOs from linked ETS’, if such transfers were to be recognized under article 6.2.

Recommendation:

- Parties should consider the consistency of each approach with the principles of representativeness, accuracy, environmental integrity, and practicability, and apply one specific method consistently over time and across Parties for all ITMO transfers

Setting conservative baselines for the Article 6.4 Mechanism and baseline and crediting approaches under Article 6.2

Accurate and conservative baselines will be the foundation for the environmental integrity of the Article 6 Mechanisms. Being a very technical topic, negotiators did not fully coalesce around the right approach for baselines.

Recommendations:

- The Paris Rulebook must require that baseline methodologies be accurate and conservative-- in the sense that conservative assumptions, values and procedures to ensure that GHG emission reductions or removal enhancements are not over-estimated.

- Baselines must be accurate and conservative and set at least at or below a legitimate counterfactual scenario which should be no less ambitious than a relevant policy trajectory consistent with achieving the host country's NDC and should accurately reflect existing and planned actions and policies which could impact emission levels, and set up modalities that ensure the baseline development process is not gamed.
- Baseline development and reviews should be transparent, so that the baseline development process can be scrutinized.
- Approved methodologies for baseline and credit approaches under Article 6.2 should be no less environmentally rigorous than those developed under 6.4.

Clarifying reporting, tracking and corresponding adjustments

The below section aims to explain the differences between the terms reporting, tracking and corresponding adjustments. Negotiators and other carbon market experts sometimes use reporting, tracking and corresponding adjustments interchangeably, but each has a specific meaning in light of Paris Agreement decisions.

To appreciate the discussion below, it is important to understand the concept of “avoiding double counting”, which is required under the Paris Agreement. One form of double counting occurs when a traded emissions reduction is counted once by the country of origin (host country of emissions-reducing activity) and by the receiving entity (e.g. another country or an airline) towards the climate efforts of both claimants. In such a case, the atmosphere only sees one reduction, but it is being claimed twice. Analyses indicate that this double-claiming could negate the entire climate benefit of all the NDCs under the Paris Agreement³.

Reporting

Reporting provides information to hold Parties accountable for Paris Agreement implementation and lays the foundation for tracking Parties’ progress towards NDC achievement . Article 13 of the Paris Agreement sets up the Enhanced Transparency Framework (ETF) under which Parties shall report, which will facilitate understanding of Parties’ contributions in line with the objective of the Convention.

What will be reported and how does this reporting link to Article 6?

Two reporting requirements under Article 13 (specifically, A13.7) link Article 6 to the ETF. These are:

1. A national inventory report of anthropogenic emissions by sources and removals by sinks of greenhouse gases;
2. Information necessary to track progress made in implementing and achieving nationally determined contributions;

³ Gabriela Leslie, Alex Hanafi and Annie Petsonk, Global Emissions Within and Outside the Scope of Nationally Determined Contributions (Environmental Defense Fund), June 2018

Transfers of mitigation outcomes affect Parties' reporting on emissions in their national inventories. For parties with quantified targets, such transfers directly affect a Party's achievement of its own NDC. It is difficult to conceive how Article 6's "robust accounting" requirement can be achieved in a case where an ITMO originates from a Party without a quantified target, and is used by another Party towards its NDC.

It is important to clarify whether Parties report qualitative or quantitative information. Further analysis of the Paris Agreement and its decisions supports reporting of quantitative information with regard to climate mitigation. See Paris Agreement Articles 4.4 (progression toward economy-wide emission reduction or limitation targets), Article 14 (the global stocktake) and, paragraph 92 of Decision 1/CP.21 (requests guidance to promote transparency, accuracy, completeness, consistency and comparability (TACCC), to ensure that double counting is avoided, and the need to ensure environmental integrity).

Since Parties are encouraged to progress towards quantified targets, Paris Agreement rules should be designed to facilitate and be consistent with such progression. The same goes for assessing collective progress under the global stocktake – this cannot be done without quantified information on ITMOs. Including quantified information on total cooperation in the global stocktake process can improve understanding on cooperative approaches under the Paris Agreement and how cooperative approaches allow for higher ambition. Avoiding double counting and promoting environmental integrity, requires a quantitative record of the movement and use of ITMOs under Article 6. Thus, while qualitative information is helpful, meeting the goals of the Paris Agreement requires providing quantitative information at the right stage. Furthermore, the recent Katowice decisions also include calls for quantitative information in the form of indicators, which could include greenhouse gas emissions and removals. The accounting metric for Article 6 as mentioned below will be emissions based (i.e. CO₂e). Finally, reporting is necessary to have a clear understanding of transfers of mitigation outcomes for purposes other than towards NDCs, for example, use by airlines towards CORSIA obligations, and to ensure that double counting is avoided in such situations.

Tracking

The Paris Agreement includes language that calls for "information necessary to track progress." Tracking progress towards Paris Agreement goals and achievement of NDCs is only possible with provision of clear, detailed, quantitative and qualitative information on action undertaken by Parties. The accounting guidance under Articles 4 and 6 of the Paris Agreement, what is reported and how information is reported will inform activities to track progress so that the world is aware of the action being undertaken by Parties.

Tracking under Article 6 often refers to tracking the movement of ITMOs between and among Parties, and to systems outside the UNFCCC like CORSIA, which is different from tracking progress. Nevertheless understanding the movement of ITMOs is necessary to ensure environmental integrity, avoid double counting and to understand how participation in Article 6 interacts with the achievement of NDCs.

Following of ITMO movement depends on the international accounting rules agreed upon by Parties, as well as on what is transferred. For example, if accounting is on a “transfer and acquisition” basis, i.e. the transferring Party’s account based on the inventory reflects when an ITMO is transferred and the acquiring Party’s account reflects when it acquires an ITMO, then the ITMO will be traceable through accounting. If accounting occurs on a “transfer and use” basis, tracking of units would depend on another function, where the tracking of ITMOs at the international level may be informed by national and subnational activities.

A common metric measured in tons of CO₂ equivalents will facilitate transparent and comparable accounting frameworks for transferred mitigation outcomes. This will also simplify the development of the guidance and has implications for tracking of ITMOs. Paragraph 77(d) of the Katowice transparency decisions supports a CO₂e metric, as Parties must report on an emissions basis.

Following ITMO movement facilitates understanding of ITMOs used for purposes other than towards NDCs, e.g. for CORSIA. If ITMOs are not individually traced in this manner, it will be very difficult to know which units airlines cancel to meet their CORSIA obligations, which could lead to an increase in global emissions as Parties and airlines use the same ITMO towards more than one climate effort (aka double counting).

Corresponding adjustments

A corresponding adjustment is an addition or subtraction in tonnes of CO₂e to an account based on a Party’s national inventory that reflects the transfer and use of internationally transferred mitigation outcomes (ITMOs) under Article 6. When an ITMO leaves a country, the country must add to its account based on its national inventory the corresponding amount of emissions, which confirms that the ITMO cannot be used by the country towards any of its climate efforts. A similar subtraction of emissions will be done by the using country to signal that the ITMO has been used and cannot be used again.

It is not possible to have corresponding adjustments without reporting and tracking as these provide the basis of information for corresponding adjustments, but reporting and tracking of progress refer to specific requirements under the Paris Agreement. Simple reporting of transfers without actually adjusting your account based on your inventory is not enough to ensure avoidance of double counting. Tracking of units contributes important information to review that corresponding adjustments are correctly applied.

Summary of terminology:

- Reporting refers to providing quantitative (amount of ITMOs transferred or used) and qualitative (e.g. origin of the ITMO, transferring country, acquiring country, vintage date) information on Article 6 transfers.
- Tracking progress is different from following the movement of ITMOs, but both are important to achieve the goals of the Paris Agreement.

- Corresponding adjustments refer to the actual adjustments that Parties make to their reported information to ensure the avoidance of double claiming.

How Article 6 interacts with ICAO's CORSIA

In 2016, the International Civil Aviation Organization (ICAO) agreed on an objective of carbon-neutral growth by 2020 for international civil aviation. A carbon market, the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), has been established and will allow airlines to purchase carbon offsets to compensate for the growth in their emissions from international flights above a 2020 baseline. Demand for carbon credits post-2020 is expected to come primarily from airlines, rather than countries, and it is, therefore, crucial that Article 6 rules take into account the role of CORSIA in the international carbon market architecture.

To promote environmental integrity in this context, all rules adopted under Article 6, in particular, those relating to transparency, accounting, and social and Human Rights safeguards, should be applicable to all credits issued under Article 6, regardless of whether they are used and transferred within or outside of the UNFCCC framework. Paragraph 77(d) currently sets a useful basis for this, requiring that corresponding adjustments be applied also for transfers under CORSIA, but more detailed provisions are yet to be agreed.

Failing to agree on Article 6 accounting guidance could have a very negative impact on the environmental integrity of CORSIA, making it virtually impossible to ensure the avoidance of double counting. For this reason, setting up a parallel workstream under the UNFCCC process in order to adopt accounting rules which would cover CORSIA, could be an avenue to follow, should the existing disagreements under the Article 6 negotiations prove to be impossible to resolve.

Looking ahead to SB50

It is vital countries agree on robust implementation guidelines for Article 6 at COP 25. In order to do so, CAN expects a fast settling of process related matters on Article 6 guidelines at SB50 allowing negotiators to take full advantage of their time. Article 6 negotiations should restart on the basis of a set of consolidated texts which reflect the concerns and views of all Parties, particularly on the technical questions of corresponding adjustments, overall mitigation in global emissions, and share of proceeds as well as on ensuring human-rights based safeguards and a grievance mechanism and that Kyoto emissions credits will not count towards NDCs. From there, SB50 needs to significantly advance technical discussions, narrow down textual options and identify key issues for additional ministerial consideration at Pre-COP in October.

Key Conclusions and recommendations

The following table summarizes the key recommendations put forward in this briefing.

In accounting for transfers in the context of countries having adopted various forms of NDC targets, including single-year and multi-year targets, Parties should:

- Parties should consider the consistency of each approach with the principles of representativeness, accuracy, environmental integrity, and practicability, and apply one specific method consistently over time and across Parties for all ITMO transfers

In setting conservative baselines for the Article 6.4 Mechanism and baseline and crediting approaches under Article 6.2, Parties should:

- The Paris Rulebook must require that baseline methodologies be accurate and conservative-- in the sense that conservative assumptions, values and procedures to ensure that GHG emission reductions or removal enhancements are not over-estimated.
- Baselines must be baseline methodologies are accurate and conservative and set at least at or below a legitimate counterfactual scenario which should be no less ambitious than a relevant policy trajectory consistent with achieving the host country's NDC and should accurately reflect existing and planned actions and policies which could impact emission levels, and set up modalities that ensure the baseline development process is not gamed.
- Baselines development and reviews should be transparent, so that the baseline development process can be scrutinized.
- Approved methodologies for baseline and credit approaches under Article 6.2 should be no less environmentally rigorous than those developed under 6.4.

In order to ensure that transfers under CORSIA are well integrated within the global carbon markets architecture, Parties should:

- Extend all Article 6 rules to cover credits transferred and used outside of the UNFCCC process
- Adopt a minimum set of accounting guidelines covering CORSIA transfers in the context of domestic NDCs, in case no wider agreement is reached under Article 6 negotiations by COP25