

Operationalising Article 6 of the Paris Agreement

IETA PRIORITIES FOR COP23

IETA believes that Article 6 of the Paris Agreement is essential to delivering its climate goals by enabling greater ambition over time through voluntary cooperation in market-based approaches.

The most significant outcome of COP22 in Marrakech last year was the commitment to prepare all of the elements needed for the implementation of the Paris Agreement, ready for adoption at COP24 next year in Poland. Commonly called the “Paris Rulebook”, it will contain the necessary guidance, rules and procedures for operationalising the market provisions in Article 6.

If the Article 6 Rulebook is going to be ready for adoption in just over a year’s time, negotiators must intensify their work. They should develop the essential elements of a draft negotiating text at COP23 so that it can be refined over the course of 2018 and adopted at COP24.

IETA continues to offer business perspectives on how the Article 6 Rulebook can be optimally designed, drawing from our members’ experiences in carbon pricing systems around the world. After COP21, we developed a document that sets out our vision for Article 6 of the Paris Agreement: [A Vision for the Market Provisions of the Paris Agreement](#).

Our vision begins with the importance of the long-term durability of the Paris Agreement, where its implementation must incentivise the maximum level of emissions reductions – powered by the use of harmonised carbon pricing systems. This objective can be achieved through cooperative action, guided by the optimal implementation of Article 6.

We then elaborated this vision in the form of proposed implementation guidance for Article 6. This is outlined in our Straw Proposal for Article 6, which translates our vision into negotiating text, de facto representing our proposal for how the market provisions of Article 6 should be operationalised. An updated version of the IETA’s Straw Proposal will be released shortly.

In order to achieve this, our priorities for Article 6 at COP23 are outlined below.

IETA’s priorities for COP23 are based on the principle that the sooner guidance on Article 6 is agreed by the COP, the sooner Parties can begin making relevant decisions and investments in emissions reductions to meet their NDCs.



1. Deliver draft negotiating text for the Article 6 Rulebook

- **COP23 should deliver a draft negotiating text, based on the outcomes from previous meetings, on Parties' submissions and input from the observer community, to advance the work programme to operationalise Article 6.**
- The last negotiating session, SB46 in May 2017, produced three 'informal information notes', one for each of the agenda items under Article 6. Each one contained an extensive list of chapter headings covering the topics that Parties deemed important for the operationalisation of Article 6. The three lists are related to:
 1. Guidance on ITMOs, as referred to in Article 6.2 ([here](#)),
 2. Rules, modalities and procedures for the mechanism established by Article 6.4 ([here](#)),
 3. Work programme under the framework for non-market approaches referred to in Article 6.8 ([here](#)).
- In recent weeks, Parties put forward submissions outlining their views on the operationalisation of Article 6 ([here](#)) that will represent the basis for the upcoming negotiations.
- In light of the tight timeline leading to COP24, **we urge Parties to begin refining the lengthy list of chapter headings for the Article 6 Rulebook into a core set of essential elements.**
- Once Parties find an agreement on the core elements of the Article 6 Rulebook, **it will be crucial to develop draft negotiating text to reflect the various views put forward in Parties' submissions and input from the observer community.** Parties will then need to negotiate the draft text over the course of 2018 and produce a final version for adoption at COP24.
- Our specific priorities for ITMOs, the Emission Mitigation Mechanism and non-market approaches are further elaborated below. For our detailed views on these matters, please refer to our Straw Proposal for Article 6 Implementation Guidance, which will be released shortly.

2. Agree on accounting guidance for Article 6.2, allowing Parties to raise the ambition of their NDCs and meet them at a lower cost

- At COP23, **Parties should develop guidance for the accounting of cooperative approaches under Article 6.2.** This will enable Parties to evaluate how best to use Article 6 to implement programmes to meet the emissions reduction goals in their NDCs.
- The **Article 6 accounting guidance** should incorporate best practice accounting concepts with both transactional and governance elements. This includes honouring the core concept of "double-entry bookkeeping" by reporting imports and exports of ITMOs in an agreed format specifying types of units, countries of origin/destination and vintage year. Clear reporting of imports and exports will **boost public confidence and prompt greater investment in climate mitigation by both public and private actors.**
- By agreeing on Article 6 accounting guidance swiftly, Parties can move towards implementing their NDCs collectively with other countries. **Cooperative approaches, such as linking carbon pricing systems, can help drive costs down and create the economic conditions for greater emissions cuts in the future.** If national systems operate in isolation, they can end up costing more to society – which can discourage ambition. Taking steps to form rules guiding Article 6 swiftly, including on accounting and transparency, can



help Parties go beyond the minimums proposed in their INDCs in the months leading up to COP21 in Paris.

3. Agree on the rules for the Article 6.4 mechanism that delivers emissions reductions at the scale needed to meet the ultimate temperature stabilisation goals of the Paris Agreement

- Article 6.4 establishes a mechanism to contribute to the mitigation of greenhouse gas emissions, or an Emissions Mitigation Mechanism (EMM), and support sustainable development. In our straw proposal, we argue that **the EMM, in conjunction with the accounting of ITMOs, should be designed to promote carbon pricing.**
- With the full implementation of the Paris Agreement, **the EMM could support a universal carbon allowance or credit system for those countries that choose to unitise their contributions.** This could **facilitate trade of emissions units between NDCs** (i.e., simple conversion to ITMOs). The EMM could provide registry facilities for these units, therefore expanding the choices for adopting carbon pricing for many economies. This in turn could channel additional investment into the hosts' economies.
- An open sourcing approach could also allow independent carbon unit accounting standards to gain recognition and acceptance. These could cover a range of mitigation activities including land use promptly, increasing and accelerating finance with the EMM.
- **Parties should create a broad framework for the EMM, whereby many types of mitigation approaches can be executed with assured additionality and avoidance of double counting, rather than a single purpose mechanism such as the CDM under the Kyoto Protocol.**

4. Ensure that accounting and environmental integrity guidance for Articles 6.2 and 6.4 also apply to the work programme on non-market approaches under Article 6.8

- **Non-market based approaches put forward under a Party's NDC should meet the same standards for environmental integrity as those of market-based approaches.** As such, non-market-based approaches should consider use of mitigation infrastructure provided by the UNFCCC or other intergovernmental organisations including:
 - Monitoring and verification protocols for key sectors;
 - Standardised emission performance benchmarks for key sectors;
 - A registry and issuance system to establish ownership of emission reduction units;
 - A standardised reporting template;
 - An accreditation system for independent verifiers; and
 - A co-benefits 'checklist' to ensure approaches address sustainable development.
- Any non-market-based approach that delivers emission reductions should be reported and tracked under the same standard as those of market-based approaches under Article 6. As such, non-market-based approaches should be considered in conjunction with Article 6 standards for reporting, tracking, and certification of emission reductions.

5. Decide on guidance to the CDM Executive Board that offers investors confidence prior to the operation of Article 6 and provides continuity from the Kyoto system to the Paris framework

- Despite current market challenges, the CDM remains an attractive option for carbon compliance in advance of the Paris Agreement's first contribution period. Some sovereign purchasing initiatives continue to invest in CDM projects, and private entities use CDM



credits for both compliance and voluntary offsetting. Some non-Annex 1 countries are considering policies to allow CERs for domestic use, potentially with banking for future use against domestic NDCs. The CDM as well as other internationally recognised carbon offsetting standards may also prove valuable for international airlines, subject to the decisions of the International Civil Aviation Organization on acceptability of units for compliance with CORSIA.

- A bedrock principle of the CDM has been to promote regulatory stability. This is evidenced by the efforts for consistency in the Executive Board’s decisions and in the reliability of host and recipient approvals. Therefore, we urge negotiators to agree on a pathway for the way forward for the CDM, in order to guarantee certainty to both investors and host countries.

6. Enhance the engagement of business in the negotiations

- The UNFCCC has recognised forms of stakeholder engagement by allowing accredited observers to attend many meetings. It has allowed limited engagement through short floor statements and side events. However, as the negotiations have drawn larger crowds, the opportunities for such engagement have necessarily been restricted and, in many respects, the quality of the engagement has consequently declined.
- The business community is key to the UNFCCC process as it will play a central role in tackling climate change. The business community recognises that it must be part of the solution to climate change and it will apply its technology, finance and know-how to the global effort, if the proper incentive structures are established.
- **The UNFCCC’s engagement with business needs to mature in new ways. This is particularly true in areas where business can add strength to the process.**
- Ideally, the UNFCCC should ensure that interested stakeholders enjoy access to all meetings during a COP/SB that they are interested in. We appreciate that when the final stages of negotiations are entered, some closed meetings will be necessary. Nevertheless, there is no reason to restrict access to the earlier stages of discussion, which are normally aimed at sharing information, illuminating positions and seeking common ground.
- **Restrictions or prohibitions on business access would miss a huge opportunity to attract its support. In particular, it would risk the loss of private finance and technology at a time when it is needed most.**
- **To facilitate the engagement of business in the negotiations, we decided to create a space to put forward its views on the implementation and operationalisation of Article 6 of the Paris Agreement. The [IETA Article 6 Submissions Portal](#) is publicly accessible.**

Be sure to visit IETA’s COP23 Business Hub, located in the Bonn Zone. A full list of events taking place at the IETA Business Hub can be found on [IETA’s website](#). Should you have any follow up questions on these priorities, please contact Stefano De Clara, IETA: declara@ieta.org