

Operationalising Article 6 of the Paris Agreement

IETA PRIORITIES FOR COP25

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IETA believes that Article 6 of the Paris Agreement is essential to delivering its ambitious long-term climate goals. Through cooperation, Parties can reach for greater ambition over time by taking advantage of the efficiency and cost savings of market-based approaches.

Recently published research¹, found that cooperation through Article 6 has the potential to reduce the total cost of implementing NDCs significantly, in the order of \$320 billion/year in 2030, or alternatively facilitate removal of more emissions, in the order of 9 GtCO₂/year in 2030, at no additional cost if those cost savings are reinvested into additional mitigation.

Article 6 holds this potential, but implementing details are needed to translate it into real action on the ground. At COP 25, the business community was eagerly waiting for more clarity on Article 6 rules and implementation guidance to emerge as part of the Paris Agreement Rulebook. The lack of an agreement in Katowice was a disappointment. Certainty on the rules, which is still absent, is crucial for enabling countries to assess how to make use of the Article 6 provisions and providing clarity on their interest in engaging in cooperative approaches and in mitigation activities through the new mechanism. Clear rules for Article 6 will also allow the private sector to develop ways to engage with Parties and assist them in achieving their NDCs. Article 6 guidance must therefore be adopted at COP25, in order to avoid delaying this process any further.

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. Following the adoption of the Paris Agreement, we developed a series of documents that set out our vision for Article 6 of the Agreement:

- [*A Vision for the Market Provisions of the Paris Agreement*](#), released in 2016, sets out our high-level vision for Article 6;
- [*The IETA Straw Proposal for Article 6 Implementation Guidance*](#), released and updated over the course of 2017, offers our take on how the principles outlined by our vision piece can be translated into a negotiating text format, de facto representing our proposal for how the market provisions of Article 6 should be operationalised;

¹ Preliminary findings from this research are available here:

https://www.ieta.org/resources/International_WG/Article6/CLPC_A6%20report_no%20crops.pdf



- [IETA views and priorities for Article 6](#), released and updated over the last two years, goes another step further and aligns our vision for Article 6 with the options articulated in the draft negotiating text on the table.

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. The international community can achieve this objective faster, cheaper and more effectively through cooperative action, guided by the Article 6.

IETA’s priorities for COP25 are based on the principle that the sooner clarity on key elements of Article 6 emerges, the sooner Parties can begin making relevant decisions and investments in emissions reductions to meet their NDCs.

1. Operationalise the Paris Agreement Rulebook

- **COP25 should advance the operationalisation process of the Paris Agreement Rulebook started at SB50 in June.**
- **The Paris Agreement Rulebook provides clarity on the rules for the implementation of the Paris Agreement – but finalising the necessary implementing details, currently under development in SBSTA, is crucial.**
- Some elements are particularly important for the private sector, especially the implementing details for:
 - Article 4 on guidance for NDC design and progression, including accounting rules to avoid double counting;
 - Article 9 on modalities for the accounting of financial resources;
 - Article 13 on transparency framework, including reporting guidelines, tracking progress and expert reviews;
 - **Advancing the operationalisation of Para 77(d) of the transparency framework is essential**
 - Article 14 on the modalities for the global stocktake.
- Having clarity on the implementing details for the aforementioned areas will be crucial for the engagement of the private sector in the implementation of the Paris Agreement.

2. Breathing life into Article 6 of the Paris Agreement

- At COP25, it is essential that UNFCCC negotiators finalise and adopt rules for Article 6, after the delay at COP24. This will be crucial to bring to life the Article 6 market provisions and to clearly define the implementation rules for the Paris Agreement. Both business and Parties are eagerly waiting for this process to be completed, to advance the implementation work on the ground.
- The draft negotiating text separates the main issues into elements that form the policy guidance to be adopted at COP25, and technical elements that will be defined by a work programme that will begin after COP25.
- While all elements under discussion will be crucial in giving clarity on the implementation of Article 6, we understand that not all elements can be finalised and adopted in their entirety.



- Our detailed priorities for cooperative approaches involving the use of ITMOs, for the emission mitigation mechanism and for non-market approaches are further elaborated below.
- **For our detailed views on these matters, please refer to [IETA views and priorities for Article 6](#).**

3. Agree on guidance for Article 6.2, which can encourage Parties to raise the ambition of their NDCs and meet them at a lower cost

- At COP25, **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 Rulebook should give clarity on the metric, form and scope of ITMOs,** as these elements are essential to define how ITMOs will be operationalised and to allow enough lead time for preparation ahead of 2020.
- The Rulebook should clearly define the **relation between ITMOs and the originating Party's NDC,** with particular attention to the basis for quantification of ITMOs and to the treatment of sectors outside the NDC coverage. This is of particular relevance in the interim period while all Parties move to economy-wide, fully quantified NDCs.
- **The Rulebook should define the accounting basis and reporting rules for ITMOs,** to give Parties and private sector players clarity on how ITMOs will be accounted for and on what practices will be in place to ensure environmental integrity and avoidance of double counting.
- 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 NDCs are achieved in isolation, they can end up costing more to society – which can discourage ambition. Taking steps to form rules guiding Article 6 swiftly can help Parties go beyond the minimums proposed in their INDCs in the months leading up to COP21 in Paris.

4. 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 and support sustainable development. In our straw proposal, we argue that **the mechanism, in conjunction with the accounting of ITMOs, should be designed to promote carbon pricing.**
- The Rulebook should clearly define the **scope of the mechanism and the scope of activities under the mechanism,** including the **relation between ITMOs and the originating Party's NDC.** These elements are essential to define how the Article 6.4 mechanism will be operationalised and to allow enough lead time for preparation ahead of 2020. This is also of particular relevance in the interim period while all Parties move to economy-wide, fully quantified NDCs.
- The Rulebook should outline rules for the establishment of the **Article 6.4 Supervisory Body** and eligibility requirements for members of such body, focusing on technical competence, professional experience and independence. These rules are extremely important as the Supervisory Body will be responsible for the development of technical aspects related to the functioning of the Article 6.4 mechanism.



- **Parties should create a broad framework for the mechanism, whereby many types of mitigation approaches can be executed.** It should aim to support projects and initiatives that can deliver reductions at a large scale.

5. Give clarity on the transition of the CDM and JI to sustain investment and foster emission reductions

- The Paris Rulebook should give clarity on the **transition of existing mechanism**, as this will be crucial to provide continuity for existing projects and immediate critical mass for the Article 6.4 mechanism. Having clarity on a pathway to transition existing CDM projects, whereby projects meeting relevant requirements for the Article 6.4 mechanism are transitioned under the Article 6 framework, is essential for the private sector.
- 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. 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 CDM projects, in order to guarantee certainty to both investors and host countries.**

6. 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.

7. Enhance the engagement of business in the negotiations

- 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. 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 market confidence, private finance and technology at a time when it is needed most.**

Be sure to visit IETA’s COP25 Business Hub. 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