



# IETA VIEWS AND PRIORITIES FOR ARTICLE 6

OCTOBER 2021

Over the course of the last three years, IETA has developed and updated its [Straw Proposal for the Article 6 Implementation Guidance](#). The Straw Proposal outlines IETA's thinking on Article 6 of the Paris Agreement in a negotiated text format for consideration by Parties.

While the Straw Proposal remains the main repository for IETA's comprehensive vision for Article 6, we feel it could be beneficial to organise our thinking along the lines of the latest Article 6 draft negotiating texts. **This document therefore largely builds on our Straw Proposal and outlines IETA's views and priorities for Article 6 in light of the drafts developed in Madrid and the Informal Options Paper published by the SBSTA Chair in October 2021.**

Our intention is to contribute thinking from the private sector to the formal Article 6 negotiations by providing our insights in the lead up to COP26, with a particular focus on what IETA members expect to be included in the Article 6 guidance.

## IETA Priorities for the Rulebook

Since the Paris Agreement, the business community has been waiting for more clarity on Article 6 rules and implementation guidance to emerge as part of the Paris Rulebook. The lack of an agreement so far has been 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. 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.

While all issues currently under discussion are crucial for the operationalisation of Article 6, some elements are particularly important to give confidence and enough lead time to the business community. With this in mind, we have identified the following priorities.

### Priorities for cooperative approaches (Art. 6.2):

- Article 6 guidance should give clarity on the **metric, form and scope of ITMOs**, as these elements are essential to define how ITMOs will be operationalised.
- The Article 6 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 until all Parties move to economy-wide, fully quantified NDCs.
- The guidance should define **rules for accounting**, building on the basic transparency guidelines in paragraph 77(d) of the Katowice rulebook's transparency framework; this is an essential element to give Parties and non-state actors certainty on how ITMOs will be accounted for and on what practices will be in place to ensure environmental integrity and avoidance of double counting.

### Priorities for the emission mitigation mechanism (Art. 6.4):

- The Article 6 rulebook should clearly define the **scope of the mechanism and the scope of activities under the mechanism**, as these elements are essential to define how it will be operationalised and to allow enough lead time for preparation ahead of the first NDC cycle. This is also of particular relevance in the interim period until all Parties move to economy-wide, fully quantified NDCs.
- The rulebook should outline rules for **the governance of the mechanism**, including 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 mechanism.
- The rulebook should give clarity on the **CDM and JI transition**, as this will be crucial to provide continuity for existing projects and immediate critical mass for the Article 6.4 mechanism.

## Art. 6.2: IETA views and priorities

Article 6.2 and 6.3 of the Paris Agreement describe cooperative approaches including the use of internationally transferred mitigation outcomes (ITMOs). We consider the Article 6.2 provisions as a way to account for transfers of mitigation outcomes across borders, rather than as a tool to generate such outcomes. As such, Article 6.2 provisions should provide a means to balance, without double counting, any carbon-based transaction taking place between NDCs. In the section below, we outline our views and priorities for the operationalisation of the Article 6.2 and 6.3 provisions.

### **Metric of ITMOs**

Metric tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e) should be the universal way to measure reductions leading to ITMOs. The choice of a universal metric for ITMOs ensures accounting consistency among

different approaches. Options to consider other metrics, if deemed necessary by Parties, and to allow for broader applications of ITMOs might be explored as part of a work programme established after the adoption of the rulebook.

### **Form and scope of ITMOs**

The objective of Article 6.2 guidance should be to provide a robust accounting tool to reconcile the use of ITMOs with progress towards the achievement of the NDCs of the Parties involved. Article 6.2 guidance should account for the net transfers of mitigation outcomes between participating Parties over an NDC period.

ITMOs should be defined as the subtraction of a given absolute quantity of greenhouse gas emissions measured in tCO<sub>2</sub>e from the emissions account (defined below) of a given Party and the addition of an equivalent amount to the emissions account of another Party.

The mitigation outcome involved in an ITMO can result from the quantification of an NDC or from different mitigation activities, including but not limited to: emission reductions, emission removals (i.e. natural sinks and CCS/CCUS), emissions avoided, or net absolute national reductions.

### **Accounting method**

Quantification of an NDC requires a Party to establish an emissions account, defined as the quantitative total, in terms of tCO<sub>2</sub>e, of the portion of the national economy covered by its NDC, over the period to which the NDC applies. Corresponding adjustments are made to the emissions accounts of both Parties involved in an ITMO to account for the net inflow or outflow of mitigation outcomes. **This is an essential element to give Parties certainty on how ITMOs will be accounted for.**

### **Application, frequency and reporting of corresponding adjustment**

As outlined above, corresponding adjustments should be applied as additions and subtractions to the emissions account reflecting net transfers of ITMOs over an NDC period.

Parties should make a corresponding adjustment for first transfer and for use towards achievement of NDC. Corresponding adjustments should be made at the time of the first transfer, for the originating Party, and at the time of use, for the using Party. A central registry of ITMO transfers may be adopted to promote the integrity of the system.

ITMOs should be reported as progress in achieving NDCs. Biennial reporting of ITMOs through interim reports should be encouraged. Regular reporting is beneficial to indicate trends of ITMO transactions and to help parties track progress.

### **Relation with NDCs and interim period**

IETA believes that to be on track with the achievement of the long-term goal of the Paris Agreement, all Parties should adopt and update as scheduled economy-wide and fully quantified NDCs as soon as possible. In that scenario, ITMOs will therefore only originate from quantified portions of the NDC.

In many countries, especially LDCs, there are practical challenges to economy-wide NDCs at present, but that should not prevent finance from flowing to encourage reductions in non-NDC sectors. In the interim period, until all Parties move towards economy-wide and fully quantified NDCs, transferring units from

outside of an NDC should therefore be possible. This should take place without compromising environmental integrity or creating a disincentive for progressing to economy-wide targets.

Originating Parties transferring from non-NDC sectors should not be required to correspondingly adjust their NDC during the interim period. However, Parties transferring from non-NDC sectors should commit to include the sector in the subsequent NDC. Parties could be allowed to generate out-of-scope ITMOs for a simple transitional period of five years or for a rolling transitional period, whereby out-of-scope project activities are able to generate credits for one crediting period and are then brought into the scope of the NDC.

### **Participation requirements**

Given the voluntary nature of cooperative approaches, participation requirements should allow for broad participation and flexibility, provided that environmental integrity is guaranteed by accounting, including no double counting. Robust accounting is operationalised via the quantification in terms of tCO<sub>2</sub>e of the portion of the economy covered by the NDC of a given Party, or of the sector or sub-sector of the NDC subject to the ITMO, over the period to which the NDC applies. A Party-led system to manage, track and report the transfer of mitigation outcomes should also be in place.

### **Role of non-Parties and non-NDC uses of ITMOs**

The Paris Agreement promotes action by non-Parties. This includes sub-national jurisdictions, such as states and provinces, sectoral programmes such as CORSIA, and private sector actors. Non-Parties should be encouraged to participate in cooperative approaches and to transfer, acquire and use ITMOs, including for purposes other than towards achievement of an NDC.

An ITMO should not be used towards the achievement of an NDC if it has been used for compliance in CORSIA or for any other mitigation action outside of the UNFCCC.

### **Restrictions and limits**

Cooperative approaches are a way to enable the achievement of higher ambition and to unlock new mitigation opportunities. Imposing restrictions or limitations to the use of ITMOs would undermine the environmental potential of Article 6. In particular, we believe there should be:

- No share of proceeds and no requisite for overall mitigation in global emissions in relation to Article 6.2 activities, as these concepts do not apply to Article 6.2.
- No limit to the shelf life of ITMOs as a general rule. A potential limit to the shelf life could be determined in some cases due to the nature of the mitigation outcome involved.
- No limit to the quantity of ITMOs that can be either bought or sold.
- No limit to the number of transactions and transfers.

### **Treatment of single-year target NDCs**

Any accounting arrangement limiting the use of ITMOs only to those with the same vintage as the NDC target should be discouraged. We support an accounting method that adequately captures progress

made and is representative of the total use of ITMOs by a Party over the NDC period. We discourage methods that only capture a ‘snapshot’ of the use of ITMOs in the target year.

Among the methods proposed by Parties, the ‘averaging’ and ‘trajectory’ methods are two that we deem most representative of the actual emissions trend and progress in NDC achievement. We support the choice of a single method for the treatment of single-year targets. We discourage the creation of a patchwork approach whereby different methods are used by different Parties, potentially even to account for the same cooperative approach.

### **Governance and infrastructure**

The use of ITMOs should be part of the review of the achievement of a Party’s NDC. We do not believe that Article 6.2 requires further governance arrangements. There is no need to enforce stringent infrastructure requirements to Parties participating in an ITMO, as long as those Parties keep track of ITMO transfers and have the capacity to report them adequately.

A central registry of ITMO transfers may be established as Parties deem it necessary, but it should not be a prerequisite for ITMOs to happen.

### **Article 6.4: IETA views and priorities**

IETA takes the view that while Article 6.4 provisions clearly include project-based mechanisms, their scope must be significantly broader, to enable mitigation activities at the scale needed to achieve the goal of the Paris Agreement. Article 6.4 should facilitate the process of quantification of mitigation activities, so that transfers can be executed and the necessary adjustments to the NDCs be made. In the section below, we outline our views and priorities for the operationalisation of the Article 6.4, 6.5, 6.6 and 6.7 provisions.

### **Scope of the mechanism**

The Article 6.4 mechanism should eventually operate within a Party’s economy-wide and fully quantified NDC. In the interim period while all Parties move towards economy-wide and fully quantified NDCs, the Article 6.4 mechanism could be employed in sectors that are outside the NDC coverage, as an incentive and as a means to subsequently include those sectors in future NDCs. In line with what is outlined above for cooperative approaches, for reductions resulting from actions taken in sectors outside the NDC, we would support a limited exemption from corresponding adjustments for 6.4 activities taking place outside of the NDC coverage provided that the sectors involved are included in the next NDC.

We also note the importance of Article 6.5 in providing that no mitigation outcome should be used by more than one Party in achieving their NDCs. If transferred internationally, mitigation outcomes resulting from Article 6.4 activities should therefore be subject to Article 6.2 guidance, as described above, in order to fulfil requirements under paragraph 6.5.

## **Scope of activities**

The Article 6.4 mechanism should generate mitigation units as the result of:

- The quantification of sectoral approaches within a sector or sectors covered by the NDC;
- Emission reductions achieved through a specified activity or set of activities;
- Carbon dioxide sequestration and storage;
- Carbon dioxide equivalent denominated instruments issued by another program meeting the Article 6.4 requirements

A clear definition of the scope of activities is essential to give Parties enough confidence and lead time to plan the use of the mechanism towards their NDCs. Further details, such as the expansion of the scope beyond the activities listed above, might be defined through a work programme or by the supervisory body.

## **Baselines and additionality**

The notion of progressively moving towards economy-wide, quantified NDCs, coupled with the fact that all Parties will have NDCs, implies moving away from the historic practices of establishing additionality, which characterised crediting activities under the Kyoto Protocol.

Applying corresponding adjustments between quantified NDCs ensures the integrity of the global cap. Therefore, it will not be necessary to demand a traditional additionality assessment. This is because the host Party, having made the transfer, must find further mitigation opportunities to meet the stated goal of its NDC. The transferred actions were in addition to the requirements of the NDC, hence additionality can be claimed.

In the interim period until all Parties move towards economy-wide and fully quantified NDCs, the concept of additionality might still characterise some activities under the mechanism, especially in sectors outside of the NDC coverage. In these instances, additionality should consider relevant national policies.

Some Article 6.4 activities may need to rely on baselines to be quantified. Baselines should reflect relevant policies of the host Party's NDC. The baseline should ideally reflect sectoral benchmarks that are dynamic, meaning that is updated upon changes to the underlying assumptions.

Further technical details concerning baselines might be developed under a work programme or by the Article 6.4 Supervisory Body.

## **Governance and Issuance**

A Supervisory Body, with a similar role as under the CDM, should be created to oversee activities under Article 6.4. Mitigation outcomes resulting from activities under Article 6.4 should be issued by the Supervisory Body into a centralised registry maintained by the Secretariat.

Once established, the Supervisory Body should launch a consultation process, involving the private sector as well as other stakeholders, to further detail its operations and the functioning of the

mechanism. There should be an appeals process, whereby project proponents can appeal Supervisory Body decisions if they can demonstrate that mistakes or errors may have occurred.

Existing methodologies should be consolidated and revised by the Supervisory Body to move towards the use of sectoral performance benchmarks rather than individual project assessments.

We believe the Supervisory Body should abide by a Code of Conduct to ensure technical competence, independence and professionalism. It should be kept at a manageable size of no more than 10-12 individuals (with alternates), reflecting geographic balance. The balances of administrative fees left over from the CDM Executive Board should be used solely for the purpose of establishing the new system, including a registry and tracking system that is fit for purpose for serving the Paris Agreement. This work should be expedited by the Supervisory Body, with the aim of opening new project registrations in 2022.

### **Transition of existing mechanisms**

As a general principle, existing projects should be transitioned into the Article 6.4 framework, provided that they are in line with Article 6.4 rules and meet relevant requirements. This is crucial to provide continuity for those projects and build critical mass for the Article 6.4 mechanism.

Projects registered after 2015 (when the Paris Agreement was adopted) should have an ability to be requalified promptly through an expedited process, if they meet the new 6.4 Standards and provide assurance that reductions are not being double counted. For units issued prior to the entry into force of the Paris Agreement, a vintage limitation may be necessary to avoid dilution of mitigation ambitions in the NDCs.

All credits issued from 2020 onwards should be subject to a corresponding adjustment to guarantee that NDC targets are not weakened.

### **Share of proceeds and overall mitigation in global emissions**

To ensure an effective and well-functioning mechanism, it is crucial that the leverage of a share of proceeds (SoP) and the delivery of overall mitigation in global emissions (OMGE) are implemented in a way that ensures that the mechanism is attractive and beneficial to the host and acquiring Parties and to project developers. A high share of proceeds and/or cumbersome requirements for overall mitigation risk making the mechanism unattractive to both Parties and private sector actors.

The implementation of SoP should be done in a manner which does not impede the flow of the transactions, given that a successful implementation of the mechanism could result in very large-scale activities as the energy system transitions towards net-zero emissions. The earlier such an outcome is achieved, the higher the level of transactions that may result. Parties need to define how the share of proceeds will be set and administered. The Article 6.4 Supervisory Body should take steps to implement the share of proceeds.

In line with Article 6.1, the mechanism delivers overall mitigation in global emissions (OMGE) by promoting voluntary cooperation in the NDC implementation and allowing for higher ambition in mitigation. This, coupled with corresponding adjustment, is the major change from the Kyoto Protocol

structure, where host countries did not account for reductions. OMGE will be assured through robust accounting and the application of corresponding adjustments. We do not support additional discounts or “haircuts” for OMGE, which would discourage the use of the mechanism.