Article 6 of the Paris Agreement
Implementation Guidance
An IETA '*Straw Proposal*'

This document outlines IETA's proposed thinking on Article 6 of the Paris Agreement in a negotiated text format that we call a '*straw proposal*' for consideration by Parties to the Paris Agreement. We consider 2017 as a technical year for negotiators to develop concrete ideas and text for a COP decision on the implementation of Article 6, with 2018 being a pivotal year for that decision on Article 6 and other elements of the Paris Agreement. Our intention is to contribute thinking from the private sector to the formal Article 6 negotiations by providing this straw-man proposal in the lead up to COP 24 in 2018.

The reader will note IETA's emphasis on quantification throughout the '*straw proposal*'. Accounting forms the basis of any transfer of mitigation outcomes where integrity is paramount, built around quantifying the various elements of the transfer. In the case of transfers (internationally transferred mitigation outcomes, ITMO) under the Paris Agreement, environmental integrity is sacrosanct, which can only be secured through an adequate level of emissions quantification at each end of the transaction.

Over time, the Paris Agreement will lead to systematic quantification of all sectors of the economy and all carbon emissions, for which the development of credible national inventory accounting that encompasses all sectors is the objective, but that will not be the case in the early years of the Agreement – significant capacity building in many economies is still required to achieve such an outcome. Nevertheless, IETA strongly believes that quantification of Nationally Determined Contributions (NDC) is essential in order that the provisions of Article 6 work effectively.

Quantification of an NDC requires the establishment of an emissions account, defined as the quantitative total, in terms of tonnes of CO2 equivalent emitted, of that portion of the national economy covered by the NDC of a given Party, over the period to which the NDC applies. The emissions accounts of both Parties involved in an ITMO are adjusted by the inflow or outflow of carbon dioxide denominated units. Without quantification of the NDCs involved in an Article 6 transfer, Parties (and the private sector) will not be able to fully apply the double counting provisions of Article 6 nor apply the transparency provisions under Article 13 required for assessment of progress against the goals of the NDC. A transitional step towards complete NDC quantification would see quantification of the sector or sub-sector of the NDC on both sides of the ITMO. Further to this, quantification is not a pretext for a given NDC to be based on a carbon budget or emissions cap, in that the required accounting provisions can be implemented through the national or sector based greenhouse gas inventory.

As an example, a Party may choose to indicate deployment of clean energy, a future emissions trajectory or single year emissions outcome as a component of its NDC submission. While this may remain one basis against which the performance of the NDC is viewed, the accounting provisions for transfers are determined against total emissions over time, ultimately determined through the national greenhouse gas inventory process. Environmental integrity can only be assessed by accounting for all emissions, as this is the driver for warming of the climate system. Transparency in accounting and reporting is also key to ensure environmental integrity.

A further issue is how the three provisions of Article 6 (ITMO in 6.2, the mitigation mechanism in 6.4, the framework for non-market approaches in 6.8) sit together, or should they be viewed as entirely separate approaches?

IETA sees an important link between paragraphs 6.4 and 6.2. While 6.4 defines a mechanism, it is not specific as to what this mechanism might look like or how it might operate. However, the history here lies with the Clean Development Mechanism (CDM), which generated project-based Certified Emission Reduction (CER) units that were then traded across borders for use under the compliance requirements of the Kyoto Protocol in developed countries.

While the new mechanism doesn't have to result in a cross-border transfer, one possible construction for Article 6 is that all cross-border carbon unit denominated transfers fall under paragraph 6.2. It would cover all transfers that are executed between those areas of the respective economies that are covered by NDCs and where a quantified adjustment equivalent to the amount of the transfer is then made to each NDC. This is quite a straightforward process between linked emission trading systems, but less so when these may not be in place.

Additionally, in the interim period occurring while all Parties move towards economy-wide and fully quantified NDCs, the new mechanism could be employed to issue emissions mitigation units (EMUs) from activities taking place in sectors that are outside the NDC coverage, provided such sectors are subsequently included within future NDCs. In this way, Article 6 promotes the expansion of NDC coverage.

A specific purpose for Article 6.4 then emerges; it facilitates the process of quantification of mitigation activities, such that transfers can be executed and the necessary adjustments to the NDCs then made. This allows the necessary funding for the mitigation activity to be directed efficiently and with the required financial rigour and emissions quantification to support the investment.

Finally, there is paragraph 6.8, the framework for non-market approaches. While quantification of emission reduction activities is important in developed or emerging economies, building a developing economy along a different energy and emissions pathway that might otherwise take place is a more holistic activity. This is perhaps where 6.8 can add value, along with cooperative activities such as under the Kigali Amendment of the Montreal Protocol and the various global methane programs. IETA have left a place-holder for 6.8 at this point in time.

The '*straw proposal'* text given below is accompanied by a short rationale of our proposed thinking in the adjacent box. The proposal provides structure and definition with the goal of leading to the required Modalities and Procedures for Article 6.

Proposed Text	***Rationale / Description***
The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement; 1. Recognises the importance of cooperative action under the Paris Agreement and the need to ensure environmental integrity and transparency, and to apply robust accounting guidance to avoid double counting; 2. Decides to adopt the guidelines for the implementation of Article 6 of the Paris Agreement as set out in the Annex below; 3. Decides that the mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development as specified in Article 6.4 of the Paris Agreement shall be implemented through the issuance of Emission Mitigation Units (EMU). 4. Decides to establish the Article 6 Mitigation Assessment Body to oversee the mechanism described above. 5. Urges Parties to make full use of the cooperative opportunities offered through internationally transferred mitigation outcomes, the mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development and the framework for non-market approaches. 6. Urges Parties to indicate how Article 6 will help fulfil their respective NDCs and to transparently report on its use during the Global Stocktake process.	*Decision text to support overall implementation of Article 6. The implementation of Article 6 is structured in three parts;* *1. The ITMO, which also becomes the required approach for any quantifiable exchange of units or use of a carbon delineated mechanism between Parties (Articles 6.2 and 6.3).* *2. The Emissions Mitigation Mechanism (EMM) which is a process for unitizing an activity for climate financing and/or subsequent transfer of a mitigation outcome between parties (Article 6.4).* *3. The non-market framework which is for activities not immediately delineated in carbon units (Article 6.8).*
Annex **A. Definitions**	*Most of the detail is in an annex to the decision text.*
1. An internationally transferred mitigation outcome (ITMO) is the subtraction of a given absolute quantity of greenhouse gas emissions measured in tonnes of carbon dioxide equivalent from the emissions account of a given Party and the addition of an equivalent amount to the emissions account of another Party. 2. An emissions account is defined as the quantitative total, in terms of the absolute quantity of greenhouse gas emissions expressed in tonnes of carbon dioxide equivalent, of that portion of the national economy covered by the NDC of a given Party, or a sector or sectors within said NDC, over the period to which the NDC applies, adjusted by the inflow or outflow of carbon dioxide denominated units. 3. The bilateral transfer of a defined quantity between the Parties or their designated representatives within the respective economies should follow robust accounting practice to ensure environmental integrity and the	*This is the definition of an ITMO. A key requirement for any sort of transfer of mitigation outcomes, be they units from national systems or the units from the use of Article 6.4 is that both NDCs or a clearly defined sector within the NDC must be fully quantified in absolute tonnes over the period they apply to (e.g. 2020-2025). This is undertaken via the establishment of an emissions account, as defined under point 2. Quantification can be on the basis of the national greenhouse gas inventory.* *The transfer may be in carbon denominated instruments (e.g. allowances in linked cap-and-*

avoidance of double counting. Said bilateral transfer should be; a. Either denominated in instruments representing tonnes of carbon dioxide equivalent units within the emissions account, using the most recent IPCC guidance on greenhouse gas equivalencies; i. Either of a type determined bilaterally between the respective Parties. ii. Or as made available by the Mitigation Assessment Body of the Paris Agreement. b. Or as a numerical adjustment to the emissions account of each party.	*trade systems) or as a balance sheet adjustment.* *Without quantification of the two NDCs or sectors in emissions accounts, then the double counting provisions of Article 6 cannot be applied.*
4. Sustainable development in the context of an internationally transferred mitigation outcome is the bilateral recognition that both the host Party and the receiving Party are actively striving towards the goals of the Paris Agreement, by implementation of their respective nationally determined contributions, to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century. 5. At the request of Parties, the Mitigation Assessment Body of the Paris Agreement shall issue guidance on indicators of sustainable development for voluntary application by Parties involved in transfers of units approved under the 6.4 mechanism.	*A macro definition of sustainable development is appropriate for an ITMO. Attempting to define this at a local level when the transfer may be between two cap-and-trade systems is simply not possible. This provision also offers a macro check that both parties are engaged in similarly ambitious NDCs.*
6. An Emissions Mitigation Unit (EMU) is an instrument measured as a tonne of carbon dioxide equivalent and made available to a Party through a voluntary submission to the Mitigation Assessment Body established under the Paris Agreement. The Mitigation Assessment Body shall issue EMUs into a Unified Paris Registry maintained by the Secretariat as the realized assessment of either; a. The forward quantification of emissions projected within a sector or sectors covered by the NDC; b. Emission reductions achieved through a specified activity or set of activities operating within the NDC of the Party and contributing to sustainable development; c. Carbon dioxide sequestration and permanent storage within the national borders of the Party. d. Carbon dioxide equivalent denominated instrument issued by another program of which the program and applicable protocols have	*The mechanism to contribute to mitigation is essentially a process to turn activities into units or reductions from a project into credits. This then facilitates the use of the ITMO for cooperation between Parties. Parties can use this down to small project level or at national level.* *Article 6.4 should also operate as an open framework with the ability of recognising emissions mitigation activities carried out under programs and protocols that meet EMUs standards.* *Importantly, given the progression towards NZE (balance between sinks and sources) over the course of the Paris Agreement, sink units will*

	been approved by the Mitigation Assessment Body e. Or as the recognition, conditional to the Mitigation Assessment Body's approval, of the fulfilment of one of the activities outlined in points a, b, c, d, carried out under emissions mitigation programs and protocols that meet EMUs standards. EMU shall be issued on the basis of measured and independently verified performance data to confirm the quantification of the NDC, the achievement of the emissions mitigation or sequestration and storage, following protocols approved by the Mitigation Assessment Body. In the interim period occurring while all Parties move towards economy-wide and fully quantified NDCs, EMUs might be issued from activities taking place in sectors that are outside the NDC coverage, provided that strong baselines are in place to ensure environmental integrity and under the condition that sectors where crediting takes place are included in the Party's NDC, and counted for in the emissions account, as part of the subsequent NDC review cycle. When engaging in international transfers of EMUs, Parties are encouraged to follow accounting guidance to make their respective corresponding adjustments associated with said transfers as provided above in paragraph 1 of this Annex.	*become increasingly important and need to be recognised from the outset.* *Additionally, in the interim period occurring while all Parties move towards economy-wide and fully quantified NDCs, the new mechanism can operate in sectors that are outside the NDC coverage, with the view of promoting the expansion of NDCs coverage and the inclusion of those sectors in the emissions account.*
7.	The Mitigation Assessment Body is a technical group established to advise on the activities of the Parties under Article 6.2 and oversee the activities of the Parties under Article 6.4 of the Paris Agreement and will; a. If so requested, advise on the quantitative definition of the nationally determined contribution of a Party, with the objective of defining an emissions account. b. If so requested, provide an assessment of the quantitative definition of the nationally determined contribution of a Party, to determine the emissions account of the Party. c. Oversee the issuance of Emissions Mitigation Units. d. Approve emissions mitigation programs and protocols under which carbon dioxide denominated instruments may be converted to EMUs	*Article 6 will require some form of oversight, but this should be more in a technical capacity than the policy capacity that the EB of the CDM had.* *Parties will only need to demonstrate to this Body that they have accounted for the use of cooperative action, not seek permission. However, issuance of units under 6.4 will be at the discretion of this body.*
8.	The framework for non-market approaches is for facilitation of cooperative action between Parties	*The is a place-holder for the non-market framework. For*

involving the provision of climate finance, the sharing of technical information and procedures and the implementation of programs to change expected emission pathways.	*example, cooperation on methane reductions or HFCs doesn't require the complete quantification of the NDC.*
B. Role of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement 1. The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) shall: a. Provide guidance as to the use of internationally transferred mitigation outcomes. b. Ensure that bilateral use of internationally transferred mitigation outcomes is transparently reported with a standardized methodology developed under Article 13 of the Paris Agreement and compatible with IPCC Guidelines for National Inventories.	
C. Participation requirements 1. The use of internationally transferred mitigation outcomes is a voluntary activity conducted on a bilateral basis between two Parties. 2. Each participating Party in an internationally transferred mitigation outcome has in place a nationally determined system for the estimation of anthropogenic greenhouse gas emissions by sources and removals by sinks which shall follow the IPCC Guidelines for National Inventories. 3. Each participating Party in an internationally transferred mitigation outcome involving Emission Mitigation Units will adhere to the processes set out in the Mitigation Assessment Body on an enhanced mitigation outcome tracking system.	

Annex I - Article 6 of the Paris Agreement

1. Parties recognize that some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contributions to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity.
2. Parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred mitigation outcomes towards nationally determined contributions, promote sustainable development and ensure environmental integrity and transparency, including in governance, and shall apply robust accounting to ensure, inter alia, the avoidance of double counting, consistent with guidance adopted by the Conference of the Parties serving as the meeting of the Parties to this Agreement.
3. The use of internationally transferred mitigation outcomes to achieve nationally determined contributions under this Agreement shall be voluntary and authorized by participating Parties.
4. A mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development is hereby established under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to this Agreement for use by Parties on a voluntary basis. It shall be supervised by a body designated by the Conference of the Parties serving as the meeting of the Parties to this Agreement, and shall aim:
    a) To promote the mitigation of greenhouse gas emissions while fostering sustainable development;
    b) To incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party;
    c) To contribute to the reduction of emission levels in the host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfil its nationally determined contribution; and
    d) To deliver an overall mitigation in global emissions.
5. Emission reductions resulting from the mechanism referred to in paragraph 4 of this Article shall not be used to demonstrate achievement of the host Party's nationally determined contribution if used by another Party to demonstrate achievement of its nationally determined contribution.
6. The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement shall ensure that a share of the proceeds from activities under the mechanism referred to in paragraph 4 of this Article is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.
7. The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement shall adopt rules, modalities and procedures for the mechanism referred to in paragraph 4 of this Article at its first session.
8. Parties recognize the importance of integrated, holistic and balanced non-market approaches being available to Parties to assist in the implementation of their nationally determined contributions, in the context of sustainable development and poverty eradication, in a coordinated and effective manner, including through, inter alia, mitigation,

adaptation, finance, technology transfer and capacity-building, as appropriate. These approaches shall aim to:

a) Promote mitigation and adaptation ambition;
b) Enhance public and private participation in the implementation of nationally determined contributions; and
c) Enable opportunities for coordination across instruments and relevant institutional arrangements.

9. A framework for non-market approaches to sustainable development is hereby defined to promote the non-market approaches referred to in paragraph 8 of this Article.