

Key design options for Article 6: IETA Priorities

April 2018

Over the course of last year, IETA has developed and updated its [Straw Proposal for the Article 6 Implementation Guidance](#). The Straw Proposal outlines IETA's proposed 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 felt it could be beneficial to organise our thinking along the lines of the key areas identified in the SBSTA Chair's informal notes, released in March 2018. This documents therefore largely builds on our Straw Proposal and outlines IETA's priorities for the key design options listed in the informal notes.

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 COP 24 in 2018.

Article 6.2

Article 6.2 of the Paris Agreement describes 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 between NDCs that might take place.

Metric of ITMOs:

- Metric tonnes of carbon dioxide equivalents (tCO₂e) should be the universal metric to measure ITMOs. This ensures accounting consistency among different approaches.

Form and scope of ITMOs:

- The objective of Article 6.2 guidance should be to provide an accounting tool to reconcile the use of ITMOs with progress towards the achievement of the NDCs of the Parties involved. Therefore, Article 6.2 guidance should account for the net transfers of mitigation outcomes between participating Parties over an NDC period.
- We consider ITMOs as the subtraction of a given absolute quantity of greenhouse gas emissions measured in tCO₂e 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(s) 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.



Participation requirements:

- Given the voluntary nature of cooperative approaches, the only participation requirements should be that environmental integrity is ensured and robust accounting, including no double counting, is applied. This is guaranteed by the quantification in terms of tCO₂e of the portion of the national 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 and track the transfer of mitigation outcomes should also be in place.

Origination of ITMOs:

- As a general rule, ITMOs should only originate from quantified portions of the NDC.
- In the interim period while all Parties move towards economy-wide and fully quantified NDCs, transferring units from outside of an NDC could be possible without compromising environmental integrity or creating a disincentive for progressing to economy-wide targets provided that, at a minimum, the originating Party demonstrates robust baselines in the non-NDC sector, and guarantees transparency by reporting the transfer in its inventory.
- At a minimum, Parties should not create a disincentive for expanding an NDC across all sectors. Parties transferring from non-NDC sectors should be encouraged to include those sectors in their subsequent NDC.

Accounting method:

- Quantification of an NDC requires the establishment, by a Party, 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 CO₂ denominated units.

Role of non-Parties and non-NDC uses of ITMOs:

- Non-Parties, where subject to authorisation by a participating Party, should be entitled to participate in cooperative approaches and to transfer, acquire and use ITMOs, including for purposes other than towards achievement of an NDC.
- An ITMO cannot be used towards the achievement of an NDC if it has been used towards any international mitigation action outside of the UNFCCC.

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.
- ITMOs should be reported as progress in achieving NDC. 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.



Restrictions:

- We believe there should be:
 - No share of proceeds in relation to Article 6.2, as the concept is not applicable to a transfer of mitigation outcomes between Parties.
 - No limit to shelf life of ITMOs as a general rule. A potential limit to the shelf life could be determined, in some cases, by the nature of the mitigation outcomes involved.
 - No limit to quantity of ITMOs for either buyer or seller.
 - No limit to number of transactions/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 would encourage and promote 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.

Governance and infrastructure:

- ITMOs should only be reviewed in the context 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 to an ITMO, as long as those Parties keep track of ITMO transfers and have the capacity to report them adequately.
- Ideally, a centralised tracking system should be established in time, as Parties deem it necessary, but it should not be a prerequisite for ITMOs to happen.

Use of pre-2020 ITMOs:

- Parties should be allowed to use pre-2020 units within ITMOs, provided that Article 6.2 guidance is applied.

Article 6.4

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, such that transfers can be executed and the necessary adjustments to the NDCs then made.

Scope of the mechanism:

- The Article 6.4 mechanism should operate within a Party's 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 to subsequently include those sectors in future NDCs.



- If transferred internationally, mitigation outcomes resulting from Article 6.4 activities should be subject to guidance developed under Article 6.2.

Scope of activities:

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

- The quantification of emissions projected 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 of which the program and applicable protocols have been approved by the Supervisory Body

Baselines, Additionality and Overall mitigation

- 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.
- Additionality and overall mitigation can be ensured by following the Paris Agreement's accounting requirements and by making sure that Article 6.2 guidance and corresponding adjustments are applied when Article 6.4 units are transferred internationally.
- Applying corresponding adjustments implies the transferred quantity is additional. This is because the host Party, having made the transfer, must find further mitigation opportunities to meet the stated goal of its NDC. This in turn means that the transferred actions were in addition to the requirements of the NDC, hence additionality can be claimed.
- Some Article 6.4 activities may need to rely on baselines to be quantified. In this case, baselines should reflect relevant policies of the host Party's NDC. The baseline should ideally be dynamic, meaning that is updated upon changes to the underlying assumptions.

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.

Transitional issue and relation with existing mechanisms

- Existing projects and credits 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 could provide continuity for those projects, and immediate critical mass for the Article 6.4 mechanism.

Share of proceeds

- Some Article 6.4 activities might require a share of proceeds to be administered. When needed, the share of proceeds should be kept at a minimal level.

**Eligibility requirements:**

- There is no need to enforce stringent eligibility requirements to implement Article 6.4 activities, as long as the implementing Party follows the relevant Article 6.4 rules and has the capacity to track and report activities adequately.

Appeals process

- There should be the possibility of having an appeal process whereby stakeholders and project proponents can appeal to CMA or national authorities

Pre-2020 action:

- Parties should be allowed to generate Article 6.4 units pre-2020, provided that activities are consistent with Article 6.4 rules