



## IETA Views and Priorities for Article 6

June 2019

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 Katowice.

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 COP25 in 2019, with a particular focus on what IETA members expect to be included in the Article 6 guidance.

### IETA Priorities for the Rulebook

At COP 24, 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.

We anticipate that some elements will be agreed at COP 25, while others, especially those requiring further technical elaboration, will need to be further detailed in a work programme established after the adoption of the Article 6 guidance. 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:**

- 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 and to allow enough lead time for preparation ahead of the first NDC cycle.
- The Article 6 Ruleset 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 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 private sector players 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:**

- The Article 6 ruleset 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 while 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.



## Cooperative approaches: IETA views and priorities

Article 6.2 and 6.3 of the Paris Agreement describes 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 between NDCs that might take place. 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 equivalents (tCO<sub>2</sub>e) should be the universal metric to measure ITMOs. The choice of a universal metric for ITMOs ensures accounting consistency among different approaches.

COP25 priority: The ruleset should clearly indicate that tCO<sub>2</sub>e is the metric to quantify and account for ITMOs. 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 the using Party and the addition of an equivalent amount to the emissions account of the issuing 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.

COP25 priority: The ruleset should clearly define the scope and form of ITMOs, in the terms described above, and ensure that robust accounting practices are in place. This will be essential to give Parties enough confidence and lead time to plan for the use of ITMOs towards their NDCs. Further details, such as the expansion of the scope of ITMOs beyond those listed above, might be defined through a work programme established after the adoption of the ruleset.

### **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 CO<sub>2</sub> 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. 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.



COP25 priority: The ruleset needs to define the accounting method for ITMOs. This is an essential element to give Parties certainty on how ITMOs will be accounted for. Technical elements concerning the implementation of the accounting method might be defined through a work programme established after the adoption of the rules.

#### **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.

COP25 priority: The ruleset should define rules concerning the application, frequency and reporting of corresponding adjustments. Having clear rules is an essential element to give Parties and private sector players confidence that robust accounting practices underpin ITMOs. Technical elements concerning the implementation of these rules might be defined through a work programme established after the adoption of the Rulebook.

#### **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 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 while 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 provided that, at a minimum, the originating Party demonstrates robust baselines in the non-NDC sector, and guarantees transparency by reporting the transfer.

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, and no later than 2030. This structure avoids creating a disincentive for Parties to expand their NDCs across all sectors. The ITMO transfers would still be counted, thus providing important data to enable the expansion of the NDC. This approach would gradually meet the requirement in Article 6.5 of ensuring that no mitigation outcome can be used by more than one Party.

COP25 priority: The ruleset should clearly address the relation between ITMOs, the originating NDC and the basis for its quantification. This is crucial to reduce uncertainty in the interim period, for both Parties



and private sector players, around the treatment of mitigation activities taking place inside and outside the scope of an NDC.

### **Participation requirements**

Given the voluntary nature of cooperative approaches, participation requirement should ensure environmental integrity by applying robust 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.

COP25 priority: The ruleset should emphasise the voluntary and bottom-up nature of Cooperative Approaches and therefore define participation requirements in a manner that allows broad participation while ensuring environmental integrity, as described above.

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

The Paris Agreement should promote action by non-Parties. This includes subnational jurisdiction, 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 shouldn't be used towards the achievement of an NDC if it has been used for compliance in CORSIA or in compliance programmes outside of the UNFCCC.

COP25 priority: The ruleset should affirm the role of non-Parties, with the goal of ensuring an adequate engagement of subnational entities and private sector players. It should also provide accounting guidance for compliance-driven non-NDC uses of ITMOs, such as CORSIA, with the aim of ensuring the avoidance of double counting.

### **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 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 and transfers.

COP25 priority: The ruleset should clearly indicate that there will be no restriction to the use of ITMOs.

### **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.

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 would welcome the choice of a single method for the treatment of single-year targets. We would discourage the creation of a patchwork approach whereby different methods are used by different Parties, potentially even to account for the same cooperative approach.

COP25 priority: The ruleset should clearly define the treatment of single year targets, as this will reflect the level as well as the timing of ITMO demand by Parties. Technical elements concerning the operationalisation of the treatment of single year targets can be defined through a work programme.

### **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 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.

COP25 priority: The ruleset should emphasise the voluntary and bottom-up nature of Cooperative Approaches. Technical elements concerning the implementation of the infrastructure that might be required can be defined through a work programme established after the adoption of the Rulebook.

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

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.



In line with what is outlined above for cooperative approaches, for reductions resulting from actions taken in sectors outside the NDC, we would urge Parties to amend their NDC to add the sectors to the NDC so that they can be properly accounted with corresponding adjustments. However, recognizing that many countries will not be ready to amend their first NDCs, in the interim period we would support a limited exemption from corresponding adjustments for 6.4 activities taking place outside of the NDC coverage for the first NDC period. The sectors involved must be included in the next NDC.

COP25 priority: The ruleset should clearly address the scope of the mechanism and the basis for its quantification. This is crucial to reduce uncertainty in the interim period, for both Parties and private sector players, around the treatment of mitigation activities taking place inside and outside the scope of an NDC.

### **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

COP25 priority: The ruleset should clearly define the scope of activities for Article 6.4, in the terms described above. This will be 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 scopes 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. This in turn means that the transferred actions were in addition to the requirements of the NDC, hence additionality can be claimed.

In the interim period while 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.



COP25 priority: The ruleset should indicate which approach will be followed to set baselines for the operations of the Article 6.4 mechanism. 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 KP era 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 2021.

COP25 priority: At COP25 Parties should adopt rules to establish the Article 6.4 Supervisory Body. The Article 6 ruleset should outline rules for functioning of the Supervisory Body and eligibility requirements for members of such body, focusing on technical competence, professional experience and independence.

The ruleset should also establish an appeals process. The Article 6.4 Supervisory Body should define details for how the appeals process will function. The Supervisory Body, in consultation with relevant stakeholders, should be tasked to develop technical aspects related to the functioning of the Article 6.4 mechanism. Technical panels will also be needed to carry out work on technical issues.

### **Transition of existing mechanisms**

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.

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 way forward for the CDM, whereby existing projects that meet relevant requirements can qualify to issue 6.4 units in the post-2020 period, in order to guarantee certainty to both investors and host countries.

Registered projects should have an ability to be requalified promptly, if they meet the new 6.4 Standards and provide assurance that reductions are not being double counted. This means that the Supervisory Body could move quickly to revise and consolidate existing methodologies to speed up the effort.

Operating KP projects that have crediting periods that extend beyond 2020 should be allowed to complete their current crediting period. They should be available for meeting NDCs, so long as post-2020 vintages are subject to a corresponding adjustment, to guarantee that NDC targets are not weakened.

COP25 priority: The ruleset 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.

#### **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 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 transaction 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. The Paris Agreement has a different structure. It must now assure OMGE through robust accounting and the application of corresponding adjustments. We do not support additional discounts or “haircuts” for OMGE, which would discourage use of the mechanism. The overall mitigation delivery by the mechanism should therefore not be operationalised in a way that imposes unnecessary burden on the mechanism.