



International Emissions Trading Association (IETA)  
Article 6 Portal

8 August 2017

### **Background to this submission**

The Global CCS Institute (Institute) is an international fact-based advocacy and knowledge sharing organisation, which has as its mission to accelerate the deployment of carbon capture and storage (CCS) globally in order to help to tackle climate change and provide energy security. The Institute is an accredited observer to the United Nations Framework Convention on Climate Change (UNFCCC), the Intergovernmental Panel on Climate Change (IPCC), the Green Climate Fund (GCF); and member to the UNFCCC's Climate Technology Centre and Network (CTCN) and the UN Global Compact (UNGC).

At the 46<sup>th</sup> intersessional meeting of the subsidiary bodies in May 2017 (SB46), the SBSTA invited Parties to submit by 2 October 2017 their views on the issue of guidance for Article 6 paragraph's 2 and 4 of the Paris Agreement<sup>1</sup> (consistent with decision 1/CP.21). Article 6 broadly relates to the use of market based (i.e. UNFCCC and non-UNFCCC carbon markets) and non-market approaches by Parties to the Paris Agreement; as well as establishes a new mitigation mechanism for the purposes of supporting sustainable development outcomes. Article 6 strongly supports the importance placed on carbon markets by the UNFCCC as currently operationalised under the Kyoto Protocol.

The Institute considers the SBSTA decision at SB46 has missed a very timely opportunity to solicit the views of non-state actors on this critical piece of machinery of the Paris Agreement. It applauds IETA for their initiative in creating a public space where non-state actors can voluntarily put forward their views on the implementation and operationalisation of Article 6 via a portal located on their website. The Institute trusts that government policy-makers and Party delegation officials alike will invest time to review such contributions.

### **The policy challenge**

It is clear that the world will invest trillions of dollars in energy over the coming decade. Without comprehensive and long-term policy support such as the use of market based mechanisms, business-as-usual investments will likely encourage an energy infrastructure that could lock in significant carbon emissions.

Appropriately designed and well implemented market mechanisms can encourage investments in clean energy solutions such as CCS, as well as help rapidly reduce the amount of emissions being released to atmosphere. Two key beneficial outcomes for the clean energy technology agenda can often be associated with the use of market based approaches, including:

- A cost-effective way to raise the scale of funding needed for clean energy investments and sustainable development outcomes; and
- An efficient allocation of funds in highly promising and prospective clean energy technology assets.

The corollary is that poorly designed markets can also lead to an inefficient allocation of resources as well as a loss of public trust in such approaches to facilitating least-cost mitigation outcomes. This is why all market mechanisms to be supported by and/or established under the Paris Agreement need to be guided by and implemented with complementary and compatible provisions to ensure their fungibility.

### **Broad recognition of CCS mitigation is essential**

The Institute considers essential for any future recognition of allowable emission reduction units (the Paris Agreement refers to these as internationally transferred mitigation outcomes or ITMOs) the acceptance of CCS mitigation as an eligible emissions offsetting and/or CO<sub>2</sub>-e avoidance activity; not only for the attainment of the Paris Agreement's climate goals of halting global warming to well below 2 degrees Celsius on pre-industrial times, but for carbon markets to function well regardless of whether they:

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<sup>1</sup> FCCC/SBSTA/2017/4, para's. 105, 114 and 123

- Fall under UNFCCC compliance arrangements or not;
- Currently exist or are to be established;
- Implemented unilaterally or multilaterally linked; and/or
- Aim to promote mitigation co-benefits including sustainable development outcomes.

### **Need to make schemes internationally fungible – the nature of ITMOs**

The Institute acknowledges the right of governments to choose whether or not to proceed with establishing their own market based schemes; and as such, it is also their right to design and implement those schemes in a manner that is either consistent with (or not) the guidance of and/or modalities and procedures (M&P) established under the UNFCCC. While the relationship between the UNFCCC's rules and domestic laws can often be subject to legal interpretation, it is in the interest of all Parties concerned to establish clear and lucid rules under the UNFCCC in a manner that:

- Can complement and inform sovereign decision making in regards to domestic legislation and regulation; and
- Does not impose unduly prescriptive requirements.

The Paris Agreement strongly supports this above approach by stating that the transparency framework “shall” (a term often seen to convey conditionality) be implemented in a “facilitative, non-intrusive, non-punitive manner, and respectful of national sovereignty...”.

Article 6 clearly provides for a mitigation platform that recognises the sovereign right of countries to engage in the international arbitrage of ITMOs, even though an ITMO may have been generated outside of any authority of the UNFCCC. Domestic schemes that might generate ITMOs could theoretically be market based (noting that Article 6 does not explicitly refer to ‘markets’) and/or non-market approaches (NMA).

A subset of ITMOs could potentially be drawn from existing carbon markets, including both non-UNFCCC schemes such as the European Union’s Emissions Trading Scheme (i.e. EU Allowance Unit or EUA) and/or UNFCCC carbon markets such as REDD+ and/or the Kyoto Protocol’s<sup>2</sup>:

- International Emissions Trading assigned amount units (AAUs);
- CDM’s certified emission reductions (CERs);
- JI’s emission reduction units (ERUs); and/or
- Land use, land-use change and forestry (LULUCF) removal units (RMUs).

It is essential that Parties who devolve the generation of emission reduction units to their private sector define how such assets must be generated in domestic legal arrangements if they are to be subsequently considered an ITMO. It remains the responsibility of national governments to comply with the UNFCCC’s rules and not the private sector, and so it is the government that would have to make good, if required to, for any shortfall due to ITMOs being treated as ineligible. A rational expectation might be that the M&P’s adopted for Article 6 could be adapted and applied (either in part or in full) to domestic settings to ensure or enhance consistency; this could serve to improve market confidence in, and optimise the market value of such assets.

There has been much work done since the Cancun decision (FCCC/CP/2010/7/Add.1; Section III paragraph 80) in 2010 to establish a New Market Mechanism (NMM) under the UNFCCC; and a framework for various approaches (decision 1/CP.13, paragraph 1.b.v) which was first adopted in the Bali Action Plan in 2007 and formalised in Cancun (FCCC/CP/2010/7/Add.1; Section III). This body of work can provide much instruction on the many common issues under Article 6.

It is evident that the Paris Agreement embraces much of this legacy work already in regards to indicating how an ITMO might be defined in the context of various approaches; Article 6 paragraphs 6.2 and 6.3 states that ITMOs “shall”:

- Promote sustainable development,
- Ensure environmental integrity,
- Ensure transparency, including in governance, and
- Apply robust accounting.

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<sup>2</sup> Depending on the future ratification status of its second commitment period and its future role in a post-2020 period (including any treatment adopted for carry-over units).

To provide for the four principles above, the following suggestions may help guide the implementation of Article 6, including a need for:

- The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) governance (or other) role under Article 6 should agree to a set of M&Ps that all Parties can adopt and/or adapt to guide their own localised circumstance when verifying the integrity of ITMOs for the purposes of compliance with in the UNFCCC;
- ITMOs used for UNFCCC compliance should be based on the extent to which they can be verified as representing real emissions reductions and/or avoidance; because cost-effective mitigation is paramount to the objective of Article 6, all environmentally-sound mitigation actions should be eligible as being able to generate an ITMO and there can be no justification for the UNFCCC establishing a list of mitigation technology types to be excluded based on value preferences;
- The extent to which an ITMO 'promotes', 'supports' and/or 'fosters' sustainable development should remain the prerogative of the respective Parties engaging in the arbitrage of ITMOs and not rest within the UNFCCC; but could be guided in a complementary manner to the intergovernmental goals established under the United Nations '2030 Agenda for Sustainable Development'; especially goal #7 of 'affordable and clean energy';
- To every extent possible, the sufficiency of applying existing relevant M&Ps should be examined and tested; including the acceptance and eligibility of CCS mitigation under all existing and future UNFCCC market-based mechanism arrangements due to its prevailing eligibility within the CDM and the GCF;
- Avoiding overly prescriptive M&Ps given the broad range of innovative design options available to domestic settings, and where possible, promote 'consistency' rather than 'compliance' with overly prescriptive UNFCCC arrangements;
- Acknowledging the large volume of existing UNFCCC decisions and analysis since the Cancun decision to establish a new market mechanism and a framework for various approaches (FVA), as well as non-UNFCCC expertise and published peer reviewed reports that could be drawn upon in the development of the M&Ps to ensure efficient outcomes and environmental integrity; and
- Noting that many Article 6 relevant issues can be addressed in full today; and/or managed through either a policy oriented approach (such as best practice guidelines contained in the M&Ps) or within national legislative or regulatory arrangements.

CCS mitigation is already institutionally recognised within the UNFCCC as an environmentally sound and sustainable development friendly technology. It is explicitly recognised in the Kyoto Protocol (Article 2.a.iv), and is eligible in the CDM and the GCF. Ensuring its eligibility in all future carbon market arrangements will help empower Parties dependent on fossil-based economies to meet their current emissions reduction pledges as well as provide for enhanced mitigation ambitions in an economically and socially responsible manner.

### **General view on Article 6 modalities and procedures**

The Institute advocates that the M&Ps for Article 6 be developed in such a way that seeks to balance the assurances needing to be provided by Parties to the UNFCCC for reporting purposes while avoiding overly burdensome requirements that ultimately could be imposed on and serve to hamper private sector participation in the generation of ITMOs. The private sector must be encouraged to continuously innovate both technologies and processes, and be allowed to commercially engage in a scale of activity that can drive the mitigation outcomes required under the Paris Agreement. Design elements of M&Ps that simply serve to create barriers to private sector engagement, such as the outstanding issue of establishing a General Reserve for CCS projects under the CDM for example, must be avoided at all times.

### **Contact**

The Institute would be pleased to engage in any subsequent discussion or submission process organised by the UNFCCC secretariat, Parties and IETA to further discuss these issues. For more information, please contact Mr. Mark Bonner, Program Lead – International Climate Change ([mark.bonner@globalccsinstitute.com](mailto:mark.bonner@globalccsinstitute.com)).