

Article 6.4 Emissions Mitigation Mechanism: Position Paper by First Climate

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Vision for the Emissions Mitigation Mechanism (EMM)

The Article 6.4 EMM should allow for emissions mitigation at scale, by facilitating participation by:

- Parties aiming to engage in mitigation activities; and
- Public and private sector entities authorized by Parties to use the EMM as an instrument for financing of mitigation outcomes and for compliance with mitigation targets.

EMM and Article 6.2: Commonalities and Differentiation

Operation of the EMM should be based on comprehensive rules, modalities and procedures (RMP) to ensure the environmental integrity of transferred mitigation outcomes, including additionality. Without limitation, it should allow Parties lacking complete inventory and registry infrastructures to generate certified mitigation outcomes, also on a unilateral basis.

In contrast, Article 6.2 provides a framework to effect and account for the transfer of ITMOs, where quantification and additionality assessment is left to the participating Parties. The RMP for Article 6.2 can build on the experience gained under Track-1 JI and International Emissions Trading pursuant to Articles 6 and 17 of the Kyoto Protocol, whereas the EMM can build on experience gained with the CDM and Track-2 JI.

Scope of the EMM

The EMM should be open to accommodate activities of all scales, from individual projects to programmes and sector-wide initiatives. Methodological work for sectoral activities and “policy crediting” should take into account experience gained through similar activities under Article 6.2.

Transitioning CDM Activities and Rules, Modalities and Procedures

To safeguard the reputation of market mechanisms under the Convention, it is essential to facilitate a smooth transition of registered CDM activities into the EMM, subject to them meeting applicable criteria. In addition, existing CDM modalities, procedures, rules, methodologies and tools should be integrated in the EMM to facilitate its prompt start.

Additionality

An EMM activity is additional if it would not be implemented in the absence of the incentives created by the EMM. Activities need to demonstrate additionality with respect to both, economic business-as-usual and host country policies adopted for NDC achievement.

Additionality needs to be ensured for the entire crediting period of an activity. Additionality tests should balance the twin objectives of (i) eliminating free riders while (ii) maintaining economic efficiency of the EMM by minimizing transaction costs.

Detailed guidance for additionality tests should take into account that (i) EMM activities will usually operate beyond the end of their crediting periods, thereby contributing to the achievement of host country NDCs; and (ii) both host and acquiring Parties have an intrinsic motivation to ensure that EMM activities are additional to the host country NDC and associated policies.

Conservativeness: Baselines vs. Crediting Period

As in the CDM, baselines should reflect the scenario most likely to occur in the absence of an EMM activity. Conservativeness of emission reduction calculations should be ensured by limiting crediting periods, rather than through arbitrary discounts applied to baseline emissions or best available technology benchmarks. This will help to maximize the net present value of mitigation outcomes, associated incentives for owners of EMM activities, and ultimately the scale of the EMM.

Overall Mitigation

In line with clause d) of Article 6.4, the EMM will deliver an overall mitigation in emissions by (i) stimulating activities which operate beyond the end of their crediting periods, and (ii) directing the limited funds available to the most cost-effective mitigation potentials. Parties should refrain from requiring additional discounts on the grounds of clause 6.4.d).

Activities outside NDC

Activities in sectors not covered by the host country NDC should be eligible for the EMM at least until 2030. Article 4.4 of the Paris Agreement already encourages developing country Parties to move towards economy-wide targets over time. Exclusion of non-covered sectors from the EMM would be unlikely to accelerate this movement. On the contrary, it would likely stifle cost-effective mitigation activities which, after the end of their crediting periods, would facilitate the adoption of meaningful targets for the respective sectors.

At the same time, Parties should recognize that a host Party's intrinsic motivation to ensure additionality may be less pronounced if an activity falls outside the scope of its NDC. This could be mitigated by encouraging the publication of price information on such activities, where higher prices are assumed to correlate with higher quality and additionality of mitigation outcomes.

Corresponding Adjustments

To avoid increases in global emissions due to the operation of the EMM, all international transfers of mitigation outcomes by host Parties must be transparently reported, and host country emissions must be correspondingly adjusted for the purpose of determining achievement of their NDCs.

At the same time, host Parties need to ensure that the mitigation achieved by EMM activities are reflected in their national GHG inventories, since otherwise they would be penalized by the corresponding adjustments.

Single-Year Targets

Where host Parties have single-year targets in their NDCs, corresponding adjustments should only reflect the mitigation outcomes achieved in the target year. Alternative approaches requiring corresponding adjustments also for pre-target-year transfers would unduly penalize host parties, stifle the growth of the EMM, and ultimately slow the transition towards sector-wide multi-year targets.

Host Country Letters of Approval

Host countries should specify a validity period in their letters of approval for EMM activities, so as to ensure alignment with their NDCs. Letters of approval of registered CDM activities should continue to be valid under the EMM for vintages until (but not including) the host country's first target year.

Continuation of the CDM

The CDM should continue to operate for as long as their sufficient demand to cover its costs through the SOP-Administration, but at least until the end of 2023.