

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 of Nationally Determined Contributions (NDC) throughout the ‘*straw proposal*’. We strongly believe that NDC quantification is essential in order that the provisions of Article 6 work effectively. Without quantification of the NDC’s involved in an Article 6 transfer, Parties (and the private sector) will not be able to properly know what they are trading and the double counting provisions of Article 6 cannot be applied.

A further issue is how these three provisions of Article 6 (ITMO, the mitigation mechanism, the framework for non-market approaches) 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 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 trades fall under paragraph 6.2. It would cover all trades 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 trade 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.

A specific purpose for Article 6.4 then emerges; it facilitates the process of quantification of mitigation activities, such that trades 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 to that which 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 |
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| <p>The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement;</p> <ol style="list-style-type: none"> 1. Recognises the importance of cooperative action under the Paris Agreement and the need to ensure this proceeds without 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. 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. | <p><i>Decision text to support overall implementation of Article 6. The implementation of Article 6 is structured in three parts;</i></p> <ol style="list-style-type: none"> 1. <i>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).</i> 2. <i>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).</i> 3. <i>The non-market framework which is for activities not immediately delineated in carbon units (Article 6.8).</i> |
| <p>Annex</p> <p>A. Definitions</p> | <p><i>Most of the detail is in an annex to the decision text.</i></p> |
| <ol style="list-style-type: none"> 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 quantitatively defined nationally determined contribution of a given Party or sector within said contribution and the addition of an equivalent amount to the quantitatively defined nationally determined contribution or sector of another Party. 2. The bilateral transfer of a defined quantity between the Parties or their representatives within the respective economies should be; <ol style="list-style-type: none"> a. Either denominated in instruments representing tonnes of carbon dioxide equivalent units within the NDC, using the most recent IPCC guidance on greenhouse gas equivalencies; | <p><i>This is the definition of an ITMO. A key requirement for any sort of trade 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). The transfer may be in carbon denominated instruments (e.g. allowances in linked cap-and-trade systems) or as a balance sheet adjustment. Without quantification of the</i></p> |

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| <ul style="list-style-type: none"> 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. <p>b. Or as a numerical adjustment to the quantitative definition of the nationally determined contribution of each party.</p> | <p><i>two NDCs or sectors, then the double counting provisions of Article 6 cannot be applied.</i></p> |
| <p>3. 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.</p> <p>4. 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.</p> | <p><i>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.</i></p> |
| <p>5. Quantitative definition of a nationally determined contribution or sector is;</p> <ul style="list-style-type: none"> a. The calculation that a Party determines in its submission under Article 4 of the anticipated total anthropogenic carbon dioxide emissions from the covered activities or within its defined sectors, less the total carbon dioxide removed by sinks, for the specified period of the NDC. b. A robust accounting practice shall be to calculate the net anthropogenic emissions of greenhouse gases from the covered sectors during a period of not less than five years but not more than twenty years, aligned with the beginning and end dates of the transfer periods used to meet the Party's NDC. c. The assessment and reporting of actual greenhouse gas emissions from the activities covered by said contribution or within the defined sector less the total carbon dioxide removed by sinks over the period of said contribution accounting for any transfers in or out of carbon dioxide denominated instruments and numerical transfer adjustments. Where the emissions under said assessment differ from the calculation at the time of submission, that difference will be accumulated forward within | <p><i>As quantification of NDCs is critical for ITMO to function, it is important that some definition of this step is offered that is relevant to carbon markets. This is not an attempt to write the transparency aspects of the Paris Agreement.</i></p> <p><i>A key provision here is that quantification requires delivery of that quantity; should delivery not be fully realised then the balance is rolled forward to the next period, albeit without penalty.</i></p> <p><i>An NDC must be quantified up front for an ITMO to proceed, then reconciled against that quantification at the end of the period (essentially a true-up).</i></p> <p><i>In instances where a Party exceeds or does not meet its emissions reductions target in its NDC, it could have the flexibility to bank or borrow emissions reductions from its next</i></p> |

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| <p>the quantitative definition of the subsequent nationally determined contribution of the respective Party.</p> | <p><i>subsequent NDC.</i></p> |
| <p>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;</p> <ol style="list-style-type: none"> a. The quantified emissions within a 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. <p>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.</p> <p>When engaging in international transfers of EMUs, Parties are encouraged to follow accounting guidance to make their respective subtractions and additions associated with said transfers as provided above in paragraph 5 b and c.</p> | <p><i>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.</i></p> <p><i>Importantly, given the progression towards NZE (balance between sinks and sources) over the course of the Paris Agreement, sink units will become increasingly important and need to be recognised from the outset</i></p> |
| <p>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;</p> <ol style="list-style-type: none"> a. Advise on the quantitative definition of the nationally determined contribution of a Party. b. If so requested, provide an assessment of the quantitative definition of the nationally determined contribution of a Party. c. Oversee the issuance of Emissions Mitigation Units. | <p><i>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.</i></p> <p><i>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.</i></p> |
| <p>8. The framework for non-market approaches is for facilitation of cooperative action between Parties involving the provision of climate finance, the sharing of technical information and procedures and the implementation of programs to change expected emission pathways.</p> | <p><i>The is a place-holder for the non-market framework. For example, cooperation on methane reductions or HFCs doesn't require the complete quantification of the NDC.</i></p> |

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| <p>B. Role of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement</p> <p>1. The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) shall:</p> <ul style="list-style-type: none"> 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. | |
| <p>C. Participation requirements</p> <ul style="list-style-type: none"> 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.

