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Submitted to:

Steven Kuhn, Chief Climate Negotiator and Director General and Elias Abourizk, Director, Policy and Negotiations
International Affairs Branch, Environment and Climate Change Canada
ec.rati-itmo.ec@canada.ca

**INPUT ON CANADA'S ITMO DRAFT POLICY FRAMEWORK AND
PROPOSED APPROACH TO ARTICLE 6 OF THE PARIS AGREEMENT
IETA SUBMISSION TO ENVIRONMENT AND CLIMATE CHANGE CANADA**

The [International Emissions Trading Association \(IETA\)](#) welcomes this opportunity to provide input on the *"Internationally Transferred Mitigation Outcome (ITMO) Framework: Canada's Proposed Approach to Article 6 of the Paris Agreement"*¹ (the **"Proposal"**). We hope that IETA's insights and recommendations are used to inform an initial, yet flexible, ITMO framework and strategy for Canada that successfully harnesses the power of international cooperation and carbon markets to: maximize climate benefits; enable climate ambition for both Canada and partner jurisdictions; and drive significant economic and co-benefit opportunities both within and outside of Canada's borders.

Achieving Canada's current and forthcoming updated 2030 Nationally Determined Contribution (**NDC**)² will take a heroic effort and massive sums of low-carbon finance and investments across all sectors of the economy. Like other jurisdictions and Parties to the Paris Agreement, **Canada should use international carbon market cooperation to not only enable and accelerate this journey toward decarbonization and net zero**, but also meet this climate ambition in a just and equitable manner while remaining prosperous and competitive.

As the leading international business voice on climate markets and finance, IETA's non-profit organization represents over 150 companies, including many facing climate risks and opportunities across Canada. IETA's market expertise is regularly called-upon to inform market-based policies that deliver greenhouse gas (**GHG**) reductions and removals, address economic competitiveness concerns, and balance economic efficiencies with social equity and co-benefits.

IETA's comments on the Draft Policy Framework are structured around four main sections: **Section 1** shares IETA's Net Zero Principles and summarizes the "value" of Article 6; **Section 2** features high-level priority input on the Proposal; **Section 3** contains more detailed input and recommendations on each of the 14 principles featured in the Proposal; and **Section 4** provides a summary with accessible links to complementary material and analyses on Article 6 and ITMOs.

¹ ["ITMO Framework: Canada's Proposed Approach to Article 6 of the Paris Agreement"](#). ECCC Paper. February 2020.

² Canada's current NDC, submitted to UNFCCC in 2015, is an absolute target of 30% reduction of GHGs below 2005 levels by 2030. An updated 2030 NDC will be within the range of 32% to 40% below 2005 levels, as per the Government of Canada's proposed 2030 Climate Plan, ["A Healthy Environment and Healthy Economy"](#), published on 11 December 2020. According to ECCC analysis, proposed actions in this 2030 plan, once fully implemented, will "enable Canada to exceed its current 2030 target... and further reduce emissions by at least 85MT beyond reductions driven by the PCF, putting Canada in the range of 32% to 40%". Canada's updated 2030 NDC is expected to be released by 22 April 2021.



SECTION 1: IETA NET ZERO PRINCIPLES AND “VALUE” OF ARTICLE 6

IETA’s mission is to support broad and functional carbon markets, guided by the principles of efficient, low-cost, measurable climate outcomes and environmental integrity. As clearly stated in the *IETA’s Global Council Guidance on Net Zero*³, published in June 2020: “Carbon markets are not an end in themselves. They are a means of delivering climate goals. Now they must gear up towards net zero targets. Carbon markets can produce the price signals that motivate businesses, consumers and investors to take action at scale.” Building on this Global Council guidance, **IETA’s Principles for Net Zero Ambition in Canada can be summarized below.**

- ✓ In Canada, like in other jurisdictions, IETA supports enhanced climate ambition underpinned by climate science that aligns with the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement goals.
- ✓ Mandatory and absolute caps for GHG emissions must ultimately decline to net zero, in order to align with the Paris Agreement targets.
- ✓ Net zero implies that not all emissions will be direct from the emissions source. Reductions outside of high-emitting sectors and industry, including across natural and geological sinks, will have vital roles to play to support near and longer-term targets.
- ✓ Carbon pricing, technology and finance will be critical to delivering this level of climate ambition. Well-designed carbon markets can deliver the price signal, prompt the investments and accelerate use of advanced technologies and innovations, including across technological and biological sinks. This can enable higher ambition, a more just transition and an acceleration toward net zero.
- ✓ Canada must embrace carbon markets that allow for trading, compliance flexibility, and linkage across borders to not only achieve but enhance 2030 NDC target(s) and net zero goals.
- ✓ Policy frameworks and carbon markets – domestic and international – should recognize and incent GHG reductions, removals and avoidance at scale.

WHY ARTICLE 6 MATTERS

Addressing climate change requires unprecedented levels of global cooperation among countries and regions. A global framework is required to allow cooperative approaches and exchange of ITMOs that enable greater ambition over time by helping countries meet climate and net zero targets faster and more cost-effectively. Article 6 of the Paris Agreement unlocks this opportunity for countries, including Canada, to pursue cooperative approaches with others as a route to achieving their respective NDCs. The benefits and rationale for cooperation via trading carbon should be understood and embraced through a similar lens as cooperation between nations in pursuit of traditional cooperation and trading arrangements. Trade underpins economic activity while offering society the flexibility to provide the wide range of goods and services that we all benefit from – not everyone can economically produce everything themselves.

³ IETA Council Guidance on Net Zero Climate Ambition. June 2020. ([Link](#))



For example, trade in commodities provides materials for manufacturing and construction that may be unavailable domestically. Often, trade is also a driving force for foreign direct investment; it encourages the business sector to engage in projects and activities outside their traditional base with a view to bringing goods and services into that base. Bringing this into the climate context, these realities are also true for managing GHG emissions: not all countries can reduce, remove or avoid emissions at the same rate or at the same cost, and it is certainly not the case that every country can reach net zero emissions at the same pace. Cooperation can be used to collectively strengthen global ambition and achieve and measure targets through international trading arrangements.

THE “VALUE” OF ARTICLE 6

International trading arrangements are essential to achieve the goals of the Paris Agreement but also for Canada to meet its 2030 and 2050 climate commitments.

In light of the significant gaps between Canada’s climate targets and projected GHG emissions⁴, Canada will clearly need to rely on “mitigation outcomes” that occur outside of national borders to 2030 and certainly through mid-century net zero ambition. International emissions trading, hopefully underpinned by a strong future Article 6 Rule Book, should arguably form one of the cornerstone mechanisms for Canada to reach its national climate goals at a significantly lower cost instead of attempting to meet these targets through domestic actions alone.

According to the seminal IETA and University of Maryland 2019 study, “The Economic Potential of Article 6”, international carbon market cooperation (enabled through Article 6) has the potential to reduce the total cost of implementing global NDCs by US\$250 billion a year in 2030⁵. Interpreting this estimated cost savings as a “willingness to pay” for climate mitigation action, this figure can then be translated into ~5GtCO₂ a year in additional mitigation by 2030. When land-use abatement is added to these modeled scenarios, Article 6 has the expanded potential to reduce total costs of meeting NDCs by US\$320 billion annually by 2030; an amount that could result in ~9GtCO₂ of additional mitigation. By channelling investment towards zero emission energy systems and technologies, efficient abatement opportunities, and conservation or expansion of natural and engineered carbon sinks, Article 6 can help deliver goals of the Paris Agreement. Importantly, these estimated levels of potential cost savings and mitigation “success” will mostly be accomplished through private sector projects and investments at scale. Therefore, clear guidance and use of Article 6 provisions combined with pro-active country policy/pilot action and signals that companies will be allowed to use ITMOs to meet domestic compliance will prove critical in driving a smooth, accelerated shift towards international cooperation and to unlock cost savings and enhanced mitigation investments.

⁴ Canada’s latest available national inventory (2019) and 4th Biennial Report on Climate Change ([Link](#)).

⁵ “From 2005 to Net Zero” ([Link](#)) and “Canada’s Net Zero Future”, Canadian Institute for Climate Choices ([Link](#)).

⁵ “The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges”. IETA, CPLC and University of Maryland. Summary Report. September 2019. ([Link](#))



SECTION 2: HIGH-LEVEL PRIORITY INPUT ON DRAFT FRAMEWORK

The following provides high-level priority input on the Proposed framework.

DOMESTIC CARBON MARKET LEADERSHIP GOES GLOBAL

The benefits of domestic and international market expansion and linking are clear: the bigger and broader the market, the wider the range of abatement opportunities, finance and investment interest, technology innovations and improved efficiencies, resulting in lower program costs and an expanded portfolio of climate and co-benefits. IETA applauds Canada for making significant strides with its domestic federal Output Based Pricing System (**OBPS**) in a manner that both supports and spurs provincially administered programs, while also enabling intra-Canadian market linkages via Recognized Units. We now hope to see this **domestic carbon market leadership grow to the international arena via clear Government of Canada commitments to use ITMOs and “cooperative approaches” in pursuit of both 2030 and net zero targets.**

AVOID “PAINTING CANADA INTO A CORNER”: SIMPLIFY & PRIORITIZE PRINCIPLES

At this stage of high-level ITMO guidance and framework development for Canada, especially without the final adoption of an Article 6 Rule Book, broad and simple principles are key. Prior to finalizing the Proposal, IETA strongly urges ECCC to pare-down, prioritize and simplify the current list of proposed principles, especially in a manner that avoids potentially “painting Canada into a corner” on the country’s future ability to maximize benefits from cooperative approaches. While positive elements and language in the Proposal are numerous, there are also several glaring gaps and unnecessary constraints/complexities that could easily result in: perverse climate and socio-economic outcomes; and/or unnecessarily limit Canada (and Canadian businesses’) ability to be a buyer or seller. *Specific gaps, concerns and recommendations for Proposal improvement are featured in Section 3 of IETA’s comments.*

CANADIAN ITMO LEADERSHIP, UPDATED NDC AND PILOTS

IETA is extremely pleased to see Canada continuing to play a leadership role at the UNFCCC Conference of the Parties (**COP**) in Article 6 negotiations, including advocating for robust and transparent market rules and cooperative approaches. Not only was this Government of Canada commitment featured in the Proposal, but it was also showcased on page 75 of the federal 2030 Climate Plan, published in December 2020, which reads: “Canada will continue to push for strong rules for international carbon markets (Article 6 of the Paris Agreement) to establish a credible regime that is based on environmental integrity and provides predictability and certainty for investors and Canada’s exporters of clean technology solutions”.



In addition to these “soft” political and diplomatic efforts, advocating for a strong Article 6 Rule Book at COP26, **we urge Canada to show tangible support for “cooperative approaches” by:**

1. **Explicit inclusion of markets and cooperation in Canada’s forthcoming updated 2030 NDC** submittal to the UNFCCC, expected to be released before or during the 22 April 2021 Climate Leaders’ Summit, hosted by the United States; and
2. **Actively enter Article 6 pilot arrangements with one or more strategic, “like-minded” jurisdictional partners.** In the absence of a final Article 6 Rule Book, and despite optimism that progress will be made on this at COP26, there are significant near-term opportunities for Canada to join a growing number of countries that are entering Article 6 pilot agreements.⁶

MARKETS TO DRIVE REDUCTIONS, REMOVALS AND AVOIDANCE AT SCALE

Building on the above, available and accessible liquid capital is required to finance the investment, adoption and innovation in scalable GHG reductions, removals and avoidance activities. There will be unique and temporal considerations across each of these buckets, but unquestionably a mix of all three (reduction, removal and avoidance) activities at scale is necessary. Although IETA certainly supports the recognition of carbon-denominated reductions and removals for Canadian eligible ITMO transfers, the current Proposal, both in the front-matter and draft principles, explicitly exclude avoidance from potential ITMO eligibility. This is a glaring gap that is not consistent with Article 6, as adopted, in the Paris Agreement; nor has there been broad agreement or adoption (of avoidance inclusion/exclusion) in draft text of the Article 6 Rule Book.

SUPPORTING PROVINCIAL MARKET LEADERSHIP AND ITMO OPPORTUNITIES

IETA has been a stalwart champion of Canada’s historic provincial carbon market leadership across Quebec, Alberta and British Columbia. These provincial market experiences, MRV tools, assurance processes and infrastructure should be considered and further enabled through any future Canadian ITMO framework. Today, under their Western Climate Initiative (WCI) joint cap and trade program, Quebec and California have entered an international cooperation agreement allowing for trade in carbon-denominated emission units. Across many circles, this WCI model is regularly labeled and communicated as a prime Article 6 “pilot”. In light of this bottom-up sub-national market experience and leadership, IETA urges the Government of Canada to do everything in its power to further support – and ideally expand upon this program. This is particularly important for Quebec (and Canada federally) in order to ensure that all future WCI units/ITMOs are recognized and correctly accounted for in both Canada and US Federal inventories and UNFCCC progress reports.

⁶ Latest review of Article 6 pilot landscape is summarized in **Section 4** of this submission and available in the December 2020 Article 6 Pilot “State of Play” study, authored by Climate Focus and Perspectives ([Link](#)).



COMPETITIVENESS AND FUTURE BORDER CARBON ADJUSTMENT CONSIDERATIONS

Pursuit of NDCs and net zero commitments must always be mindful of potential impacts on the competitiveness of key sectors of Canada's economy, especially in the event that key trading partners have adopted less ambitious targets. Enabling international cooperation will increase the competitiveness of Canadian industry and minimize the potential for economic or carbon leakage.

According to Canada's proposed 2030 Climate Plan, the Federal Government intends to "explore the potential application of Border Carbon Adjustments (BCAs)" and work with "like-minded economies", namely the EU and North American partners, to consider how these trade mechanisms could impact Canada's climate strategy, ability to meet targets and/or impact the country's competitiveness. These trade and competitiveness considerations are especially salient in the context of the Proposal's Principle 4 (Ensuring Additionality) and Principle 12 (Alignment with Domestic Pollution Pricing), both of which could impact how Canada evaluates and treats countries based on levels or stringency of climate ambition and/or carbon pricing policies. With this in mind, it is important for Canada to move forward on its final ITMO framework in a careful yet flexible manner as to avoid future pitfalls, including potential contravention of rules under the World Trade Organization⁷.

CANADA'S COMPETITIVE ADVANTAGE ON NEGATIVE EMISSIONS TECHNOLOGIES

Meeting Canada's enhanced climate ambitions will require scaling of GHG emissions reductions and avoidance, as well as removals (nature-based and technological). Without costly overhauls to the fundamental infrastructure and landmark industries that drive the Canadian economy, Canada must rely on and unlock the value of negative emissions technology (NETs) opportunities at scale. Canada has the tremendous land mass and now proven expertise in biological and geological removal and storage for this to be an economic competitive advantage. While finalizing Canada's initial ITMO framework, we encourage ECCC to not only be aware of, but also inspired by, the enormous climate and socio-economic benefits for Canada and the world should robust ITMO opportunities for NETs be enabled.

COOPERATIVE APPROACHES TO SUPPORT "BUILDING BACK BETTER"

As the COVID-19 situation evolves through 2021, consideration must be given to how economic impacts and our climate crisis can be addressed in unison, or at least in a complementary fashion. The pandemic experience and impacts have arguably sparked renewed appreciation for the vital role of governance, science/evidence-based decision-making, international cooperation, and private sector engagement.

⁷ Specifically, attention should be paid to avoiding any potential contravention of WTO GATT National Treatment and MFN non-discrimination principles ([Link](#)), WTO Trade Without Discrimination: Trading Principles ([Link](#)), and WTO Rules and Environmental Policies: Key GATT Disciplines ([Link](#)).



The reality is that economic impacts and recovery spending are impacting climate budgets worldwide, including in Canada. Despite this, climate commitments and NDC targets remain and will become more ambitious overtime. As such, it becomes imperative that limited public dollars, regional cooperation and policy enabling frameworks are swiftly prioritized to send market signals that leverage vast sums of Paris-aligned private capital into results-based climate finance. In other words, and in the context of the given consultation, clearly-communicated policy decisions and “direction of travel” regarding Canada’s approach to international carbon markets become more important than ever in light of today’s challenging and increasingly inter-connected economic, geo-political and climate backdrops.

SECTION 3: DETAILED COMMENTS ON PROPOSED PRINCIPLES

The following captures detailed comments and recommendations for improvement on each principle contained in the Proposal.

PRINCIPLE 1: VOLUNTARY AND AUTHORIZED BY PARTICIPATING PARTIES

ECCC Proposed Principle: All Parties participating in a cooperative approach must confirm that participation is voluntarily (sic) by providing/obtaining authorization for the use of any resulting ITMOs toward their NDCs. *Authorization ensures that each participating Party has officially agreed to properly account for the ITMO and helps mitigate the risk of double-counting.*

IETA Input

IETA supports the proposed Principle 1, as drafted. This language, geared at Parties (countries) to the Paris Agreement, is sound and consistent with the requirement for ITMO use authorizations in Article 6 (Paragraph 1), as adopted under the Paris Agreement. Note the (presumably) unintentional typo in use of “voluntarily”, which should be revised in the final version to “...confirm that participation is voluntary by providing/obtaining authorization...”.

PRINCIPLE 2: PROMOTE AMBITION IN CLIMATE CHANGE MITIGATION

ECCC Proposed Principle: Parties engage in cooperative approaches involving the use of ITMOs in order to allow for higher ambition in their mitigation actions. *International emissions trading and offset markets enable governments and the private sector to widen the pool of available emission reductions and tap into more cost-efficient opportunities. This in turn helps them to realize further GHG reductions/removals and enhance their ambition over time.*

IETA Input

IETA generally supports the proposed Principle 2, as drafted, **however we are concerned about the omission of emissions “avoidance” for potential inclusion/eligibility as ITMOs.** This noticeable omission



is featured across a number of sections in the Proposal, including the front-matter (i.e., 2nd paragraph, line 1) and several proposed principles.

In addition to important references to GHG emission “reductions and removals”, we believe that the concept of emission “avoidance” should be appropriately captured in Canada’s approach to ITMOs and Article 6. More specifically, IETA is concerned that explicitly omitting “avoidance” could unnecessarily “paint Canada into a corner” for future ITMO transaction opportunities (imports and exports) associated with avoidance activities and investments. This is especially true with respect to critical land-use activities with significant climate and co-benefit potential, such as avoided conversion and degradation activities across forests, grasslands and wetlands and peatlands. Neglecting to recognize or incent these emission avoidance opportunities, via Article 6 mechanisms, could also lead to other perverse socio-economic outcomes including shortage of (recognized and eligible) credit supply, increased costs, constrained clean investments (domestic and international), and hampered competitiveness of Canada vis-à-vis its trade competitors.

PRINCIPLE 3: ENSURING ENVIRONMENTAL INTEGRITY AND TRANSPARENCY

ECCC Proposed Principle: Participating Parties must demonstrate that each mitigation outcome (reported in tonnes of carbon dioxide equivalent (CO₂e)) transferred represents a real and verified GHG reduction or removal, such that pursuing a cooperative approach does not lead to a net increase in overall global GHG emissions. *For example, each cooperative approach must ensure that all material instances of reversal (when a GHG removal is re-emitted) and carbon leakage (when a mitigation activity causes GHG emissions to increase elsewhere) have been properly risk-assessed, mitigated, monitored and accounted for, as applicable.*

IETA Input

IETA strongly supports the proposed Principle 3, as drafted. **Our long-standing position has been that “metric tCO₂e should be the universal metric to measure ITMOs, in order to ensure accounting consistency among different approaches”.** Further details and rationale for this position are provided in our 2019 paper, “IETA Views and Priorities for Article 6”⁸. Canada’s approach – and eventually the Paris Article 6 rule set – should clearly indicate that tCO₂e is the metric to quantify and account for ITMOs.

It is worth noting that UNFCCC negotiators have yet to adopt a universal denomination in the final Article 6 Rule Book. However, this existing contention should not prevent Canada from moving forward with the tCO₂e denomination requirement/language in its final ITMO Framework. In fact, Canada’s decision to move forward with tCO₂e denomination would be a welcome signal and enable other Parties to follow.

⁸ “IETA Views and Priorities for Article 6”, November 2019 ([Link](#)). Also see a summary in **Section 4** of this submission.



PRINCIPLE 4: ENSURE ADDITIONALITY

ECCC Proposed Principle: Participating Parties must be able to demonstrate that the ITMOs reflect GHG reductions or removals beyond the business-as-usual baseline scenario, after taking into account the relevant technologies, market conditions, legal or regulatory context and common practice. *The term “additionality” means that the GHG reductions or removals represented by each ITMO would not have happened in the absence of the mechanism or arrangement designed to incentivize and quantify them. For example, Parties can help ensure additionality in domestic and international carbon markets through the use of conservative crediting baselines and/or stringent caps.*

IETA Input

IETA cautions ECCC on this Principle and its approach to additionality. We structure our observations around two main issues for consideration: 1) the implications for how additionality becomes strikingly different under the Paris Agreement versus the historic Kyoto Protocol; and 2) where ITMO-related program or project additionality may be required, certain criteria should be used while others avoided based on a wealth of experience and empirical evidence across existing programs.

Additionality Under Paris Agreement vs. Kyoto Protocol World”

The concept of additionality, in the context of the Paris Agreement, becomes markedly different than “Kyoto Protocol-style additionality”. Under the Paris Agreement, the notion of progressively moving towards economy-wide, quantified NDCs – coupled with the fact that all Parties have NDCs – implies moving away from historic practices of establishing additionality, which characterized crediting activities under Kyoto. As applying “corresponding adjustments” between quantified NDCs ensures integrity of the “global” cap, it will therefore not be necessary to require traditional additionality assessments. This is because the host Party, having made the transfer, must find further mitigation opportunities to meet the stated goal of its NDC; in turn, this means that the transferred actions were in addition to the requirements of the NDC, hence additionality can be claimed.

Over time, and while Parties move towards economy-wide and fully quantified NDCs, the more traditional concept of additionality might still characterize certain activities under the (Article 6.4) mechanism, particularly across sectors outside of NDC coverage. In these instances, environmental additionality and legal/regulatory additionality should be considered. As some of these activities may need to rely on baselines to be quantified, baselines should reflect relevant policies of the host Party’s NDC⁹.

⁹ These baselines should ideally reflect sectoral benchmarks that are dynamic, meaning that is updated upon changes to the underlying assumptions.



With the above Paris context in mind, **additionality will not be directly applicable to all Article 6 approaches**. For example, Canada (or any Party) should not require “additionality assessments” for ITMOs associated with linked, cross-border emissions trading systems (e.g., WCI).

Additionality Approaches to Use and Avoid

Across both domestic Canadian carbon market and crediting programs and international programs (compliance and voluntary), we believe that anything beyond environmental and legal/regulatory (including carbon pricing coverage) additionality criteria should be avoided or minimized.

We strongly discourage ECCC from using or requiring other types of additionality requirements or criteria, including demonstration of financial additionality and use of supplemental barriers/tests. In particular, and predominantly experienced with the UN Clean Development Mechanism (CDM), our community has seen numerous challenges with financial additionality, which have harmed: market and broader climate policy objectives; the freedom from bias of decision-makers; and the perception of fairness and impartiality. The inclusion of supplemental barriers, including use or evaluation of technological, social and/or cultural barriers, is also highly problematic and should be entirely omitted from Canada’s final ITMO framework and guidance.

PRINCIPLE 5: AVOIDANCE OF DOUBLE COUNTING

ECCC Proposed Principle: *All Parties must apply robust accounting for their transfer and use of ITMOs, consistent with the rules for Article 6, to ensure the avoidance of double counting. Any Party transferring and/or using ITMOs must perform a corresponding adjustment to its respective emissions balance. These adjustments ensure that the GHG reduction or removal is ‘un-counted’ by the transferring Party in order to be ‘counted’ as an ITMO by the acquiring Party. Any transfer or use of ITMOs that represent GHG reductions or removals not covered by an NDC, or that falls outside of the Paris Agreement, would similarly require demonstrating that corresponding adjustments have been applied.*

IETA Input

The avoidance of double-counting is a fundamental element of Article 6 and use of ITMOs and cooperative approaches under the Paris Agreement. **While IETA wholly supports this principle as it applies to voluntary participation by Parties (countries), we are concerned that parts of the proposed language could be open to misinterpretations and future challenges, particularly with respect to the evolving Voluntary Carbon Market (VCM) landscape.**

There are dozens of discussions and guidance (recently developed or still under development) currently taking place about how to clearly address double-counting and claims across the VCM. **A voluntary carbon credit without a corresponding adjustment is decidedly not an ITMO.** As such, IETA assumes that the



final line in this proposed Principle (i.e., “falls outside of the Paris Agreement”) refers to CORSIA and not to the VCM or VCU transactions. To avoid any future misinterpretations, uncertainties or challenges, **we recommend that the final sentence of Principle 5 be edited to clarify that it solely covers “compliance” uses of ITMOs**, especially while VCM considerations are still being navigated and finalized by several multi-sector and global groups and task forces.

For additional context and to support the above recommendation, we strongly encourage ECCC to refer to December 2020 guidance document, “Mobilizing the Voluntary Carbon Market (MVCM)”¹⁰, which emphatically states **that the VCM is not being targeted in Article 6 provisions that reference** “...falling outside of the Paris Agreement, requiring demonstration of corresponding adjustments”. Despite this growing recognition, we still see calls for corresponding adjustments to any and all credit use, including application to host countries in the case of voluntary retirements. Such an approach, particularly during a period when corresponding adjustments are not yet operational across any countries, is a real risk to the VCM and its significant potential of scaling climate and maximizing co-benefits.

With regard to the important nature and value of the MCVM, this seminal global initiative, co-led by the Environmental Defense Fund (EDF) and High Tide Foundation, convened a Steering Group of stakeholders representing major environmental NGOs, international standards’ setting bodies, market experts (including IETA) and observers from the private sector. The final report provides recommendations on the use and quality of carbon credits, corresponding adjustments, and transparency, while providing the groundwork for future efforts designed to accelerate climate action and ensure a meaningful and credible role for voluntary markets operating alongside the Paris Agreement.

As previously mentioned, IETA’s long-standing position on double-counting – as it relates to Parties to the Paris Agreement (countries) – can be summarized as follows:

- Quantification of an NDC requires the establishment of an emissions account by a Party. This should be defined as the quantitative total (in tCO₂e emitted) of that portion of the national economy covered by the NDC, 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.
- Given the voluntary nature of cooperative approaches, participation requirement should ensure environmental integrity by applying robust accounting, including no double counting.
- Circling back to the first bulleted observation (above), robust accounting is operationalized via the quantification in terms of tCO₂e 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 be in place ITMO partner Parties.

¹⁰ “Mobilizing the Voluntary Carbon Market”. December 2020. ([Link](#)). More information on the MVCM, including access to the final report and recommendations, can be found in **Section 4** of IETA’s submission.



PRINCIPLE 6: PROMOTE SUSTAINABLE DEVELOPMENT

ECCC Proposed Principle: The cooperative approach must promote sustainable development. Recognizing that climate action is an important part of sustainable development, all Parties participating in a cooperative approach should be empowered to communicate their sustainable development goals and to consider them appropriately when planning and reporting on their mitigation activities.

IETA Input

IETA supports Principle 6 as drafted, which is consistent with best practice systems and standards. The language is also consistent with Article 6 of the Paris Agreement, as it relates to the promotion of sustainable development (Paragraph 1). We note the significant experience of independent GHG standards and bodies in supporting SDGs and sustainable development co-benefits alongside carbon. **By far, most of this experience – underpinned by a growing stable of sophisticated tools and MRV assurance processes – exists across the voluntary carbon market**, where third-party standards and protocols have evolved to require and track sustainable development co-benefits.¹¹

IETA's official voluntary affiliate, the International Carbon Reduction and Action Alliance (ICROA)¹², recognizes the world's leading standards that are widely-recognized by experts and policy-makers as the most rigorous. ICROA's website houses a growing catalogue of resources and quality assurance criteria to guide its recognition of carbon credits used or sold. All recognized standards have external registries allowing for units to be tracked using serial numbers for origination and retirement. For many years, ICROA has also endorsed use of the Social Carbon Standard and Climate, Community and Biodiversity Alliance (CCBA) Standard to "ensure best practice in environmental and social assessment when combined with one of the (ICROA endorsed) carbon standards".

PRINCIPLE 7: HUMAN RIGHTS, THE RIGHTS OF INDIGENOUS PEOPLES, GENDER EQUALITY

ECCC Proposed Principle: When engaging in a cooperative approach, the participating Parties must respect, promote and consider their respective obligations on human rights and the rights of Indigenous peoples, consistent with the United Nations Declaration on the Rights of Indigenous Peoples, as well as gender equality. Canada will not authorize, facilitate or endorse any international carbon market activity that is contrary to domestic or international law.

IETA Input

IETA strongly supports Principle 7 as drafted, which is consistent with best practice systems and standards.

¹¹ Further details about valuing co-benefits and assessment tools gleaned across existing voluntary carbon standards can be found in ICROA's online library, including the 2014 and 2016 (updated) joint project by ICROA and Imperial College, "Unlocking the Hidden Value of Carbon Offsets" ([Link](#)).

¹² See ICROA Quality Assurance site with recognized UN, Government and Independent standards ([Link](#)).



PRINCIPLE 8: PUBLIC PARTICIPATION AND PUBLIC ACCESS TO INFORMATION

ECCC Proposed Principle: Cooperative approaches must include measures to promote public awareness, public participation and public access to information. *These could involve robust transparency provisions, stakeholder engagement and comment periods, which give due consideration to the perspectives of poor and vulnerable populations, as well as elders and youth, in a gender-responsive manner.*

IETA Input

IETA generally supports Principle 8, as drafted. This is largely consistent with best practice systems and standards with respect to broad and inclusive consultation and transparency. Even though it is currently framed as an example (i.e., “these could involve...”), we suggest that the initial Framework exclude explicit reference to “elders” and “youth” as consultative categories but revisit these for future inclusion as consultation processes, communication systems and tracking/transparency tools improve over time.

PRINCIPLE 9: PRE-2020 KYOTO CREDITS WILL NOT BE ALLOWED

ECCC Proposed Principle: Canada will not authorize or endorse the use of pre-2020 Kyoto credits towards Paris targets. *Canada recognizes that we can draw lessons from past mechanisms such as the Kyoto Protocol’s Clean Development Mechanism and Joint Implementation. However, recognizing that the objective of the Paris Agreement is to strengthen the global response to the threat of climate change, the use of Article 6 must reflect new mitigation beyond that of the Kyoto mechanisms.*

IETA Input

IETA supports Principle 9, as drafted. This is consistent with IETA’s position and those of most Parties, including the majority of Canada’s largest trade partners, on the use of pre-2020 Kyoto units towards Paris targets. It is worth noting that Canada should continue supporting adoption of a robust Article 6 ruleset, which gives clarity on the existing international Clean Development Mechanism (CDM) under the Paris Agreement. Achieving a clear and workable CDM transition will be crucial for providing continuity for existing CDM projects and immediate mass/supply for the new 6.4 emissions mitigation mechanism. Although we recognize this issue is a lesser priority for Canada, reaching agreement on clear pathway(s) to transition existing CDM projects (i.e., avoiding a project gap between CDM and 6.4 mechanism) is essential for many developing countries and the private sector.

PRINCIPLE 10: AMBITION AND IMPLEMENTATION BY THE HOST PARTY

ECCC Proposed Principle: Participation in international markets must not undermine the host Party’s ability to meet its NDC or create a perverse incentive for the host Party to limit its ambition. *Due diligence when selecting partner countries must be exercised and consideration be given to the impact of exporting ITMOs on the host Party’s emission pathway and NDC progress. Cooperative approaches must*



avoid ‘locking in’ emissions pathways that could undermine the ambition and achievement of current and future NDCs. Canada would also need to apply this principle when considering whether to authorize the transfer of ITMOs from Canada to other Parties.

IETA Input

IETA supports Principle 10, as drafted. As note above, transition periods, capacity support and “glidepaths” will be required for certain Parties including potential ITMO host countries. To be on track with long-term Paris Agreement goals, we believe that all Parties should adopt economy-wide and fully quantified NDCs as soon as possible – where ITMOs will only originate from quantified portions of the NDC. Originating Parties transferring from non-NDC sectors should not be required to correspondingly adjust their NDC during this 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 undermining ambition or 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 this NDC expansion.

PRINCIPLE 11: MRV AND NATIONAL INVENTORIES

ECCC Proposed Principle: *In order to acquire credible ITMOs that have environmental integrity and avoid double counting, acquiring Parties should consider the measurement, reporting and verification (MRV) capabilities of the host Party and its ability to maintain an accurate GHG emission inventory. To properly determine, measure, and report on GHG reductions or removals against a baseline, countries must demonstrate through the maintenance of a national GHG inventory, that there is a sufficient level of institutional arrangements and technical capacity, including the ability to make an accurate corresponding adjustment to a national GHG balance in accordance with the Paris rulebook.*

IETA Input

While we recognize and support the spirit of this proposed Principle, it is important to flag possible perverse international climate and financial outcomes, if operationalized. While the language makes sense for Canada, **this proposed direction could easily restrict or exclude most, if not all, Least Developed Countries (LDCs).**

As previously noted, for many countries – especially LDCs – there are many practical challenges to achieving economy-wide NDCs over the near-term. This current reality should not prevent finance from flowing to encourage and enable mitigation across non-NDC sectors. Over 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 and can occur 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, while guaranteeing transparency by reporting the transfer.



Moreover, given Canada’s role as climate leader and “cooperator” on global stage, it would be prudent to lightly revise this Principle in a manner that reflects how Canada – in partnership with relevant multilateral development institutions and Canadian business – might support development of expanded MRV, inventory capacities and broad/quantified NDCs across targeted countries which are most in need. Canada arguably wants to show that it is a credible and inclusive leader on our collective journey to enhance ambition, so its **framework should reflect and enable these critical “market glidepaths” or “lighthouse Article 6 and MRV pilots” across certain developing and LDC regions.**

PRINCIPLE 12: ALIGNMENT WITH DOMESTIC CARBON POLLUTION PRICING

ECCC Proposed Principle: Canada will insist that international carbon markets uphold the same standard of environmental integrity as eligible compliance units under domestic carbon pricing system (i.e., represent real, additional, quantified, verified and unique GHG reductions). *For example, if Canada were to acquire or transfer ITMOs through a foreign offset system or the Paris Agreement’s new centralized mechanism (which has yet to be established), it would need to ensure that the protocols/criteria underpinning these GHG reductions or removals are comparable in stringency to those of Canada’s Output-Based Pricing System (OBPS) for “recognized units” and the Federal Offset System.*

IETA Input

IETA cautions ECCC while proceeding with this proposed Principle. We urge the government to revisit and either remove or heavily amend the language prior to finalizing Canada’s ITMO framework. If retained and recrafted, we **recommend the modified focus be on reasonable “comparability” with Canada’s domestic carbon pollution pricing landscape instead of “alignment”.**

As currently drafted, Principle 12 is not actionable in practice and could become a strong barrier to future linkages, while also prejudging domestic outcomes. **We believe that Canada’s engagement in this particular issue should remain highly dynamic and flexible, learning from others but also sharing with others Canada’s learnings and best practice from its own system and protocols.**

To be clear, IETA will never advocate for the authorization/use of ITMOs that meet “lower” environmental integrity and standards than those set domestically and which underpin Canada’s federal or provincial compliance programs. However, it is neither realistic nor practical to establish a core guiding principle, likely linked to future rules or possible trade implications, where potential ITMO host countries’ standards or methodologies are identical with, or “the same as” Canada’s approach.

IETA welcomes the opportunity to arrange a meeting with Canada’s international climate change negotiating team to further elaborate on these observations while offering more workable modified language, which still promotes environmental integrity with future ITMO use/authorizations but also avoids creating recalcitrant barriers to future linkages or unnecessarily sparking future trade challenges against Canada.



PRINCIPLE 13: CO-BENEFITS AND FINANCE ADAPTATION

ECCC Proposed Principle: Parties engaging in a cooperative approach are encouraged to prioritize actions that provide co-benefits (e.g., adaptation, biodiversity, conservation etc.) and generate voluntary financial contributions to support adaptation efforts. *This would maximize the human, ecological and economic benefits of participating in cooperative approaches, including for developing country Parties that are particularly vulnerable to the adverse effects of climate change.*

IETA Input

IETA generally supports Principle 13, as drafted, provided it retains the language of “**voluntary** financial contributions to support adaptation efforts” in the final framework. In some respects, the essence of this principle reflects current Article 6 negotiation debates regarding “share of proceeds” (SOPs). Originally, these debates focused on operationalization of the new mechanism (6.4), but more recently have extended to cooperative approaches (6.2). This issue remains one of the more contentious “problem areas” for negotiators enroute to adopting a final Article 6 ruleset. IETA raises this in the context of Principle 13, as we could potentially see final 6.2 text also **containing non-binding voluntary language** that encourages application of SOPs to cooperative approaches.

PRINCIPLE 14: PROMOTE CANADIAN EXPERTISE

ECCC Proposed Principle: Canada should prioritize, where appropriate, cooperative approaches that promote Canadian expertise and/or clean technologies. *This would contribute to expand market opportunities for Canadian firms and accelerate Canada’s just transition to a carbon neutral economy.*

IETA Input

IETA supports the proposed Principle, as currently drafted, provided it does not unintentionally cause future ITMO constraints, confusion or higher barriers for Article 6 engagement. As IETA has voiced numerous times in the past to Canadian officials and other stakeholders, it is **prudent for Canada to pursue ITMO approaches in a strategic manner, which prioritizes – but does not require – opportunities that could promote international uptake and scaling of Canadian “clean” exports (products and services)**. As such, IETA was pleased to see explicit reference to this consideration in Canada’s proposed 2030 Climate Plan, which states: “Canada will continue to push for strong rules for international carbon markets (Article 6) to establish a credible regime that is based on environmental integrity and provides predictability and certainty for investors and Canada’s exporters of clean technology solutions”.

We encourage ECCC to work on a comprehensive “**Canadian ITMO Strategy and Roadmap**” that includes a core pillar or work plan focused on strategic promotion of Canadian clean exports through international (Article 6) markets. This exercise should be done in close cooperation with the Canadian business community, as well as other relevant government Ministries, such as Natural Resources Canada and Global Affairs Canada.



SECTION 4: SUMMARY OF ADDITIONAL MATERIAL & ANALYSIS

This final section briefly summarizes and provides access links to additional material and analyses, which IETA considers some of the most important resources to help inform Canada’s future approach to ITMOs and Article 6.

1. IETA VIEWS & PRIORITIES FOR ARTICLE 6

Author: IETA

Date: November 2019

Online Source: [Website Link](#)

Summary: For the years proceeding the signing of the Paris Agreement in 2015, IETA developed and updated our “Straw Proposal for Article 6 Implementation Guidance”¹³. This proposal outlines IETA’s thinking on Article 6 in a “negotiated text format” for consideration by all Parties to the Paris Agreement. Building on this document and following the negotiations and draft text developed at COP24 in Katowice, IETA prepared our November 2019 paper, “Views and Priorities for Article 6”. This 2019 paper is structured around detailed IETA views and priorities for: cooperative approaches (6.2, accounting); and the new emission mitigation mechanism (6.4, mechanism).

2. ECONOMIC POTENTIAL OF ARTICLE 6 MODELING PROJECT

Authors: IETA, University of Maryland and Carbon Pricing Leadership Coalition

Date: September 2020

Online Source: [Website Link](#)

Summary: Since 2019, IETA and the Center for Global Sustainability (CGS) at the University of Maryland have led a research project bringing together negotiators, researchers, and stakeholders to: quantify the economic potential of Article 6; identify key issues surrounding the successful implementation of Article 6; and assess the potential implications of alternative approaches to utilizing Article 6. The analysis found that a well-designed Article 6 – informed by economic analysis of alternative design options – can enhance cost-effectiveness and potential ambition of the Paris Agreement. Scientific publications are in the process of being submitted.

In 2019, IETA and CGS-UMD conducted Phase 1 of the project, in collaboration with the World Bank-led Carbon Pricing Leadership Coalition (CPLC). The study made significant contributions to the global understanding of the potential value of Article 6 in improving economic benefits and enhancing ambition.

¹³ Straw Proposal for Article 6 Implementation Guidance. 2019. ([Link](#))



In 2021, IETA and CGS-UMD are undertaking Phase 2 of the project with further research and workshops to help build an analytical foundation for Article 6 decision-making. More specifically, this work will inform stakeholders and UNFCCC negotiations through COP26, where all or parts of Article 6 implementation guidance could be adopted. The three main scenarios that are now being modeled under this phase of the Article 6 project include: 1) Net Zero Scenario; 2) Societal Benefits of Article 6 (e.g., SDGs); and 3) Enhanced Climate Ambition through “Buyers’ Clubs”.

2. ARTICLE 6 PILOTING: STATE OF PLAY (DEC 2020 UPDATE)

Authors: Climate Focus, Perspectives

Date: December 2020

Online Source: [Website Link](#)

Summary: This report is the 3rd edition of a series of reports started in 2019. It provides an updated overview of all aspects related to Article 6 piloting and operationalization. As a framework for the analysis, the study applies a “concentric ring” model that differentiates among: pilot activities aimed at generating ITMOs or adaptation benefits; initiatives that will eventually be governed by Article 6 rules (e.g., the linking of Emissions Trading Systems); and pilot enabling and scaling environments.

The analysis shows several initiatives have progressed from preparatory phase to operational pilot phase. For example, in late-2020, Switzerland and Peru signed their inaugural Article 6-specific bilateral agreement, and the two countries are now establishing *Mitigation Outcome Purchase Agreements* (MOPAs). There are also examples of more mature ITMO pilots, such as the Joint Crediting Mechanism (JCM), where Japan has now entered MOUs with 17 host countries.

Interestingly, this study also introduces the concept of **Article 6 pilot “Lighthouse Activities”** that can play instrumental roles in illuminating the path forward for others to follow (e.g., the new Swiss-Peruvian Agreement is likely to become a landmark “lighthouse model”, as many countries are now developing similar ITMO pilot agreements).

Finally, this report finds that a successful conclusion of Article 6 negotiations at COP26 is not seen as a necessary condition for the continuation of Article 6 or ITMO pilots. Where some pilot developers are tracking and preparing to act/invest on accounting rules under the Enhanced Transparency Framework (using paragraph 77d of the decision 18/CMA.1 as a sufficient basis for collaboration), others are actively seeking to build pilot arrangements based on the “San José Principles for High Ambition and Integrity in International Carbon Markets” signed by over 30 countries at COP25.



4. MOBILIZING THE VOLUNTARY CARBON MARKET (MVCM)

Authors: Environmental Defense Fund and High Tide Foundation

Date: December 2020

Online Source: [Website Link](#)

Summary: EDF, in partnership with the High Tide Foundation and with expert support from ENGIE Impact, convened a Steering Group of stakeholders representing key players needed for a well-functioning voluntary carbon market, including major NGOs, international organizations, voluntary carbon market standard setting bodies, and invited observers from the private sector – including IETA and many of our members.

The MVCM Steering Group and observers discussed a range of issues with the intent to incentivize credible and Paris Agreement aligned climate action by companies, and to inform climate strategies and guidance for high-quality carbon markets that contribute to global climate goals. The report provides recommendations on the use and quality of carbon credits, corresponding adjustments, and transparency. The report's initial recommendations lay the groundwork for future efforts designed to accelerate climate action and ensure a meaningful and credible role for voluntary markets, and reflect discussions over the past seven months, but do not reflect consensus.

5. INVESTING IN NCS: THE IMPORTANCE OF REDUCED DEFORESTATION

Authors: IETA

Date: December 2020

Online Source: [Website Link](#)

Summary: IETA's brief highlights the importance of markets driving avoidance in land-use degradation at scale, and why international "cooperative approaches" are a vital tool to support these activities.

Global efforts by governments, NGOs and the private sector towards financing Natural Climate Solutions (NCS), particularly across the growing number of afforestation, reforestation and revegetation activities – an achievement to be championed and expanded. However, despite this positive momentum, it raises concerns that it is detracting from investments that are needed to reduce emissions from deforestation and forest degradation. Investments in these NCS activities remain inadequate despite their disproportionately high contribution to limiting anthropogenic climate change. For the global land use sector to transition to a net GHG sink as opposed to a source, as is required to meet the Paris Agreement goals, emissions from deforestation and forest degradation must be dramatically curbed, alongside the simultaneous scaling-up of natural climate solutions broadly.



CONCLUSION

Once again, we appreciate this important opportunity to record IETA's insights and recommendations on the consultation paper, *"Internationally Transferred Mitigation Outcome Framework: Canada's Proposed Approach to Article 6 of the Paris Agreement"*. Our community continues to dedicate significant effort to best leverage IETA's deep global and domestic Canadian climate finance, policy, accounting and market expertise to provide ECCC with solutions-oriented thinking to inform a pragmatic decarbonization/net zero pathway for Canada.

We look forward to more frequent engagement with ECCC on policy and strategy development for Canada through COP26 climate negotiations and beyond. If you have questions or require further information, please contact Katie Sullivan, IETA Managing Director, at sullivan@ieta.org.