

Article 6 in the Paris Agreement : Challenges & Opportunities

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Climate change regime

- **UNFCCC (Climate Change Convention):**
 - » Ultimate objective: to achieve stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.
 - » All Parties to promote and cooperate ...
 - » Developed countries to adopt national policies and take measures
 - » Developed countries to provide new and additional financial resources
- **Kyoto Protocol:**
 - » Legally-binding targets/commitments to reduce/limit GHG emissions and more stringent reporting/review requirements
 - » These targets and rules apply only to Annex I countries
 - » For 1st commitment period, objective was -5% (in 2008-2012) to 1990 level; in reality, about -20% was achieved; objective for 2nd commitment period -18% in 2013-2020 (not legally in force)
- **Paris Agreement (Paris, 2015):**
 - » Agreement for all Parties, with flexibility for developing countries
 - » Building up on / strengthening the provisions of the Convention
 - » Using experience from the Convention and the Kyoto Protocol
 - » Introducing new concepts: nationally determined contributions, transparency framework, global stocktake

The Paris Agreement

- Aims to strengthen the global response to the threat of climate change by keeping a global temperature rise this century **well below 2 degrees Celsius** above pre-industrial levels and to pursue efforts to limit the increase **even further to 1.5 degrees Celsius**.
- Brings **all nations in a common framework** to take ambitious efforts to combat climate change and adapt to its effects, with enhanced support to developing countries
- Requires all Parties to put forward their **best efforts through “nationally determined contributions” (NDCs)** and to **strengthen these efforts over time**.
- Aims to **strengthen the ability of countries to deal with the impacts of climate change**. To reach these ambitious goals, **appropriate financial flows, a new technology framework and an enhanced capacity building framework will be put in place**, supporting action by developing countries and the most vulnerable countries, in line with their own national objectives.
- Provides for **enhanced transparency of action and support through a more robust transparency framework for action and support**.
- Introduces **a global stocktake every 5 years** to assess the collective progress towards achieving the purpose of the agreement and to inform further actions by Parties.

Key Articles

- Article 2 defines the objective
- Articles 3 and 4 defining the **nationally determined contributions**
- Article 5 addressing sinks and reservoirs of greenhouse gases
- Article 6 addressing **voluntary international cooperation**
- Article 7 addressing **adaptation** to climate change
- Article 8 addressing the issues of loss and damage
- Article 9 on **financial resources**
- Article 10 on **technology development and transfer**
- Article 11 and 12 addresses capacity building
- Article 13 establishes a new **transparency framework**
- Article 14 establishes the new **global stocktake**
- Article 15 establishes a **compliance mechanism**

Principles to discuss PA & art 6

- Paris Agreement need to be treated in a holistic manner
- Article 6 needs to be treated in a holistic manner
- Focus is on NDCs or inventories?
- Do NDCs need to adapt to meet Art 6 rules as condition for participation in Art 6? Is Art 6 participation a right or a privilege?
 - PA is very complex with a bottom up ethos
 - This makes make for a complex set of rules to accommodate all NDCs
 - PA has a bottom up NDC driven ethos and the two need to be reconciled

Article 6: Cooperative approaches (Paragraph 6.1).

- This paragraph covers the general concept that Parties may choose, on a voluntary basis, to cooperate in the implementation of their nationally determined contributions.
- The interpretation is that it is meant to cover all specific cases of cooperation in Article 6, and others that may emerge in the future.
- It is important to mention that cooperation is noted, acknowledged and recognized, rather than approved, by a body under the PA. This reinforces the decentralized and bottom up nature and ethos of the PA governance.
- Wording is “to allow for higher levels of ambition” Earlier drafts referred to “enhance mitigation ambition”. This is somewhat different and quite a difference from some of the current interpretations.

Article 6: Transfers of mitigation outcomes (Paragraphs 6.2-6.3).

- The concept that Parties, when involved in the specific case of cooperative approaches, which involve mitigation outcomes being transferred internationally, need to observe CMA guidance on accounting.
- The paragraphs are not about markets, but about a framework on how to account for transfers between Parties.
- What is particularly important is that these are international transfers of “mitigation outcomes” (ITMO), which can be produced from any mitigation approaches (mechanism/procedure/protocol), without any reference to the fact that the mechanism/procedure/protocol needs to operate under the authority of the COP. Essentially whatever Parties involved agree to.
- There is no limitation being introduced in these paragraphs in the PA as to what constitutes an ITMO and this broad scope is supported by the “institutional memory” of the PA negotiations.
- Should limitations be introduced, they will essentially be a an additional “boundary” or limitation which Parties to the PA agree in the operationalization of Art 6, but currently have no “hook” in the current PA Art 6 text.

Article 6 : Mechanism to contribute to mitigation and support sustainable development (Paragraphs 6.4-6.7).

- These paragraphs refer to the establishment of a mechanism to produce mitigation outcomes and support sustainable development, and which operates under the authority of the COP. It produces mitigation outcomes that can then be used to fulfil the NDC of another Party. One of the key issues currently under debate is whether the scope of these paragraphs is limited to a “new and improved CDM”, CDM+, as Brazil seems to believe, or it is much broader in scope. The later interpretation seems to receive support from the historical evolution of the text.

Article 6: Framework for non-market approaches (Paragraphs 6.8-6.9)

- The establishment of a framework for non-market approaches that will aim to achieve the three issues, which are outlined in Article 6.8.
- What is the governance of that framework
- Establishment of a work programme to enhance linkages and create synergy between mitigation, adaptation, finance, technology transfer, etc

Paris Agreement /Kyoto Protocol

- Commodity: KP: UN defined commodity : CERs, ERUs, AAUs. KP: Face value 1 ton CO₂e. PA: not clearly commoditized under Art 6.2
 - Metric: KP: one metric CO₂; PA: potentially multiple metrics.
- Governance: KP: centralized regulation; PA: choices. Much more responsibility on host country. Under Art 6.2: broadly a bilateral governance. Under Art 6.4 much bigger role expected for Host Countries
- Accounting: KP budgets & clear accounting; PA: different NDCs, more complex accounting and compliance
- No enforcement under PA – eligibility requirements much softer than under KP
- Usage: KP pure offsetting; PA; push for net global mitigation

Paris Agreement /Kyoto Protocol

- Adjustment: KP had budgets; PA has Corresponding Adjustments which are much more complex
- Additionality: a concept that may be revisited under the Paris Agreement

Opportunities under Art 6

- Financing projects and speeding up decarbonization. Sectors with significant abatement costs will be looking for opportunities for an orderly transfer.
- Linking markets and ensuring that there is enough liquidity in the market – it is likely to be a necessity and not a luxury. Art 6.2 will provide the framework for linking cap and trade markets
- Create a level playing field from a competitive perspective.
- Help with technology transfer
- Promote economic integration

Challenges for operationalization & participation in Art. 6

- Ensuring that there are sellers. Many countries will be concerned to participate as sellers as the NDC will need to increase in the level of ambition.
- Developing the capacity and methodology to decide what is available for export
- Developing the right infrastructure to enter the Paris Agreement market
- Increased responsibility at the national level – is there enough capacity to participate in this market? Both public and private

Challenges for operationalization & participation in Art. 6

- Ensuring that there are buyers. Most large countries and areas have not committed to buying and using international market mechanisms.
- For example, the **EU**, **Russia** and the **USA** in their NDCs have stated that they will not use international markets mechanisms in reaching their targets.
- **Norway** has also explicitly stated this, although it does continue to support market based mechanisms, along with the possibility of continuing to use previous credits from the CDM and JI.
- **China** has not explicitly stated it will refrain from employing international market mechanisms mechanisms however, it has not declared its support either, concentrating instead on nationwide measures.

Challenges for operationalization & participation in Art. 6

- Nonetheless, looking at the recently emerging Article 6 pilot projects seems to demonstrate that there will be interested buyers.
- Additionally, through mapping the ongoing pilot projects, it seems that currently the Article 6 pilot landscape also closely resembles the landscape which existed under the CDM and NAMA initiatives (Climate Finance Innovators).
- There also many states which have declared their interest in buying.
- **Switzerland** and the **Republic of Korea** for example, both clearly state that they will use carbon credits from international mechanisms to achieve their targets.

Challenges for operationalization & participation in Art. 6

- Will there be enough liquidity?
 - Too many metrics?
 - Too many filters
- How accounting will be done: there are multiple types of NDCs and some large countries have single-year NDCs. There are different accounting processes that will create lower the value of the products
 - Averaging
 - Vintage
- Ensuring access to the market through branding
 - Value of the NDC – level of effort
 - Use of funds received
 - Early participation in market “clubs”

Challenges for operationalization & participation in Art. 6

- Who will contribute to Net Global Mitigation: Host/Buyer/User ?
- The relationship between issuance of Mitigation Outcomes and the NDC adjustment
- How will safeguards be implemented and their impact on liquidity under the Paris Agreement?
- How much will be transferred from the KP mechanisms to the Art 6

What should business want?

- **An (international) outcome to ensure**
 - Access to carbon funds
 - Access to cheaper credits if necessary for competitiveness
 - Be prepared and have machinery ready to avoid potential trade retaliation
- **No taxes on transactions: no share of proceeds of Art 6.2**
- **No obligatory OMGE obligatory – no haircut**
- **As much decentralization as possible available for both Art 6.2 & 6.4**
- **Accounting for single-year: cumulative accounting**
- **Re-assurance of compliance with trade rules**
- **As much domestic content as possible in regulation**

What should business want?

- **Ensure that unilateral projects are possible**
- **Early efforts to build capacity and infrastructure**
- **Good branding of Chilean products – what determines branding?**
- **Participation in early efforts: e.g. WB Funds, Art 6 pilots**

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