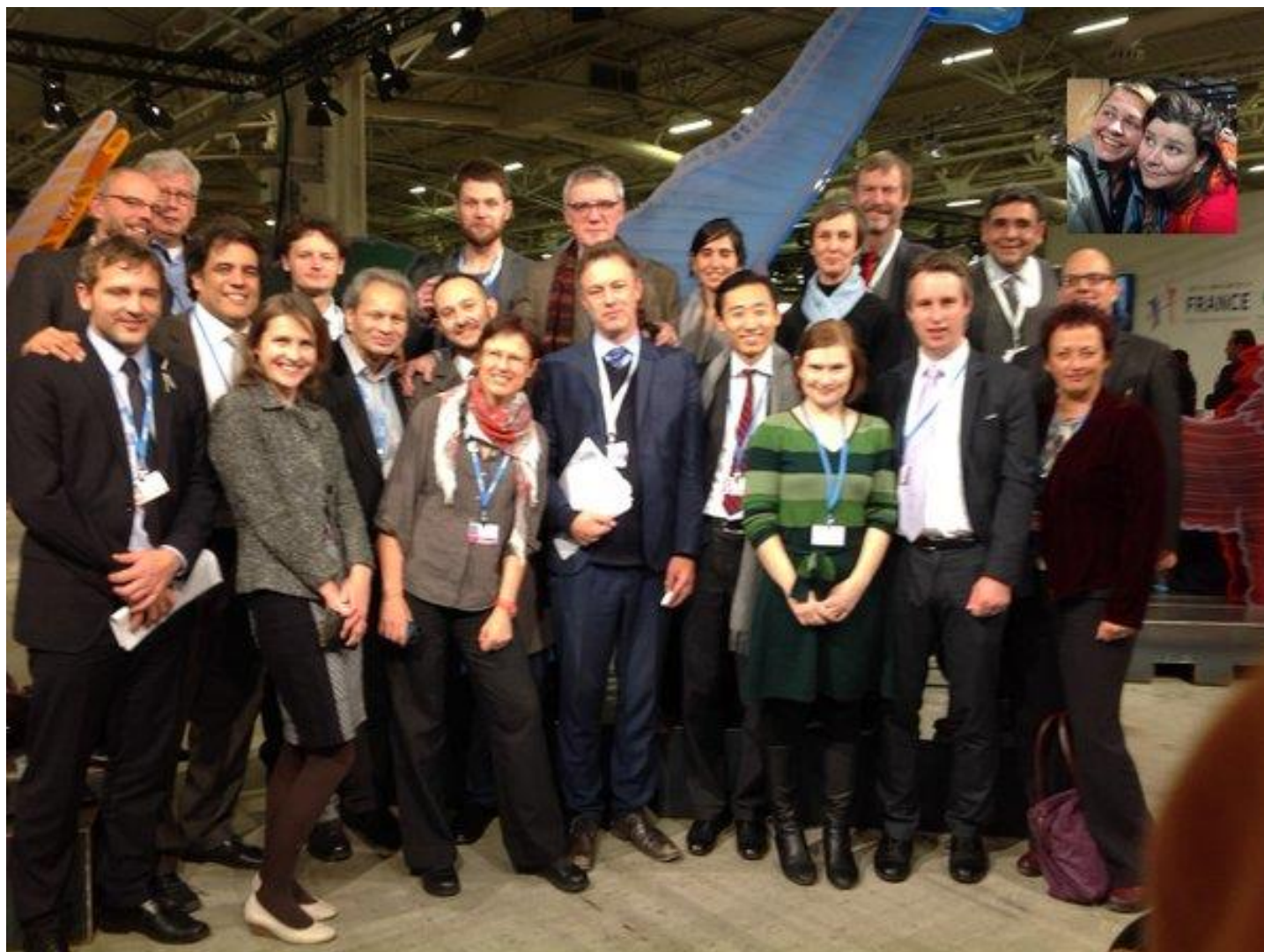




# Paris Agreement- Markets

February 18, 2016

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# **Paper on Art 6 of Paris Agreement**

## **Carbon Market Provisions in the Paris Agreement (Article 6)**

**Andrei Marcu No. 128 / January 2016**

<https://www.ceps.eu/system/files/SR%20No%20128%20ACM%20Post%20COP21%20Analysis%20of%20Article%206.pdf>

## Article 6 in perspective

Article 6 –last piece in Paris Agreement.

Why?

- Importance to environmental integrity of PA
- Connection to other parts of the PA
- Issues to be « traded »
- Ideological opposition to markets

## Evolution of Article 6

- Article 6 represents a progression especially since the October ADP session
- Important drafts and documents
- November 2014 : Brazil submission
- November 10, 2015: Draft PA
- December 5 – Draft AP, ADP to COP
- December 8: EU-Brazil submission
- December 9: Panama, AOSIS, LMDC submissions
- December 9 & 10: Draft PA, Committee de Paris
- December 12: Final PA

# What are the functions needed?

- 2 Functions
  - Create permits to emit
    - Allowances
    - Credits
  - Transfer mitigation/permits between Parties

# Markets in KP

- CMP had a central operational and governance role
- Firewall: CDM - non Annex 1, Art 17 -Annex 1
- Issuance of units used for compliance
  - CERs
  - ERUS
  - AAUs
- Transfer of units and accounting
  - ITL
  - Centralized serial numbers
  - Conditionality for participation in mechanisms

## Markets in PA - Scope of Article 6

1. Cooperative approaches: (Paragraph 6.1)
2. Transfer of mitigation outcomes (Paras 6.2-6.3)
3. Mechanism to support SD (SDM) – (Paras 6.4-6.7)
4. Framework for non-market approaches (Paras 6.8-6.9)

There was also a vision of one mechanisms (paras 6.4-6.9) but resistance from proponents



# Markets in PA

- No firewall – all Parties can participate in all approaches. No conditionality and no penalties
- Apparent decentralized governance – all under Party jurisdiction, little left to CMA
- But many unknowns
  - What does accounting mean
  - SD and Env integrity in transfers
  - Net mitigation
  - Double counting in Mechanism
  - One or more than one mechanism

# Final version 12 December

## Article 6

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 the Paris 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.*

# Final version 12 December

## Article 6

*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 the Paris 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 the 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 fulfill its nationally determined contribution; and*
- (d) To deliver an overall mitigation in global emissions.*

# Final version 12 December

## Article 6

*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.*

# Final version 12 December

## Article 6

*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 sector 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 nonmarket approaches referred to in paragraph 8 of this Article.*

# Version 5 December

## *Article 3 [Cooperative approaches]*

### **[Option 1 .**

*19. Parties acknowledge the importance of [cooperation in][cooperative approaches for] implementing and enhancing the ambition of climate action [at the international level].*

*19alt. Parties may also cooperate in the implementation of ###.*

*19bis. Where cooperative approaches involve the use of internationally transferred mitigation outcomes towards ###,*

*Parties participating shall [safeguard] [promote] sustainable development and environmental integrity and shall apply robust accounting to ensure, inter alia, that double counting is avoided, taking into account relevant guidance adopted for this purpose by the CMA [taking into account guidance adopted at the national level].]*

*19ter. A share of proceeds for adaptation shall apply.]*

### **Option 2.**

*19. Cooperative approaches of Parties, based on Article 4.7 of the Convention, must ensure the enhancement of mitigation outcomes together with adaptation co-benefits to be verified internationally but non-transferrable. ]*

# Version 5 December

*[Article 3ter] (Mechanism to support sustainable development)*

*{Proposed Mechanism 1}*

*1. [[Establishes a multi window mechanism][Establishes a framework for sustainable development mechanisms][A mechanism to support sustainable development in [developing country] Parties is hereby established] under the authority and guidance of the CMA, shall be supervised by a body designated by the CMA, and shall aim to:*

*(a) Promote sustainable development in developing country Parties;*

*(b) Incentivise and facilitate participation in mitigation action by public and private entities authorised by a Party;*

*(c) [Enhance mitigation ambition by developing country Parties, by incentivising supplementary voluntary climate action, beyond their ###][Fully respect the mitigation contributions of participating Parties to ensure that the global mitigation effort is not undermined];*

*(d) [Provide for net global emission reductions through the cancellation of a share of units generated, transferred, used or acquired];*

# Version 5 December

*[Article 3ter] (Mechanism to support sustainable development)*

*(e) [Assist Parties with a ### that reflects an absolute target in relation to a base year to fulfil their ###, through the use of mitigation outcomes from mitigation activities in developing countries][Consider the variety and dynamics of national circumstances of Parties];*

*(f) [Ensure environmental integrity of Parties' cooperative mitigation actions, including ensuring that such mitigation shall not be claimed more than once, in accordance with accounting guidance elaborated under Article [3.10]].]*

*2. [The CMA shall ensure that a share of the proceeds from certified project activities are 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.]*

*3. [The CMA shall adopt modalities and procedures for the first window of the above mentioned mechanism building on the mechanism defined under [Article 12][Article 6] of the Kyoto Protocol and related decisions of the CMP.]*



## Version 9 December at 15:00

### *Article 3 [Cooperative approaches]*

*20. [Parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred mitigation outcomes towards ###, promote sustainable development and environmental integrity and apply robust accounting to ensure, inter alia, the avoidance of double counting, in accordance with guidance adopted by the CMA.]*

# Version 9 December at 15:00

*[Article 3ter] (Mechanism to support sustainable development)*

## *{Proposed Mechanism 1}*

*1. [A mechanism to support sustainable development [in developing country Parties] is hereby established under the authority and guidance of the CMA, shall be supervised by a body designated by the CMA, and shall aim to:*

- (a) Promote sustainable development [in developing country Parties];*
- (b) Incentivise and facilitate participation in mitigation action by public and private entities under the responsibility of a Party;*
- (c) Enhance mitigation ambition by [developing country] Parties [, by incentivising supplementary voluntary climate action, beyond their ###];*
- (d) Deliver, where desired by participating Parties, a net decrease in, or avoidance of, emissions;*
- (e) Assist Parties [with a ### reflecting an absolute target in relation to a base year] to fulfil their ###, through the use of mitigation outcomes from mitigation activities [in developing country Parties];*
- (f) Ensure environmental integrity, including by ensuring that such mitigation shall not be claimed more than once, in accordance with guidance adopted by the CMA pursuant to Article [3, paragraph 14].*

## Version 9 December at 15:00

*[Article 3ter] (Mechanism to support sustainable development)*

- 2. [The CMA shall ensure that a share of the proceeds from activities under the mechanism are used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effect of climate change to meet the costs of adaptation.]*
  
- 3. [The CMA shall adopt modalities and procedures for this mechanism at its first session.]*

# Version 10 December at 21:00

## *Article 3 [Cooperative approaches]*

*20. [Cooperation between Parties in the implementation of ### includes approaches that enhance mitigation and adaptation ambition, promote sustainable development and environmental integrity and act in harmony with nature, consistent with guidance adopted by the Conference of Parties serving as the meeting of the Parties to the Agreement. Parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred emission reductions towards ###, promote sustainable development and environmental integrity, and 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 the Agreement, and ensure transparency in the governance of the approaches.*

*21. The use of internationally transferred emission reductions to achieve ### under this Agreement shall be voluntary and authorized by participating Parties.]*

# Version 10 December at 21:00

## *Article 3ter*

*1. [A mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development [in developing country Parties] is hereby established under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Agreement, shall be supervised by a body designated by the Conference of the Parties serving as the meeting of the Parties to the Agreement, and shall aim to:*

- (a) Promote the mitigation of greenhouse gas emissions [in developing country Parties] while fostering sustainable development;*
- (b) Incentivise and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party;*
- (c) Contribute to the reduction of emission levels in the [developing country] host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfil its ###;*
- (d) Promote a net contribution to the mitigation of greenhouse gas emissions;*

# Version 10 December at 21:00

## *Article 3ter*

*2. Emission reductions resulting from this mechanism shall not be used to demonstrate achievement of the host Party's ###, if used by another Party to demonstrate achievement of its ###.*

*3. The Conference of the Parties serving as the meeting of the Parties to the Agreement shall ensure that a share of the proceeds from activities under the mechanism are 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.*

*4. The Conference of the Parties serving as the meeting of the Parties to the Agreement shall adopt modalities and procedures for this mechanism at its first session.]*

# Final version 12 December

## Article 6

- 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 the Paris 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.*

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- (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 fulfill its nationally determined contribution; and*
- (d) To deliver an overall mitigation in global emissions.*



# Final version 12 December

## Article 6

*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.*

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*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 sector 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 nonmarket approaches referred to in paragraph 8 of this Article.*

## Cooperative approaches (para 6.1)

- Broad article
- Covers markets, non markets and beyond
- Initially merged with « EU article »
- Recognizes cooperation but does not provide permission
- Reference to sustainable development
- « allow higher level of ambition » vs « enhance »
- Voluntary cooperation

## Transfer of mitigation outcomes (6.2 & 6.3)

- Special case of cooperation involving international transfers
- Recognizes but does not provide permission
- Transfers any outcomes, no special qualifiers (UNFCCC)
- 6.2-6.3 does not create a market or price, creates conditions for convergence
- Play same role as KP Art 3.10-3.12 and Art 17

# Transfer of mitigation outcomes

## ITMOs

- ITMOs are an acronym not a unit
- Reasons from creating ITMOs
  - Resistance to market language
  - No units issued in some cases
  - Non markets and these paras were originally very broad

# Transfer of mitigation outcomes

## Role of CMA

- Role of CMA limited to issuing guidance for accounting
- No CMA approval or conformity check required for a transfer
- Some modulation present ?
  - Promote sustainable development?
  - Ensure transparency including in governance
  - Ensure transparency including in governance
  - Apply robust accounting

# Transfer of mitigation outcomes

## Accounting

- Parties apply the accounting in « accordance » with guidance
- Who decides if guidance observed and what happens if not ?
- Language softer than in previous versions – « in accordance in previous drafts

# Transfer of mitigation outcomes

## SD and environmental integrity

- 6.2 & 6.3 are transfer articles and “product articles”
- What is the meaning of SD and EI?
- Are SD & EI tests to be applied to non UNFCCC (domestic) ITMOs?
- There is no WP in 1/CP.21 to develop such tests
- No institution to operationalize such tests
- Boilerplate language that may add uncertainty in the future ?



# Transfer of mitigation outcomes

## Governance

- Promotes SD and EI including in « governance »
- First such reference in such text
- What needs does it meet and whose needs are they ?
- Some Parties have asked for stronger central governance to test environmental quality of domestics units trasfered internationally for PA compliance (ITMOs)
- This reference goes in that direction but wthat will it buy ?

# Transfer of mitigation outcomes

## Accounting

- How does one operationalize « towards NDCs » an avoid double counting?
- Are ITMOs retired in national registries (if there is one)
- How do you identify and ITMO?
- Will there be serial numbers based on tons?

# SDM

Origin in Brazil submission of November 2014

*“The Economic Mechanism shall be comprised of general guidelines related to an emission trading system and an enhanced Clean Development Mechanism (CDM+)”.*

*“The new market mechanism (...), should be established under the agreement, incorporating the modalities, procedures and methodologies of the Clean Development Mechanism, to allow trading of CER among all Parties.”*

# SDM

## Key provisions in SDM

1. Nature and governance of SDM
2. Scope of SDM
3. Overall mitigation
4. Share of proceeds
5. Participation of private entities

# SDM

## Nature and governance

- Mechanism is established
- Output is GHG emission reductions
- Under the authority and guidance of the CMA
- Body designated by the CMA
- It is a « production » mechanism
- Further interational transfers covered under 6.2-6.3
- Supporting SD could again prove to be a subjective clause leading to regulatory instability due to the lack of definition

# SDM

## Scope of the SDM

- Which Parties can host the SDM?
- Which Parties can use the product of the SDM
- SDM one or more mechanisms ?

## Overall mitigation

- Deliver an over all mitigation in global emissions
- Earlier versions included some details to help interpretation
- Who pays the bill – donates to the environment?

# SDM

**Share of proceeds**

**Participation of private entities**