

Paris Agreement International trading to achieve and surpass NDCs

16th IEA-IETA-EPRI Annual Workshop

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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

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Components of Article 6

- Paragraph 6.1 - General provision on general international cooperation
- Paragraphs 6.2 & 6.3 - Inter Party cooperation that results in the ITMOs for use towards NDCs
- Paragraphs 6.4-6.7 - Cooperation between Parties that will produce mitigation outcomes under the authority of the CMA, for use towards NDCs.
- Non-market approaches, which will contribute to the implementation of NDCs (paragraphs 6.8 & 6.9).

What is common, what is different

What is different

- Functions and governance
- Art 6.2-6.3 & 6.4-6.7 provide a framework for market creation and bottom-up convergence
- Art 6.8-6.9 ensure equal footing and synergy between market and non-market approaches
- Art 6.2-6.3 is mostly decentralized
- Art 6.4-6.7 is mostly centralized

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What is common, what is different

What is common

- To meet NDCs
- To promote sustainable development
- To ensure Environmental Integrity
- Voluntary, Party authorization

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Meeting NDCs

Three issues

- Allow a higher level of ambition
- All Parties have NDCs: ITMOs vs. sell
- Deliver an overall mitigation

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Allow a higher level of ambition

- Some PA drafts on these issues (cooperation, transfers, markets, etc.) referred to the need to “enhance mitigation ambition”.
- The use of the word “enhance” was disputed by many Parties, which wanted to make sure that cooperative approaches could be used to achieve what is currently in their INDCs. They felt that the use of the word “enhance” could be interpreted as the need to increase the level of ambition in their current NDC before they could make use of cooperative approaches.
- “Allow” has a “facilitative” connotation while “enhance” would seem to require an active act of increasing the level of ambition.

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Keep vs. Transfer (ITMOs/credits)

- All Parties have NDCs
- Different from KP – there is a cost benefit analysis, not a no-loose situation
- Participation is voluntary and Parties must authorize
- Whose decision is to keep vs. transfer? Those who do the reduction or the Party? Project-by-project authorization?
- Decision keep vs. transfer purely economical? Implies good price discovery in all countries
- Will there be a price floor?

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Deliver net overall mitigation

What does it mean? No one knows

- *The 5 December 2015 draft (Article 3ter, mechanism 1, 1(d)), has language that refers to “provide for net global emission reductions through the cancellation of a share of units generated, transferred or acquired”).*
- *Is this still a valid concept in the PA?*
- *Who does the net mitigation? – the host Party, the Party that uses the SDM mitigation towards its NDC, the first purchaser, etc.?*
- *When does it take place: at production, at issuance, at use?*
- *Does it impact reaching and overreaching the NDCs?*

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“ITMO” decision

- Articles 6.2 & 6.3
- 2 “shall” articles
 - It “shall” ensure that it promotes sustainable development and ensure environmental integrity and transparency, including in governance
 - It “shall” apply accounting consistent with guidance developed by the SBSTA, including ensuring the avoidance of double counting

“Generally accepted” provisions

1. Recognize cooperation between Parties, not a function of approval by the CMA.
2. Place no restrictions on the type of cooperation that may result in ITMOs that can be used towards NDCs. This cooperation may, therefore, take any form:
 - Bilateral, plurilateral, and possibly (?) multilateral cooperation.
 - Linking of cap and trade systems, or other types of trading systems
 - The transfer of units, or blocks of mitigation, resulting from cooperation between Parties (e.g. Joint Crediting Mechanisms created by Japan)
 - No limitation to GHG

“ITMO” decision - continued

3. Cooperation needs to be approved by the Parties involved.
4. In order for ITMOs to be usable towards NDCs, the Parties involved “shall” develop accounting systems that will be consistent with accounting guidance developed by the SBSTA
5. In order for ITMOs to be counted towards NDCs the Parties involved will “promote sustainable development and ensure environmental integrity, including transparency”.

Issues for clarification

Implications for governance: from totally decentralized to shades of KP

Provisions that simply need interpretation – maybe simple, but needed

1. Any interpretation that would require/allow the CMA to develop and operationalize sustainable development and environmental integrity, as referred to in Article 6.2 under Article 4.13?
2. There is no work program under SBSTA for “transparency, including in governance” However, can it be considered that there is a mandate under paragraph 13.13 ?
3. Article 6.2 has no provisions for compliance. Can there be one under under Article 15 of the PA, operationalized under paragraph 104 of the Decision ?

Decision on Sustainable Mitigation Mechanism(SMM)

Provisions in SMM – “generally accepted”

- The SMM is under the authority of the CMA. A body designated by the CMA will supervise it.
- There are no restrictions on where it can produce mitigation outcomes.
- There are no restrictions on who can use the mitigation outcomes resulting from SMM
- There are no specific provision on complementarity.
- The private sector can participate under the authority of the Party
- M&P will be developed under SBSTA and will consider the experience of the KP mechanisms.
- Paragraph 38 (d) describes additionality - is SMM to be seen as a baseline& credit mechanism
- Article 6.6 of the PA refers to a share of proceeds from the activities of the SSM will be devoted to the administration of the mechanism and to adaptation.
- There is a reference to “overall net mitigation in global emissions”.

Decision on Sustainable Mitigation Mechanism(SMM)

Issues for clarification

1. Do Articles 6.4-6.7 refer to one, or more than one mechanism, or windows?
 - Broad reference to mitigation
 - Different M&P for different NDCs – different SMMs?
 - Relationship with Article 5
2. “Overall mitigation in global emissions” concept needs to be explained in order to be operationalized.
 - Where does “net mitigation” take place?
 - Implications for accounting
3. Relationship between Articles 6.4-6.7 and Article 6.2-6.3.
 - “ITMO paras” transfers only
 - “SMM paras” for all baseline and credit – implication ? JCM under 6.4!!