

Article 6 in the Paris Agreement : Challenges & Opportunities

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IETA-IEA-EPRI, October 4, 2019

Thorny issues

- What is an ITMO? What are the attributes/characteristics of an ITMO? This will include issues such as:
 - Form
 - Metric
 - Inclusion of sinks
 - Article 6.4 mechanism units (A6.4M)
- Corresponding adjustment
 - What gets adjusted: NDC or emissions-based number?
 - Timing of adjustment: at transfer, at usage
 - Amount of adjustment: treatment of single year NDC
- Use of ITMOs for purposes other than NDCs.
- Governance and Rules of Procedures for Art 6.4, including level of decentralization

Thorny issues

- What information is made available to the international regulator (CMA)? What gets reported and recorded, timing of the reporting?
- Is there a share of proceeds for Article 6.2?
- Nature of overall mitigation of global emissions (OMGE) for Art 6.4 – voluntary or not?
- Is there an OMGE provision for Art 6.2 at all?
- Avoidance of double counting for Article 6.4.
- Transition of the KP mechanisms to Art 6 of the Paris Agreement

Issues of principle(political)

- The discussion on “issues of principle” should include:
- Expression of the issue in terms of political/principle choices, including the reason why it is an issue with policy/political ramifications
- Discover the issues that are included in the “operational buckets” which depend on this issue of principle?
- Detail how the potential packages/bucket outcomes look like based on different decisions.
- Some of the “issues of principle” that can be examined may include:
- Accounting & avoidance of double counting – is the accounting towards:
 - NDC
 - Emissions
 - Both

Issues of principle(political)

- Metrics: CO₂e only, or what Parties agree on?
- Concept of additionality: treatment of Art 6.4 first issuance.
- Use of ITMOs for purposes other than NDCs.
- Overall mitigation in global emissions.
- Removals by sinks.
- SOP for 6.2.
- What is an ITMO: what does the international regulator need to know?
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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**