

VIEWS OF BRAZIL ON THE PROCESS RELATED TO THE RULES, MODALITIES AND PROCEDURES FOR THE MECHANISM ESTABLISHED BY ARTICLE 6, PARAGRAPH 4, OF THE PARIS AGREEMENT

The Government of Brazil welcomes the opportunity to submit views regarding the process related to the rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement (FCCC/SBSTA/2016/L.12), in response to SBSTA invitation at its 44th Session.

2. Brazil is of the view that Article 6 must always be read in conjunction with the aims of the Paris Agreement, as set out in Article 2. Article 6 as whole must necessarily contribute to strengthening the global response to climate change, in the context of sustainable development and efforts to eradicate poverty, including with respect to the temperature goal, adaptation, and the increase of financial flows towards low greenhouse gas emissions and climate-resilient development in developing countries.

3. The mechanism under Article 6.4 – the “Sustainable Development Mechanism” (SDM) – is established to contribute to the mitigation of greenhouse gas emissions (GHG) and to support sustainable development. Under Article 6.6, a share of the proceeds from activities under the new mechanism is to be used to assist developing countries to meet their adaptation costs. The SDM must be seen, therefore, as an instrument conceived for enhancing the implementation of the Convention and for fulfilling the aims of the Paris Agreement.

4. Brazil envisages the SDM to become the ultimate international mechanism to certify climate action and issue credits. Building upon the experience of the Clean Development Mechanism of the Kyoto Protocol (CDM), the SDM has the potential to ensure environmental integrity, create liquidity of tradable units multilaterally, and foster engagement by non-State stakeholders, while assisting Parties to implement their nationally determined contributions (NDCs) and providing social and economic gains, including on adaptation.

The SDM as an enhanced CDM

5. The features of the SDM, as determined by the Paris Agreement, are analogous to those of the CDM. It is a voluntary centralized certification and crediting mechanism, subject to multilateral governance and rules for ensuring environmental integrity.

6. The aims of the new Paris mechanism reflect the logic of the CDM, while extending its scope even further. The original purpose of the CDM, under Article 12 of the Kyoto Protocol, is to assist non-Annex I Parties in achieving sustainable development and Annex-I Parties in achieving their emission reduction commitments. The SDM innovates in relation to its predecessor insofar as its aims include “*to incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party*”, as stated in Article 6.4(b). In other words, while the demand of CERs under the CDM was originally driven by Annex I Parties, the certified emission reductions issued by the SDM can be used by any actor for any purpose that entails measuring, reporting and verifying climate action – including for financial instruments, corporate socioenvironmental responsibility

strategies, performance-based finance, positive pricing, etc. If properly developed, the rules, modalities and procedures for the SDM can effectively enhance climate action by state and non-state stakeholders, thus contributing to an ambitious and comprehensive response that the urgency of climate change requires

7. The ability of the climate change regime to ensure continuity and smooth transition from the CDM to the SDM will be key to the reputation of the Convention. Failure to guarantee to stakeholders, especially CDM project developers, that their efforts will be recognized and tangible in the context of the new Paris Agreement will jeopardize legal certainty and prevent certified emission reductions (CERs) to fully contribute to early-action and to enhancing pre-2020 ambition. The international community cannot afford this scenario.

Mitigation and environmental integrity

8. Brazil strongly believes that environmental integrity for market-based offsetting mechanisms can only be ensured by rules and governance structures that are multilaterally agreed. Only a centralized mechanism that is accountable to Parties can provide the necessary assurances that greenhouse gas emission reductions are accurately monitored, verified and certified. Only multilateral supervision can guarantee one tonne of CO₂ equivalent (tCO₂e) claimed to have been reduced indeed represents one tCO₂e not released in the atmosphere.

9. Paragraphs 4 and 5 of Article 6 of the Paris Agreement and paragraph 37 of Decision 1/CP.21 contain elements related to governance and rules capable of ensuring environmental integrity from SDM activities.

- Governance

10. The caput of Article 6.4 specifies that the SDM (i) is to be subject to the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), and (ii) shall be supervised by a CMA designated body.

11. Brazil is of the view that this body should be similar to the CDM Executive Board (CDM-EB). The *SDM Executive Board* can succeed to the CDM-EB in virtually all aspects, including but not limited to its rules of procedure, code of conduct and guidelines for panels/working groups.

- Multilateral rules

12. Identically to the CDM, paragraph 37 of Decision 1/CP.21 states that the rules, modalities and procedures for the SDM should be based on:

- (i) *voluntary participation authorized by each Party involved;*
- (ii) *real, measurable, and long-term benefits to the mitigation of climate change;*

- (iii) *reductions in emissions that are additional to any that would otherwise occur;*
- (iv) *verification and certification of emission reductions resulting from mitigation activities by designated operational entities.*

13. Brazil is of the view that the modalities and procedures for the CDM and other related decisions, including those adopted by the CDM-EB, should be incorporated into the SDM rules, modalities and procedures.

Sustainable development

14. Like the CDM, the SDM is conceived to support and foster sustainable development. It should therefore provide environmental, social and economic benefits to Parties. Socioeconomic gains could mean new and additional investments, finance, technology transfer and diffusion, job creation and improvement of standards of living.

15. Sustainable development considerations are a national prerogative, and should thus not be subject to multilateral analysis under the UNFCCC. Therefore, similarly to the CDM, the rules, modalities and procedures of the new mechanism must not include "top down" sustainable development criteria, but the promotion of sustainable development should be a key factor in the approval of projects by designated national authorities, recognizing government's primary responsibility for follow-up and review in this area.

The aims of the SDM

16. In accordance with Article 6.4, the SDM 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 fulfil its nationally determined contribution; and*
- (d) *To deliver an overall mitigation in global emissions.*

A. Mitigation and sustainable development

17. The promotion of mitigation of greenhouse gas emissions is contingent upon stringent rules for monitoring, verifying and certifying effective reductions. Brazil understands that, similarly to the CDM, activities under the SDM will have to be subject to national approval by designated national authorities, validation by designated operational entities, registration by the *SDM-EB*, monitoring by the developer, and

verification by designated operational entities, prior to final credit issuance by the *SDM-EB*. The *SDM-EB* should also consider ways in which to facilitate public and private engagement to the SDM, including through communication and outreach.

18. As with the CDM, sustainable development benefits arising from SDM activities must be ensured through a confirmation by the host Party that the activity assists it in achieving sustainable development.

B. To incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party

19. The SDM should incentivize and facilitate action from the private sector, civil society and public authorities that are complementary to and compatible with national climate change policies and measures. Activities under the SDM undertaken by non-State stakeholders should go beyond policies and measures envisioned by the host Party in the sense that the project activity under SDM would never have been developed without the adoption of the Paris Agreement. These certified emission reductions can be used either for transfers towards the achievement of another country's NDC or to contribute to the achievement of the host Party's own NDC.

20. Eligibility criteria should be as open as possible to favor universal engagement by state and non-state actors. Although originally restricted to Parties to the Kyoto Protocol, the CDM was firstly used for non-compliance purposes when CERs were voluntarily cancelled to compensate emissions from the organization of the United Nations Conference on Sustainable Development (Rio+20), in Rio de Janeiro, in 2012. The voluntary cancellation of CERs was one of the four steps adopted by COP-19 (Warsaw, 2013) to help close the pre-2020 ambition gap.

21. There are a number of CDM initiatives already underway, dedicated to the private sector, civil society and governments. These actions and other similar incentives for non-state stakeholders could be further extended and developed in the context of the SDM.

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 fulfil its nationally determined contribution

22. Similarly to the CDM, activities under the SDM should result in mitigation that positively affects the host Party's emission levels. Irrespective of whether the host Party chooses to use SDM mitigation benefits towards its own NDC or towards the NDC of another Party, such benefits will always affect emission trends to be reported in the host Party's national GHG inventory, by means of a reduction in aggregate emissions. In other words, the more SDM activities are implemented, the more mitigation is achieved domestically, and the less aggregate emissions are monitored in a given country's territory.

23. Under Article 6.4(c), credits issued under the SDM can also be used by another Party to fulfill that Party's NDC. It is important to highlight that the scope of the

procedures of the SDM should extend from the design of eligible mitigation activities to the issuance of certified emission reductions. SDM procedures should not prejudge how certified emission reductions will be used. The decision on how to use the units issued for each project activity lies with the project activity participant.

24. In any case, accounting for SDM credits transferred internationally will naturally not interfere with the host Party's actual emission trends. It must be recalled that the international transfer of SDM emission reduction units cannot result in corresponding adjustments in the host Party's inventory itself, since the inventory provides estimated level of emissions, serving as a "snapshot" of the national emissions profile prepared in "bona fide". This is a given fact that cannot be changed by a policy decision *a posteriori*.

25. Article 6.5 prevents SDM certified emission reductions from being claimed simultaneously by two different Parties. In Brazil's understanding, if SDM mitigation outcomes are claimed by another Party, the host Party must rely on supplementary efforts to demonstrate achievement of its own commitments. This means that, in the case a SDM certified emission reduction is not transferred to a second Party, the host country will retain its mitigation benefits, and should also be entitled to use it for the achievement of its own NDC. Contrarily, in the case the SDM credit is transferred to a second Party, the host country will retain mitigation benefits – by means of its national inventory - but should not be able to account for them towards its own NDC.

26. It must be recalled that, under the Paris Agreement and decisions, reference to "guidance to ensure that double counting is avoided on the basis of a corresponding adjustment by Parties for both anthropogenic emissions by sources and removals by sinks" is applicable only to Article 6.2, not to Article 6.4. The issue of *double counting* should not be covered by the rules, modalities and procedures of Article 6.4 mechanism.

27. What is relevant for the SDM is to ensure that certified emission reductions are not used twice, as provided by Article 6.4.c. SDM modalities and procedures shall create incentives for the development of project activities all over the world. While ensuring environmental integrity and an overall mitigation in global emissions, the modalities and procedures must not be designed to impose host countries additional barriers for fulfilling their NDC. Lack of effective incentives and comparative advantages for host Parties to authorize SDM activities in their jurisdiction would prevent complementary action by public and private entities it is supposed to authorize,, besides generating a perverse incentive for Parties not to reflect their highest possible ambition in their NDCs.

D. To deliver an overall mitigation in global emissions

28. The SDM should deliver more action, more engagement and more ambition. Firstly, it should incentivize and facilitate action from the private sector, civil society and public authorities that is complementary to national climate change policies and measures, thus enhancing ambition. As mentioned previously, SDM activities should either contribute to the achievement of the host Party's NDC or go beyond policies and measures envisioned by the host Party if certified emission reductions are effectively used as internationally mitigation outcomes towards another country's NDC.

29. Secondly, the SDM should provide for environmental integrity, which is to be guaranteed by multilateral rules and governance for activities certification under Article 6.4.

30. Brazil understands that a key element for ensuring that the SDM effectively results in overall mitigation in global emissions and go beyond policies and measures envisioned by the host Party is *additionality*. As provided by paragraph 37(d) of Decision 1/CP.21, certified activities must correspond to reductions in emissions that are additional to any that would otherwise occur.

31. Additionality can be assessed through demonstration that the mitigation activity is the first-of-its-kind and through investment, barriers and common practice analysis that show alternatives would not present equal climate benefits. Additionality can also be understood as the project activity would never have been developed without the adoption of the Paris Agreement. This would be the case in the so-called financial additionality.

32. Overall mitigation in global emissions is also to be ensured by stringent environmental integrity requirements and limited issuance periods.

Specific scopes of activities

33. Brazil is of the view that “*specific scopes of activities*”, under paragraph 37(c) of the Paris decision, refers to types of methodologies for SDM activities. Such methodologies should be the same as those that are eligible to the CDM: large scale, small scale, afforestation and reforestation, and carbon capture and storage activities. SDM shall also inherit all methodologies developed under the CDM *mutatis mutandis* where necessary.

34. REDD+ activities are not to be eligible to the SDM, Article 5 of Paris Agreement is a stand-alone provision that has no linkage to Article 6. REDD+ is related to positive incentives, not offsetting activities. Furthermore, REDD+ is by definition related to mitigation results achieved through policies on a national scale (with subnational approaches admitted on an interim basis). Through the existing framework as set out in related guidance and decisions *already agreed under* the Convention, it is the developing country Party that undergoes the measuring, reporting and verification procedures and, as such, ultimately assumes responsibility for its REDD+ results. Attempts to link Articles 5.2 and 6.4 are equivalent to reopening the discussion on the scale of REDD+ activities, which has been settled by decisions already agreed under the Convention with the rejection of the project scale.

SDM registry

35. The Executive Board of the SDM shall keep a registry of the certified emission reductions issued to participating private or public entities, including their serial numbers. In accordance with the authorization of the private or public entity participating in the project activity, the certified emission reduction shall be transferred,

through an instrument analogous to the Kyoto Protocol's International Transaction Log (ITL), to the national registry of either the host Party or the acquiring Party.

36. The SDM registry shall also receive those CERs issued under the CDM that have not been cancelled or retired under the Kyoto Protocol. This would provide a positive signal to the private sector and, at the same time, enhance pre-2020 action under stringent environmental integrity guarantees, in recognition of the mitigation efforts from CDM project activities participants. CDM participants have trustfully chosen to invest in the multilateral response to climate change. If their efforts are not recognized, confidence and legal certainty around the regime and new mechanisms under the Paris Agreement will be seriously threatened.

Non-market approaches

37. As stated previously, the use of certified emission reductions issued by the SDM is not restricted to demonstrating achievement of NDCs, but can also be used by any actor for any purpose that entails measuring, reporting and verifying climate action – such as for financial instruments, corporate socioenvironmental responsibility strategies, performance-based finance, positive pricing, etc.

38. SDM certified emissions reductions used for purposes other than demonstrating achievement a Party NDC should be cancelled and recognized as one of the non-market approaches referred to in Article 6.8.