

## **VIEWS OF BRAZIL ON THE GUIDANCE REFERRED TO IN ARTICLE 6, PARAGRAPH 2, OF THE PARIS AGREEMENT**

1. The Government of Brazil welcomes the opportunity to submit “views on, inter alia, the elements to be addressed, including their operationalization, in the guidance referred to in Article 6, paragraph 2, of the Paris Agreement, overarching issues, and relationships between Article 6, paragraph 2, and other provisions of the Paris Agreement, the Convention and its related legal instruments, as relevant”, as set out in document FCCC/SBSTA/2016/L.28. This submission should be read in conjunction with the previous submission on this matter, dated October 2 2016, prior to SBSTA 45.

### **I- Overarching issues**

2. At the core of Article 6.2 are the requirements to:

*“[...] promote sustainable development and ensure environmental integrity and transparency, including in governance, and [...] to apply robust accounting to ensure, inter alia, the avoidance of double counting”.*

3. Additionally, paragraph 3 mandates that:

*“The use of internationally transferred mitigation outcomes towards nationally determined contributions under this Agreement shall be voluntary and authorized by participating Parties.”*

#### **A) “to promote sustainable development”**

4. It must be recalled that the promotion of sustainable development is a national prerogative, which should be guided by the United Nations **2030 Agenda for Sustainable Development**, adopted by the General Assembly, in 2015. The 2030 Agenda enshrines 17 Sustainable Development Goals and 169 targets, while reiterating government’s primary responsibility for follow-up and review with respect to their implementation.

**5. It is not appropriate, therefore, for the Convention, its related legal instruments and bodies to propose any international definition on sustainable development. Nor is the international climate change regime to suggest how Parties should promote sustainable development domestically.**

#### **B) To “ensure environmental integrity and transparency, including in governance, and [...] to apply robust accounting to ensure, inter alia, the avoidance of double counting”**

6. Article 6.3 conditions the use of internationally transferred mitigation outcomes towards nationally determined contributions (NDCs) to the authorization of participating Parties. This prerequisite is essential for allowing Parties the necessary policy space for

attesting alignment with national priorities and with sustainable development considerations.

7. Brazil understands that the guidance on 6.2 to be adopted by the Meeting of the Parties to the Paris Agreement (CMA) must provide for a **robust accounting framework** for the use of internationally transferred mitigation outcomes towards NDCs. On its part, this robust accounting framework under the CMA's guidance must ensure environmental integrity and transparency, including in governance and in relation to the avoidance of double counting.

8. **In sum, Article 6.2 must guarantee, firstly, that one tonne of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e) transferred is indeed equivalent to one tCO<sub>2</sub>e, in atmospheric terms. Secondly, it must make sure that one tCO<sub>2</sub>e traded is not used twice.** This can be only achieved for the units generated under the Article 6 by means of an international transaction mechanism to forward units to different registries.

## **II- Relationships with other provisions of the Paris Agreement, the Convention and its related legal instruments**

9. Article 6.2 is closely linked to other provisions of the Paris Agreement, the Convention and its related legal instruments, namely, the **Kyoto Protocol (KP)**.

### **A) Other provisions of the Paris Agreement**

10. Brazil is of the view that Article 6 must always be read in conjunction with the aims of the Paris Agreement, as established in its **Article 2**. Article 6 should, hence, contribute to the necessary **ambition** for achieving the **temperature goal**, to increasing **resilience** and to mobilizing **finance**. The importance of fostering financial flows, in particular to developing countries, is twofold: it supports climate action, and it promotes sustainable development.

11. The operationalization of Article 6.2 will only be coherent with Article 2 if it effectively translates into mitigation efforts that are positively felt by the atmosphere. Article 6.2 will fail to contribute to the aims of the Paris Agreement if it does not guarantee that one NDC or emission reduction related tCO<sub>2</sub>e transferred is indeed **equivalent to one tCO<sub>2</sub>e** in atmospheric terms, and, in addition, that each NDC or emission reduction related tCO<sub>2</sub>e **traded is used only once**. The guidance under 6.2 must, therefore, necessarily address both aspects. This requires **rules and governance structures that are multilaterally-agreed**.

12. Being of voluntary nature, Article 6.2 should also serve as a positive **stimulus** for Parties to undertake efforts representing “a **progression over time**, while recognizing the need to support developing country Parties for the effective implementation of [the Paris] Agreement”, as per **Article 3** and the scope of **Articles 4.3, 4.4, and 4.13**.

13. Brazil views the guidance under 6.2 as covering **accounting rules and requirements for international transfers**, including with respect to governance and to the demonstration of capacity to account for national emissions and tradable units. From the Brazilian perspective, the 6.2 guidance would consist of an **additional “layer” for the implementation of transparency commitments under Article 13 and for NDCs accounting under Article 4.13** of the Paris Agreement. Such a layer is to be applicable only to those Parties that voluntarily choose to engage in international transfers of mitigations outcomes towards NDCs, but may, in parallel, serve as input for the processes under Articles 4.13 and 13.

14. Finally, Article 6.2 also bears a mutually supportive role in relation to the sustainable development mechanism (SDM) under Article 6.4.

## B) Kyoto Protocol

15. Brazil believes that Article 6.2 of the Paris Agreement is analogous to **Article 17 of the Kyoto Protocol**, which introduced **international emissions trading** into the climate change regime. The use of internationally transferred mitigation outcomes towards NDCs under the Paris Agreements is similar to emissions trading for the purposes of fulfilling quantified emission limitation and reduction commitments under the KP.

16. The modalities, rules and guidelines for international emissions trading under Article 17 of the Kyoto Protocol created a **robust accounting framework**, which successfully addressed **comparability of units traded** and the **avoidance of double counting**. Such guidelines were further improved by later decisions of the Meeting of the Parties to the Protocol (CMP). Decision 1/CMP.8, for example, which adopted the **Doha amendment** on the second commitment period (2012-2020), aimed to tackle the issue of lack of ambition by Annex I Parties jointly, which is largely recognized as the key cause of the current demand crisis for Kyoto units.

17. Irrespective of the issue of lack of demand for KP units, the Protocol’s emissions trading framework is fully operational and is greatly applicable to Article 6.2, without prejudice to the necessary adjustments to accommodate the context of the Paris Agreement. Together with the clean development mechanism (CDM), under its Article 12, the KP’s international emissions trading provides for the blueprint for an approach involving international transfers of mitigation outcomes. Article 17 of the KP and related decisions by the CMP should, thus, serve as the basis for the 6.2 guidance to be adopted by the CMA.

## III- **Elements and operationalization: ensuring tCO<sub>2</sub>e transfers are fully comparable**

18. Brazil is of the view that the main environmental integrity challenge around international transfers of mitigation outcomes is to ensure that one NDC or emission reduction related tCO<sub>2</sub>e traded indeed corresponds to tCO<sub>2</sub>e **in atmospheric terms**.

Mitigation outcomes transferred under 6.2 must, moreover, **be fully comparable and fungible** with emission reductions monitored, verified and certified under Article 6.4.

19. Environmental integrity of SDM activities is to be ensured by its centralized nature: the SDM will be based on supervision by a body designated by the CMA and on multilaterally-agreed rules, modalities, procedures and governance structures. Accordingly, mitigation activities under 6.4 will abide by decisions and methodologies by the CMA and its supervisory body. The SDM will guarantee accountability to Parties jointly and that emission reductions are accurately monitored, verified, approved and certified, in a process involving not only project developers, but also host Parties' national authorities, designated operational entities and the multilateral supervisory body, under the authority and guidance of the CMA.

20. The 6.2 guidance must provide for an accounting framework and for environmental integrity safeguards that are at least comparable to the abovementioned stringency expected for the 6.4 mechanism. Under this perspective, it is unmanageable and impractical for the scope of Article 6.2 to encompass linkages between domestic, subnational or regional emissions trading schemes. If that were the case, the guidance under 6.2 would necessarily have to impose multilaterally-agreed rules and governance structures on each of existing and new schemes, in order to ensure environmental integrity. Although such a solution might address concerns related to transparency and comparability of mitigation outcomes, it would, on the other hand, limit Parties' policy space in developing their own domestic and regional schemes, while requiring existing schemes to undergo significant changes in their mode of operation, so as to conform to multilateral standards.

21. It is important to bear in mind that the 6.2 guidance to be adopted by the CMA must be able to work in the long-term. Current domestic, subnational and regional emissions trading schemes may not be the same in the future. Parties must consider the probability of countless new domestic schemes to emerge in the long-term and existing schemes to be reformed overtime to accommodate domestic and regional particularities. It is unconceivable that the 6.2 guidance could cover them all, without either imposing strict multilateral governance and standardization or creating impending environmental integrity reputational risks to the regime.

22. Similarly to the dynamic of the Kyoto Protocol, domestic, subnational or regional emissions trading schemes should be **indirectly** relevant to the regime, to the extent that they are part of countries' **domestic policies**, to be reported in their National Communications. In this context, **not only is the experience of emissions trading under the Kyoto Protocol key in terms of environmental integrity, but also desirable as a means to contributing to effectively achieving mitigation commitments, without prescribing which policies and activities Parties should adopt in engaging in 6.2.**

#### A) Issuance of tradable units

23. Brazil understands that, for the purpose of trading mitigation outcomes towards NDCs, Parties wishing to voluntarily engage in the 6.2 mechanism should **quantify their**

**mitigation commitments** communicated under the Paris Agreement, in terms of tCO<sub>2</sub>e that they will be limited to emit, annually, from 2020 in accordance with their communicated NDC. This process should entail the following steps:

- firstly, Parties should calculate how many tCO<sub>2</sub>e they would be allowed to emit in the end year of their NDC, when achieving their own NDC mitigation commitment;
- secondly, the end year tCO<sub>2</sub>e allowance should be multiplied by the number of years in a given NDC time frame;
- thirdly, the resulting figure should be converted into an equivalent pool of units, each corresponding to one tCO<sub>2</sub>e;
- fourthly, if its NDC end year tCO<sub>2</sub>e allowance is superior to the average annual emissions for the years preceding the NDC timeframe, as shown in its last inventories, such a difference multiplied by the number of years in the given NDC time frame for the Party would be reserved for domestic use only (retirement) – i.e., demonstrate achievement of the NDC. In other words, such difference would not be eligible for international transfers.

24. The final figure of that four-step calculation is to represent a Party's quantified NDC under Article 6.2. The quantified NDC is to form a pool of *quantified contribution units* (QCU), each containing a **unique serial number** and other relevant information necessary for its **identification and tracking**, in case it is later transferred to another Party.

25. A Party engaging in 6.2 would then be able to **demonstrate achievement** of its NDC if, at the end of the NDC time frame, it holds an amount of units equivalent to what it has actually emitted in that same time frame, in terms of tCO<sub>2</sub>e, in accordance with its corresponding inventories. A Party that **overachieves** its NDC mitigation commitment would be able to **trade** part of its *quantified contribution units*. In other words, if the Party's emissions reported and verified in its inventories throughout the NDC time frame are **lower** than its *quantified NDC*, it would have a **surplus of units**, which are **transferable** to other Parties – if emissions remain below the annual average for the years preceding the NDC timeframe. Conversely, if the Party's emissions reported and verified in its inventories throughout the NDC timeframe are **higher** than its *quantified NDC*, it would need to **acquire** excess units from third Parties holding a tradable surplus.

#### **IV- Elements and operationalization: ensuring tCO<sub>2</sub>e traded are not used twice**

26. The quantification of NDCs mitigation commitment into *quantified contribution units* will not only ensure comparability of tradable units, but also provide a **robust accounting framework to ensure double counting is avoided**. Every single unit within a quantified amount will count with a unique serial number and other relevant individual

information that are necessary for its identification and tracking, when used in international transfers of mitigation outcomes towards NDCs.

27. Moreover, Parties wishing to engage in 6.2 should be required to establish and maintain a **national registry** to ensure the **accurate accounting of the issuance, holding, transfer, acquisition, cancellation and retirement** (i.e., use towards NDCs) of QCU. For those Parties that wish to engage in 6.2 but do not want to maintain its own national registry, a “**multilateral registry**” should be made available by the Secretariat. Each tradable unit shall be **held in only one registry** and shall be used for only one purpose at a given time.

28. The secretariat should also establish and maintain an **international transaction mechanism** to verify the validity of transactions, including issuance, transfer and acquisition between registries, as well as cancellation and retirement of units.

#### A) Corresponding adjustments

29. Corresponding adjustments should occur in every international transfer of mitigation outcomes towards NDC, by means of **additions and subtractions of tradable units acquired and transferred, respectively**. Corresponding adjustments should occur, furthermore, in cases in which a Party is willing to **scale-up its mitigation ambition** level throughout its NDC time frame, by means of cancelling a portion of QCU. In this latter case, the amount of units cancelled should be subtracted from a Party’s quantified amount.

30. Brazil envisages that, at the end of the first NDC timeframe, additions to quantified amounts should be made for acquisitions of QCU from other Parties, alongside acquired SDM certified emission reductions (CERs) under Article 6.4 and CERs under the CDM. Equally at the end of the first NDC time frame, subtractions from quantified amounts should be made for transfers of QCU to third Parties and/or for units cancelled.

31. For subsequent NDC time frames, additions to quantified amount could be made only in relation to CDM or SDM CERs held in that Party’s national registry that have not been retired under its previous NDC or cancelled. Similarly to the formula of the Kyoto Protocol, CDM and SDM CERs could be “carried-over” from a NDC time frame to the next, up to a maximum for each unit type of 2.5 per cent of the subsequent quantified amount, if requested by the Party concerned. For QCU, any quantified units held in that Party’s national registry that have not been used shall be transferred to a *previous surplus reserve account* for the subsequent NDC time frame. Parties’ previous surplus reserve accounts should be established in its national registry or in the multilateral registry maintained by the Secretariat. QCU carried-over from one NDC time frame to the next should not be eligible for trading.

## V- Summary

32. The present proposal advances key environmental integrity safeguards relating to comparability and governance of mitigation outcomes transferable internationally for the purposes of Article 6.2. Based on the invaluable experience from the Kyoto Protocol, this approach will **reward overachievers**, thus stimulating enhanced domestic action, and, at the same time, facilitate the demonstration of NDCs achievement for those Parties in difficulty to do so. It **prevents perverse incentives** and **avoids entrenching low mitigation ambition**, while fostering **progression** of commitments overtime, both in terms of mitigation ambition and transparency. Furthermore, this proposal secures Parties the **political discretion** and policy space for the design and operation of domestic and regional emissions trading schemes, which, if effective, will indirectly contribute to the reduction of national emissions levels, hence creating a **tradable surplus of units**.

33. The quantification of NDC mitigation commitments into a quantified amount or a pool of quantified contribution units (QCUs) will provide **assurances that every tradable unit does indeed correspond to one tCO<sub>2</sub>e, in atmospheric terms**. In parallel, the identification and traceability of every tradable unit individually, together with national registries/ multilateral registry and an international transaction mechanism will form a **robust accounting framework to make sure there is no double counting**.