

**31.10.2017**

**Liechtenstein, Mexico, Monaco, Switzerland**

## **Matters relating to Art. 6 of the Paris Agreement**

### **1. Background - SBSTA 46**

Liechtenstein, Mexico, Monaco and Switzerland welcome the opportunity to submit their views on matters relating to Art. 6 of the Paris Agreement, based on the conclusions<sup>1</sup> of SBSTA 46 and the respective informal information notes made available on the UNFCCC website<sup>2</sup>.

### **2. General comments**

We consider the lists of elements contained in the three informal information notes as a useful basis to structure the discussions and submissions. We are presenting our views on Art. 6 by using the structure of these lists and their content, as far as we think that the structure and the elements are justified/useful/well-placed. Some adjustments on the organisation of the elements have been made to better reflect our views on the articulation between the elements.

This submission puts emphasis on the topics that are key for Liechtenstein, Mexico, Monaco and Switzerland and where these countries think it can make a substantial contribution, namely cooperative approaches under Art. 6.2 and the mechanism under Art. 6.4, while remaining open for further discussions, inputs and results on the framework for non-market approaches of Art. 6.8 (see the previous EIG submissions on Art. 6).

We support a decision at COP24 in December 2018 that:

- contains general provisions related to the overarching issues, principles, considerations, context and criteria;
- adopts three annexes, one per topic:
  - guidance on cooperative approaches under Art. 6.2;
  - rules, modalities and procedures for the mechanism under Art. 6.4;
  - recommendations of SBSTA for the framework for non-market approaches of Art. 6.8;
- decides that all Parties when cooperating under Art. 6 shall apply from 2021 the annexes;
- invites Parties to apply as soon as possible before 2021 the annexes in order to promote a prompt start of the implementation of cooperative approaches and the mechanism;
- sets a process for periodically reviewing the annexes and adopting revised annexes;
- invites other UN organizations, like the International Civil Aviation Organization (ICAO), to define robust accounting rules and to work with UNFCCC in order to define or use technical tools, infrastructures or processes that contribute to avoid double counting.

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<sup>1</sup> FCCC/SBSTA/2017/L.15; FCCC/SBSTA/2017/L.16; FCCC/SBSTA/2017/L.17

<sup>2</sup> [http://unfccc.int/meetings/bonn\\_may\\_2017/in-session/items/10276.php](http://unfccc.int/meetings/bonn_may_2017/in-session/items/10276.php)

### 3. Guidance on cooperative approaches under Art. 6 of the Paris Agreement

#### Definitions

- ITMO: An “internationally transferred mitigation outcome” which is quantified and reported in tCO<sub>2</sub>eq;
- Origin of an ITMO: An ITMO is an internationally transferred mitigation outcome and originates from cooperation under 6.2 or from the mechanism under 6.4;
- Internationally transferred: Any mitigation outcome that is acquired by a Party (other than the host Party) or any stakeholder, which receives the legal title on this ITMO and therefore is allowed to transfer it internationally;
- Art. 6.2 activity: Any activity that meets the requirements of Art. 6.2, decision 1/CP.21 and subsequent decisions, the guidance on Art. 6.2 and any related decisions and other guidance (e.g. transparency, accounting under the NDC);
- Definition of ITMO in specific Art. 6.2 activities: Parties participating in a cooperative approach under Art. 6 may define, for the purpose of this cooperative approach, if they consider as ITMOs:
  - either each international transfer of mitigation outcomes between these participating Parties (e.g. in the case of crediting);
  - or the net flow of international transfers of mitigation outcomes that has occurred over a certain period of time and that will be accounted towards the respective NDCs (addition/subtraction) (e.g. in the case of two linked emission trading schemes, where each of the emissions rights<sup>3</sup> of the two ETS systems are not considered by the participating Parties as ITMOs and therefore not subject to the following rules, only the net flow of international transfers of mitigation outcomes which represents the ITMO). In this case, participating Parties are to define how to calculate the net flow;
- Participating Party: The Party that participates in an activity under Art. 6.2 or transaction of an ITMO, either as transferring Party or as acquiring Party;
- Transferring Party: The Party that transfers an ITMO;
- Host Party: The transferring Party where the activity resulting in an ITMO is located; Transferring Party and host Party can be the same.
- Acquiring Party: The Party that acquires or receives an ITMO.

#### Scope and applicability of the guidance

- The guidance applies to any cooperation under Art. 6 as soon as the mitigation outcomes are internationally transferred.

#### Governance and conformity with the guidance

- The CMA provides guidance to the participating Parties by adopting any further guidance for cooperation under Art. 6 or by amending it, as necessary;
- Participating Parties have to be in conformity with the guidance and any further guidance adopted by the CMA and have to demonstrate their conformity in the biennial reports under the transparency framework<sup>4</sup> to track progress made in implementing and achieving the NDC under Art. 13, para. 7b. This report is to include all relevant information during the relevant period of the NDC, including information on transfers since the last report;

#### Participation requirements

- Participation in a cooperative approach is voluntary;

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<sup>3</sup> I.e. the units corresponding to the emissions allowed until the cap.

<sup>4</sup> Please refer to the discussion and submissions under the transparency framework (Art. 13), where this element is currently under discussion.

- A Party may participate in a cooperative approach if it is a Party to the Paris Agreement and fulfils its provisions, decision 1/CP.21 and subsequent decisions. This is to ensure consistency between the provisions/guidance related to the Paris Agreement;
- A Party that participates in a cooperative approach is to designate, by communicating it to the secretariat, a national authority that authorizes participation in cooperative approaches on its territory and records international transfers and acquisitions of ITMOs;
- A Party that authorizes private and/or public entities to participate in cooperative approaches remains responsible for the fulfilment of its obligations under the Paris Agreement and has to ensure that such participation is consistent with the guidance.

## Transparency

- These elements are necessary for ensuring no double counting of ITMOs (following section);
- Parties intending to use Art. 6 as participating countries have to provide the following information on their NDC at the time of submitting it, while respecting the nature of the NDC. Such information is to be made available in documents that are publicly available. For efficiency reasons, existing processes are to be used, namely those related to CTU. We note that this discussion is linked to the discussions on transparency and NDC communication, where the following points are discussed. Presenting these elements here allows the reader to get a clearer picture of the links between the discussions and the context in which Art. 6 evolves<sup>5</sup>. The information to be provided related to the NDC includes:
  - scope and coverage of the NDC (whole economy or sectors that are included, gases included, GWP, IPCC metrics and methodologies, accounting approach for anthropogenic emissions and removals, etc.);
  - level of emissions in the NDC year/period under implementation of the NDC in absolute numbers in tCO<sub>2</sub>eq, and if they are subject to recalculations and/or technical corrections and/or changes in assumptions;
  - intended use of cooperative approaches during the period corresponding to the NDC;
  - in its national inventory, estimates of the gas (or gases) that is (are) covered by an Art. 6 activity;
  - time frame for implementation of the NDC and approach used for implementation (single-year target or multiple-year target);
  - emissions pathway, scenarios or trajectory over the period corresponding to the NDC, if available, or any useful information regarding the expected development of the emissions over the period corresponding to the NDC, taking into account that this is an ongoing process;
  - information on how the participating Party intends to ensure consistency over time between NDCs that may be formulated differently (e.g. consistency between a NDC formulated as a single-year target and another one formulated as a multiple-year target), taking into account the accounting guidance to be approved (see following section);
  - intended share of the mitigation outcomes that will be used for achieving the NDC and information on any other intended use of ITMOs (mitigation under other UN organisations such as ICAO, climate finance, etc.) and how double counting is avoided in such cases, taking into account the accounting guidance to be approved (see following section);

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<sup>5</sup> Please refer to EIG's submission on mitigation ([http://www4.unfccc.int/Submissions/Lists/OSPSubmissionUpload/201\\_356\\_131509122961955862-EIG%20Submission%20APA%203b%20and%203c-17-09-26.pdf](http://www4.unfccc.int/Submissions/Lists/OSPSubmissionUpload/201_356_131509122961955862-EIG%20Submission%20APA%203b%20and%203c-17-09-26.pdf)). Please also note that this proposal does not prejudice the placement of the substance presented here. This information may eventually be included in the decision coming from discussions on mitigation, CTU, transparency or other topics in order to ensure consistency across topics and efficiency of the system.

- During the period of time an Art. 6.2 activity results in ITMOs and until a biennial transparency report has covered the last year of the period of time covered by this activity, participating Parties are to continue providing the information mentioned above and provide the following information in the next biennial reports under the transparency framework:
  - effective use of cooperative approaches during the period corresponding to the NDC;
  - share of the mitigation outcomes that are used for achieving the NDC and information on any other use of ITMOs (mitigation under other UN organisations such as ICAO, climate finance, voluntary cancellation, ITMOs held in accounts that have not been used towards meeting a NDC, etc.) and how double counting is avoided in such cases;
  - the period and/or year (vintage) of the ITMOs and how this information is tracked.

### **Robust accounting**

*Note: This proposal on accounting is intended to provide concrete inputs into the technical ongoing discussions. It may be updated or further elaborated taking into account future discussions.*

- An ITMO cannot represent for the acquiring Party more than the quantity in tCO<sub>2</sub>eq that is correspondingly accounted for in the transferring Party<sup>6</sup>;
- Mitigation outcomes to be transferred internationally have to be issued only once, either by the host Party or by the acquiring Party. This means also that in case a part of the mitigation outcome stays in the host Party, this mitigation outcome does not need to be issued since it is already reflected in the inventory of the host Party;
- Each transfer of an ITMO have to be recorded in a national tool to record the international transfers and acquisitions of ITMOs and enable the periodic reporting and accounting of ITMOs (see below under infrastructure) and reported in the biennial reports under the transparency framework;
- For measuring progress towards the NDC, the transferring Party has to add to its reported emissions in the inventory the quantity of tCO<sub>2</sub>eq that have been transferred internationally and the acquiring Party has to subtract from its reported emissions in the inventory the corresponding quantity used towards its NDC. This information is to be provided separately from the inventory, on a biennial basis in the transparency reports<sup>7</sup> following the transfer during the corresponding NDC cycle. It has to include information on any ITMOs transferred to or acquired from another Party or stakeholder, including on the origin, related activities, final use (if yet known), current holdings and any other additional information since the last report. At the end of the period, the net transfer of ITMOs over the period relevant for the NDC has to be reported. This implies that regarding the transferring Party, all ITMOs for which it cedes the legal title have to be added. For the acquiring Party, only the ITMOs used for the achievement of the NDC have to be subtracted from the reported emissions. Therefore, ITMOs held by private entities but not used yet towards an NDC of an acquiring Party are not subject yet to the second part of the “corresponding adjustment” (i.e. time lag) or will never be subject to the second part of the “corresponding adjustment” in a second Party (i.e. use by an airline operator for meeting a commitment under the Carbon Offsetting and Reduction Scheme for International Aviation CORSIA<sup>8</sup> of the International Civil Aviation Organization ICAO);

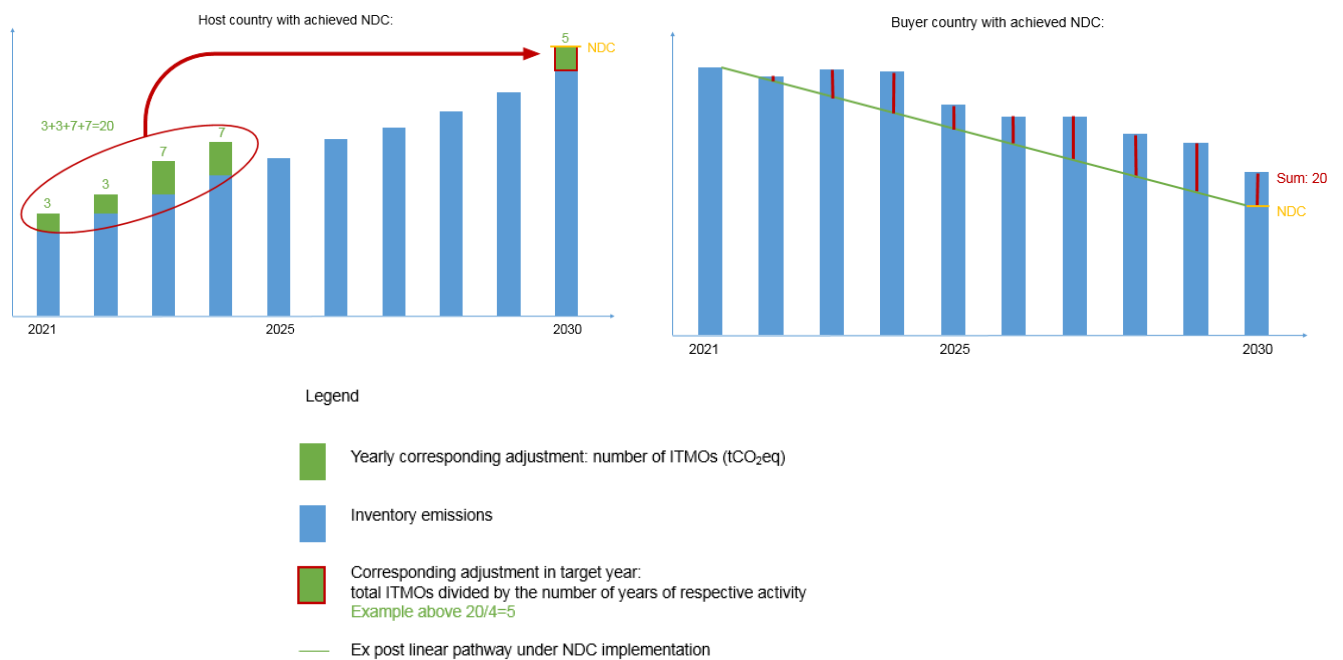
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<sup>6</sup> However, an ITMO may be accounted in the acquiring Party for less than the quantity in tCO<sub>2</sub>eq that is correspondingly accounted for in the transferring Party, e.g. if the acquiring Party applies voluntarily a discount rate.

<sup>7</sup> These are the reports discussed under the transparency framework, so that all the information is efficiently compiled in the same reports.

<sup>8</sup> The Assembly Resolution A39-3 of the International Civil Aviation Organization (ICAO) decided to implement a global market-based measure scheme in the form of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) to address any annual increase in total CO<sub>2</sub> emissions from international civil aviation above the 2020 levels.

- Such additions and subtractions have to be carried out both in the case of ITMOs resulting from an activity within the scope of the NDC and outside of its scope. This is to avoid that there is a perverse incentive for countries not to extend the scope of their NDC in order to carry out Art. 6 activities outside of the scope of the NDC. The host Party will therefore have an incentive to extend the scope of its NDC (as per the direction of travel indicated in Art. 4.4) and keep part of the emission reductions (resulting from long-term or transformational emission reduction activities) for itself to meet its subsequent NDCs;
- Such additions have also to be recorded by the transferring Party in the national tool to record the international transfers and acquisitions of ITMOs and enable the periodic reporting and accounting of ITMOs (see below under infrastructure) as soon as an ITMO is internationally transferred. The host Party has to record the “out” transaction as soon as it gives away the legal title on this ITMO. If the ITMO then moves on to the secondary market, in/out of several countries, there is then no impact on the accounting for these “in-between” countries. Only the Party where the ITMO will finally be used to meet the NDC will make the corresponding adjustment. Therefore, if the ITMO comes back to the host Party and is used against the NDC of this Party, then the final subtraction offsets the earlier addition. If the ITMO is used by an airline operator against CORSIA objectives, then the addition has already taken place in the host Party and there is no further adjustment needed once the airline operator hands in and cancels the ITMO;
- Such subtractions have also to be recorded by the acquiring Party in the national tool to record the international transfers and acquisitions of ITMOs and enable the periodic reporting and accounting of ITMOs (see below under infrastructure) when it uses an ITMO towards the achievement of its NDC. Note again that the time when the transferring Party makes its adjustment may not be the same as the time when the acquiring Party makes its own adjustment (e.g. first the transferring Party makes the adjustment when it gives to a private entity the legal title to hold an ITMO, then this private entity holds the ITMO for a few years and transfers it internationally, finally this private entity sells it to the acquiring Party that uses it towards its NDC and makes the adjustment);
- The transferring and acquiring Parties are to ensure that the nature of their respective NDCs allow a corresponding adjustment in both Parties which is transparent, consistent and comparable;
- Countries that have NDCs formulated as a single-year target (no multiple-year approach) have to account for ITMOs consistently over an NDC cycle and in a manner that is representative of what occurred during that period of time. Therefore, when reporting in the biennial reports under the transparency framework (“ex post”):
  - the host Party has to add to its inventory emissions of the target year the total of ITMOs divided by the number of years for the duration of the activity for the vintage of the said mitigation outcome (i.e. this represents the average quantity of transferred ITMOs of an activity over the duration of the activity for the respective NDC cycle);
  - similarly, the amount of ITMOs that the acquiring Party may use to achieve the NDC is equivalent to the sum of the achieved emission reductions in the host country; these are subtracted from the inventory emissions that are above the “ex post” linear path between inventory emissions in the starting year of the NDC and the inventory emissions in the end year of the NDC;



- The ITMOs that are used to meet an NDC have to be cancelled for this purpose and are not to be claimed for other purposes, such as under other UN organizations (e.g. CORSIA under ICAO), in order to ensure avoidance of double counting<sup>9</sup>;

#### Institutional setting and infrastructure (technical “tools” for making corresponding adjustments)

- Participating Parties have to designate a “designated national authority” which:
  - is the national point of contact for the implementation of the approach;
  - authorizes participation in cooperative approaches on its territory (see above), involving that it confirms in a document to be publically available the authorization of participation and its commitment not to use the ITMOs to achieve its own NDC;
  - records the international transfers and acquisitions of ITMOs in the national tool to record the international transfers and acquisitions of ITMOs and enable the periodic reporting and accounting of ITMOs ;
- Participating Parties must have in place an appropriate national tool to record the international transfers and acquisitions of ITMOs and enable the periodic reporting and accounting of ITMOs (e.g. a kind of Excel sheet or another system). This is the minimum requirement for government-to-government transfers, that records “in” and “out” transfers;
- Each participating Party that authorizes private and/or public entities to acquire or transfer ITMOs has to ensure the accurate issuance, holding, transfer, acquisition, cancellation, use and accounting of ITMOs towards NDCs or other purposes including under other UN organizations. This requirement is applicable for secondary market transactions only, when the ITMOs are used by other stakeholders outside of transactions between two governments (for transactions between governments, private/public entities take part in the implementation of the activity but do not participate or own the legal title on the ITMOs, therefore do not acquire/transfer the ITMOs themselves);
  - This function may be fulfilled by establishing and maintaining a national registry that includes the function of the national tool to record the international transfers and acquisitions of ITMOs and enable the periodic reporting and accounting of ITMOs;
  - National registries should contain common data elements relevant to the issuance, holding, transfer, acquisition, cancellation, use and accounting of ITMOs;

<sup>9</sup> The issue of no double counting of the means to finance the ITMOs under climate finance and mitigation (NDC) should be dealt with under the climate finance or accounting discussions.

- The implementation might be done in various ways. For example, a Party may designate an organisation as its registry administrator to maintain the national registry. Any two or more Parties may voluntarily maintain their respective national registries in a consolidated system, provided that each national registry and its activities can be clearly identified;
- To ensure the accurate, transparent and efficient exchange of data between national registries, we suggest that SBSTA is tasked at COP24 to prepare:
  - technical standards regarding the structure and data formats of national registries (in the form of standardized electronic databases);
  - specifications for an international transaction log or similar instrument - taking into account the most recent developments in data management systems, such as decentralized ledger technology – whose functions are to verify the validity of transactions, including issuance, transfers and acquisitions between registries, cancellation and use of ITMOs towards NDCs or other purposes including under other UN organizations, and to identify and impede possible inconsistencies in transfers or deviations from the guidance on accounting, by ensuring the highest level of security and transparency;

### **Ensuring environmental integrity**

- Participating Parties, when ensuring environmental integrity of their cooperation under Art. 6, have to, in their biennial reports under the transparency framework<sup>10</sup>:
  - demonstrate that the activities under Art. 6 assist the host Party in fostering the transition to a low carbon development economy. This implies that alternatives to efficient but high emission intensive technologies should be looked at in order to avoid the risk of lock-in in such emission intensive technologies;
  - demonstrate that the activities do not erode the environmental integrity of the NDC of the host Party and its implementation. This means that participating Parties need to have a clear picture of both the emission reductions the host Party intends to achieve in order to meet its NDC and the emission reductions that can be transferred internationally under Art. 6;
  - demonstrate that the activities incentivize domestic mitigation by the host Party and lead to progression of mitigation efforts over time. This means that activities should create positive incentives for the host Party to extend the scope of its NDC and to increase its ambition over time.
    - Therefore, participating Parties need to have a clear picture of what is the long-term rationale of such cooperation under Art. 6 to foster ambition in the host Party. Indeed, Art. 6 activities should play the transitional function of discovering further emission reduction potentials and fostering the inclusion of sectors/gases in future NDCs by contributing to the implementation of policies/measures and promoting transformational changes in the economy so that the host Party can benefit from such long-term emission reductions for its future NDCs.
    - In case the host country uses ITMOs resulting from emission reductions outside of the scope of its own NDC, some requirements should be set so that the long-term rationale of this use does not undermine the ambition of the NDC of that Party. Indeed, use of ITMOs for emission reductions outside of the scope of the NDC should play the transitional function of discovering

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<sup>10</sup> In addition to following the guidance, participating Parties and involved stakeholders are encouraged to participate in various consultations or dialogues in order to identify and promote best technical approaches that will contribute to ensuring environmental integrity.

further emission reduction potentials and fostering the inclusion of sectors/gases in future NDCs.

- demonstrate that ITMOs result from mitigation activities that effectively occurred and where the reference to calculate emission reductions is set well below BAU of the specific sector. Best practices should be identified through dialogue in order to identify and promote best technical approaches;
    - for ITMOs originating from a cap-and-trade system in a Party (which may be States or regional economic integration organizations according to Art. 20) that are accounted for by another Party towards its NDC, demonstrate that emission caps in the cap-and-trade system are set well below BAU and that such systems have in place stringent transparency principles for the emissions covered by the system and include robust compliance measures at the national level;
    - for ITMOs originating from activities or sectors not covered by a cap-and-trade system, demonstrate that activities have conservative baselines set well below conservative estimates of current efforts and account for all policies (local, regional, national) in the baselines and that they meet stringent transparency criteria in line with the criteria applying to activities under Art. 6.4;
  - demonstrate that the activities result in permanent mitigation outcomes, whereby irreversibility is ensured, or in case of reversibility, measures to compensate for a possible reversal are taken<sup>11</sup>;
  - demonstrate that the activities result in verified mitigation outcomes, through independent and competent verification;
  - demonstrate that leakage is avoided and fraud and inaccuracies from errors are addressed taking into account materiality;
  - report on all activities in a transparent way, record comprehensively and publish on the internet all information related to the activities;
- Parties have to refrain from carrying out activities that result in ITMOs when there is a risk of conflict with other environment-related aspects, such as the risks related to nuclear power, the conservation of biodiversity, water pollution or the protection of the ozone-layer. In case of activities involving environment-related conflicts, take measures to mitigate any negative trade-offs.

## Promoting sustainable development

- Cooperative approaches have to promote sustainable development;
- Participating Parties have to ensure that the activity is:
  - consistent with the Sustainable Development Goals, including that it is consistent with and represent no threat to human rights;
  - consistent with the sustainable development objectives and strategies of the host Party;
  - approved by the host Party, which have to provide a confirmation, to be publically available, that the activity is in conformity with sustainable development;
- Participating Parties have to demonstrate how the activity promotes sustainable development;
- The host Party is to provide a confirmation, to be publically available, that the activity is in conformity with sustainable development and human rights when authorizing private and/or public entities to participate in cooperative approaches.
- An international tool would be useful to assist participating Parties in promoting sustainable development in such cooperative approaches, sharing information on sustainable

<sup>11</sup> Note that for a cap-and-trade system the permanence results from the long-term reduction in the cap.



development in the cooperative approaches and assessing how the cooperative approaches promote sustainable development. Such a tool may come from outside of the UNFCCC ;

#### **4. Rules, modalities and procedures for the mechanism established by Art. 6, paragraph 4, of the Paris Agreement**

##### **Definitions**

- Emission reduction: Is described as “emission reduction credit” that has to be quantified and reported in tCO<sub>2</sub>eq;
- Origin of an emission reduction credit: An emission reduction credit originates from the mechanism;
- Art. 6.4 activity: Any activity meeting the requirements of 6.4, decision 1/CP.21 and subsequent decisions, the modalities and procedures and any related or subsequent ones, is considered to form part of the mechanism;
- Host Party: The Party where the activity under Art. 6.4 is located.

##### **Scope and applicability of the rules, modalities and procedures**

- The guidance has to apply to all activities resulting from the mechanism.

##### **Governance**

- The CMA has authority over and provides guidance to the mechanism by adopting any further rules, modalities and procedures for the mechanism or by amending them as necessary;
- The CMA provides guidance to the body responsible for the supervision of the mechanism by taking decisions on:
  - the recommendations made by the body on its rules of procedures;
  - the recommendations made by the body, in accordance with decision 1/CP.21 and any subsequent decision, rules, modalities and procedures;
- The CMA further:
  - reviews annual reports of the body;
  - ...
- The body supervises the mechanism, under the authority and guidance of the CMA, and be fully accountable to the CMA. In this context, the body is to:
  - make recommendations to the SBSTA on further modalities and procedures for the mechanism in view of their revision and adoption by the CMA;
  - make recommendations to the SBSTA on any amendments or additions to the rules of procedures for the body in view of their revision and adoption by the CMA;
  - report on its activities to each session of the CMA;
  - develop tools and standards for additionality, permanence, baselines, monitoring, reporting, verification, among others, based on best practice and taking into account lessons learnt from other mechanisms;
  - define procedures for ensuring that all activities and emission reduction credits under the mechanism meet the requirements, rules, modalities and procedures that have been defined or will be defined, including by defining rules and procedures for the designated operational entities for carrying out their validation, verification and certification functions;
  - assess conformity of the activities with the tools, standards, modalities and procedures, approve activities that are in conformity with them, address issues relating to observance of the tools, standards, modalities and procedures and report on this to the CMA;

- develop, maintain and make publicly available a repository of tools, standards, methodologies, requirements and procedures;
- develop, maintain and make publicly available a database containing information on proposed and approved activities, including design documents, comments received, monitoring and verification reports, its decisions and information on emission reduction credits issued, hold and used towards the achievement of a NDC, by activity, year and participating Parties;
- develop and maintain a registry for the emission reduction credits;
- regularly review the tools, standards, modalities and procedures, and where applicable, make recommendations to the SBSTA for the periodic review and revision of the modalities and procedures;
- carry out any other function ascribed to it in the modalities and procedures or any relevant decision by the CMA;
- The body comprises technical experts, so that it is less politicised as similar existing bodies;
- Technical experts must:
  - possess appropriate technical and/or policy expertise;
  - act in their personal capacity;
  - have no pecuniary or financial interest in any aspect of an activity or in any private entity related to the implementation of the activities;
- The cost of participation of the technical experts is to be covered by the budget for the mechanism;
- The secretariat serves the body;
- The SBSTA will prepare the terms of reference according to para. [x] below for recommendation to the CMA and adoption by the CMA at COP 25 (2019).

#### **Participation requirements**

- Participation in an activity under the mechanism is voluntary;
- A Party may participate in the mechanism if it is a Party to the Paris Agreement and fulfils its provisions, decision 1/CP.21 and subsequent decisions;
- A Party that participates in the mechanism designates, by communicating it to the secretariat, a national authority that authorizes participation of activities on its territory in the mechanism and records international transfers and acquisitions of emission reduction credits;
- A Party that authorizes private and/or public entities to participate in the mechanism remains responsible for the fulfilment of its obligations under the Paris Agreement and has to ensure that such participation is consistent with the modalities and procedures.

#### **Scope of activities**

- The guidance applies to all activities resulting from the mechanism, in the form of installation specific projects, programmes of activities gathering several projects, sectoral approaches, policy-based approaches or any other approach evaluated as appropriate by the body.

#### **Aspects of activities**

- The body, when developing tools and standards for additionality<sup>12</sup>, permanence, baselines, monitoring, reporting, verification, among others, in order to ensure that the activities are environmentally integer, has to:
  - ensure that emission reductions originating from the activities are additional to any that would otherwise occur, by

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<sup>12</sup> Reductions in emissions have to be additional to any that would otherwise occur, according to para. 37 of decision 1/CP.21. This means that the context of the emission reduction is crucial, thus diverging from the definition of additionality under the CDM.

- defining principles and rules for assessing additionality and periodically reassessing additionality of activities. In case an activity is not additional anymore, in particular when a NDC is revised or a new NDC is communicated, crediting has to stop;
- ensure that emission reductions originating from activities are quantified in tCO<sub>2</sub>eq in a conservative manner, by:
  - defining rules to ensure that conservative assumptions are set when estimating the emission reductions, in particular that baselines are set well below conservative estimates of current efforts;
  - defining rules regarding the length of the crediting period, which is not to exceed [x] years;
  - defining rules to ensure that all policies (national, regional, local) are accounted in the baselines;
  - defining rules to ensure that dynamic changes in baselines are applied in order to take into account changes in technologies, developments of policies, and new or revised NDCs;
  - defining rules to avoid leakage and address fraud and inaccuracies from errors, taking into account materiality;
- ensure that emission reductions originating from the activities are monitored, reported and independently verified, by:
  - defining rules for MRV, including to guarantee independent and competent verification, taking into account national MRV processes;
  - defining rules on transparency of the reporting on all activities and the publication on the internet of information related to the activities;
- ensure that emission reductions originating from the activities are permanent, by defining rules on how activities have to ensure irreversibility, or in case of reversibility, what measures to compensate for a possible reversal have to be implemented;
- The body has to define tools for assisting participating Parties and stakeholders in promoting sustainable development in the activities and for the assessment thereof, such as the activities are:
  - consistent with the Sustainable Development Goals;
  - consistent with the sustainable development objectives and strategies of the host Party;
  - approved by the host Party, which provides a confirmation, to be publically available, that the activity is in conformity with sustainable development;
- The body has to define rules for the consultation of stakeholders during the design and the implementation of the activity;
- The body is to define a grievance process that builds on the national processes of the host Party;
- Parties have to refrain from carrying out activities when there is a risk of conflict with other environment-related aspects, such as the conservation of biodiversity, water pollution or the protection of the ozone-layer, or in case of activities involving such environment-related conflict, take measures to mitigate any negative trade-offs;
- Participating Parties have to ensure that the activity is consistent with and represent no threat to human rights;
- The host Party provides a confirmation, to be publicly available, that the activity is in conformity with sustainable development and human rights when authorizing private and/or public entities to participate in such activity.

#### **Activity cycle**

- Activity design

- Validation
- Registration
- Monitoring and reporting
- Verification
- Certification
- Issuance
- Cancellation

#### **Share of proceeds**

- A share of proceeds from activities under the mechanism is to be levied to cover administrative expenses and to assist developing Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation;
- The body defines the processes for levying such share or proceeds.

#### **Infrastructure**

- Participating Parties and authorized public and/or private entities have to use the infrastructure and processes defined for ITMOs when the emission reduction credits are internationally transferred;
- Participating Parties and authorized public and/or private entities may use the infrastructure and processes defined for ITMOs for emission reduction credits that remain in the host Party, in order to allow transferability of the credits. This is for the case when a host Party uses the mechanism as a domestic tool in its climate policy (e.g. like a domestic offset scheme).

#### **Transparency**

- Information obtained from activities which participants marked as proprietary or confidential is not to be disclosed without the written consent of the provider of the information, except as required by national law. Information used to demonstrate that the emission reductions are real, measurable, additional and verified, including the determination of the baselines and additionality, ensure environmental integrity, foster sustainable development, including environmental impact assessments, is not to be considered as proprietary or confidential.

#### **Accounting**

- Emission reduction credits resulting from such an activity, when they are internationally transferred, are ITMOs according to 6.2, and have also to apply the guidance for cooperative approaches when they are internationally transferred.
- However, the mechanism does not necessarily involve an international transfer of emission reduction credits, but can be used by the host Party, if appropriate, as a “domestic offset scheme”. This means that e.g. some sectors with emission reduction targets under the NDC can comply with some of their obligations by acquiring/using emission reductions in other sectors of the same host Party (inside or outside of the scope of the NDC), certified through the mechanism. This is a ready-to-use instrument at the disposal of host countries.
- For such use of Art. 6.4, some requirements should be set so that the long-term rationale of this use does not undermine the ambition of the NDC of the Party. Indeed, use of Art. 6.4 as a “domestic offset scheme” for emission reductions outside of the scope of the NDC should play the transitional function of discovering further emission reduction potentials and fostering the inclusion of sectors/gases in future NDCs.

#### **Transitional issues into Art. 6.4**

- The Paris Agreement is a separate legal instrument
- The modalities and procedures of the mechanism under Art. 6.4 should first be developed and adopted. Against this background, the CMA – possibly taking into consideration the

recommendation by the body in charge of the supervision of the mechanism – should then decide if and how CDM projects could be integrated into the mechanism. Host countries of such projects might also decide if such projects should stop (e.g. because the projects are not additional any more given the introduction of policies/measures to achieve the NDC, therefore the achieved emission reductions would be rewarded under the policies/measures set by the host Party to achieve its NDC) or transition under the mechanism (i.e. if such projects are still additional and therefore bring emission reductions beyond the policies/measures set by the host Party to achieve its NDC).

- For implementing such a transition, it can be envisaged that CDM projects could apply for registration under the mechanism of Art. 6.4. These projects would then be assessed according to the modalities and procedures of the mechanism (authorization for participation by the host Party of activities on its territory in the mechanism, additionality, etc.). This may involve that these projects are adjusted or redesigned in order to fulfil the modalities and procedures of the mechanism.