



Australian Government

October 2017

Submission on the content of the guidance for Article 6.2, including the structure and areas, issues and elements to be addressed

GENERAL COMMENTS

Australia welcomes the opportunity to share its views on the implementation of cooperative approaches referred to in Article 6, paragraph 2 of the Paris Agreement.

Cooperative approaches are important for achievement of the Paris Agreement goals because they will leverage greater ambition and help Parties manage the cost of meeting their Nationally Determined Contributions (NDCs).

Confidence in the credibility and environmental integrity of cooperative approaches will be essential if they are to support ambition. Article 6.2 provides the architecture for this through the application of robust accounting, the transparency framework, and requirements to ensure environmental integrity and promote sustainable development.

Article 6.2 provides the framework for Parties' use towards their NDCs of cooperative approaches involving international transfer of mitigation outcomes (ITMOs). It does not define or establish a particular mechanism, nor specify the structure or governance of the mechanisms Parties use. It facilitates a 'bottom up' and inherently flexible approach where Parties make their own arrangements. This is important as Parties develop cooperative approaches that align with their national circumstances.

This submission details Australia's views on:

- how environmental integrity and sustainable development can be achieved through transparency and robust accounting
- guidance for robust accounting

We also provide views on the mode of work going forward.

Structure of outcome of SBSTA agenda item 11

SBSTA agenda item 11 deals with the implementation of Article 6. We anticipate that its outcome could be in the form of three decisions corresponding to the three agenda sub-items. For SBSTA item 11(a), which deals with Article 6.2, there should be a decision with an annex containing technical guidance. We provide in Annex 1 of this document an outline of guidance for cooperative approaches under Article 6.2.

ENSURING ENVIRONMENTAL INTEGRITY

Environmental integrity is needed in the creation and transfer of mitigation outcomes as well as their use towards achievements of NDCs.

Operationalising environmental integrity

Principles and standards: Parties should apply principles and standards of environmental integrity to the cooperative approaches they use.

Transparency framework: Parties should demonstrate consistency with principles and standards of environmental integrity when they report under Article 13.7 on their use of cooperative approaches.

Robust accounting: Parties should apply robust accounting to their use of cooperative approaches - see later section of this submission.

Principles and standards

Parties should define principles and supporting standards of environmental integrity that they will apply in their use of cooperative approaches. Guidance is not mandated nor required on these principles and standards.

The following approaches would contribute to ensuring environmental integrity in the *use of ITMOs towards NDCs*:

- promoting transparency, accuracy, completeness, consistency and comparability when reporting mitigation outcomes that could be used as ITMOs
- ensuring the use of cooperative approaches incentivises increasing sectoral coverage of NDCs over time
- only acquiring or using ITMOs from Parties that have satisfactory governance, processes and systems to prevent double counting of mitigation outcomes
- establishing and maintaining robust and transparent registries
- ensuring the use of cooperative approaches doesn't result in an increase in emissions over time
- ensuring the mechanisms have transparent and timely reporting processes
- applying the guidance on robust accounting to use of ITMOs towards NDCs

To ensure environmental integrity in *creation, transfer and use of ITMOs* Parties should:

- make a corresponding adjustment to avoid double counting according to the guidance on robust accounting
- quantify ITMOs in tonnes of CO₂e, and ensure they are verifiable, additional and permanent
- estimate and account for mitigation outcomes in a manner consistent with methodologies used for inventory reporting and accounting toward NDCs

Cooperation between Parties on identifying principles and standards can support the integrity of cooperative approaches under Article 6.2. We note that some Parties are working together to identify principles of environmental integrity that they might apply to their use of international carbon markets.

TRANSPARENCY IN COOPERATIVE APPROACHES

Transparency is the means by which Parties can demonstrate that their use of cooperative approaches is credible.

Article 13.7 of the Paris Agreement requires Parties to report progress towards their NDCs in accordance with agreed guidance. Where Parties use cooperative approaches they will need to provide clear information to the Transparency Framework consistent with this guidance.

Development of the guidance should be informed by expertise under Article 6 (SBSTA agenda item 11).

As outlined in Australia's submissions on mitigation¹ and transparency², Parties that use cooperative approaches toward their NDCs should report to the UNFCCC on:

- institutional and governance arrangements in place for the creation, holding and transfer of mitigation outcomes that may or have become ITMOs
- governance and procedural arrangements that ensure avoidance of double counting
- if applicable, arrangements for the operation of a registry, and rules and procedures of trading systems
- how use of cooperative approaches has promoted sustainable development

In addition to this reporting, Parties should use existing avenues to demonstrate transparency, such as the Article 13's technical reviews and the multilateral consideration process.

Australia's views on transparency relating to robust accounting are outlined below.

PROMOTE SUSTAINABLE DEVELOPMENT

Sustainable development is an important element of robust cooperative approaches. Parties should set sustainable development criteria suitable for their national circumstances. Parties should report under Article 13.7, in accordance with guidance developed under APA agenda item 5, on how their use of cooperative approaches promotes sustainable development.

GUIDANCE FOR ROBUST ACCOUNTING FOR COOPERATIVE APPROACHES UNDER ARTICLE 6.2

The purpose of guidance under Article 6.2 is to enable robust accounting by Parties, including the avoidance of double counting through a corresponding adjustment. The guidance should sustain confidence but not unnecessarily constrain cooperation. Achieving this balance is key to maximising the effectiveness of cooperative approaches, including private sector participation.

We provide specific suggestions for headings, subheadings and elements of guidance in Annex 1 of this document.

Applicability of the robust accounting guidance

Guidance should apply to all Parties engaging in cooperative approaches involving ITMOs which are used towards NDCs. This guidance will be applicable to the suite of cooperative approaches, both existing and future. This includes cooperative approaches involving the mechanism established under Article 6.4, which is one mechanism available to Parties for engaging in cooperative approaches.

Content of the guidance

Guidance should address requirements for robust accounting including, but not limited to, avoiding double counting, making a corresponding adjustment, quantification of ITMOs, authorisation by participating Parties and information that should be reported under Article 13.7.

Definitions

¹ <http://unfccc.int/focus/items/10131.php>

² Australia will make a submission on transparency

Definitions will be required for clarity of the guidance, including for concepts listed below. In the absence of agreed terms, Australia has adopted terms to capture the concepts to facilitate discussion in this submission.

Mitigation outcome	A quantified result of reducing emissions measured in CO ₂ e
ITMO	A quantified mitigation outcome that has been transferred internationally by a Party
Double counting	A mitigation outcome is used more than once towards meeting an NDC or is used for both an NDC and a mitigation purpose outside the scope of an NDC (for example, under the International Civil Aviation Organisation's market based measure, CORSIA)
Corresponding adjustment	An adjustment a Party makes to its quantified tracking of progress towards its NDC that is analogous to and representative of the Party's disposal or acquisition of a particular mitigation outcome
Host	Party that conducts or authorises an activity within their sovereign boundary resulting in a mitigation outcome that could be transferred internationally

Robust accounting

Robust accounting for cooperative approaches is a technical process for sharing information relating to mitigation outcomes achieved through use of ITMOs.

Guidance on robust accounting will be facilitative, technical and non-punitive. It should be consistent with and build on guidance for NDC accounting under Article 4.13 (APA agenda item 3). Australia's submission on APA item 3 details the elements we see reflected in specific accounting guidance for NDCs, including for reporting ITMOs.³ Parties should demonstrate how they have met the guidance requirements through their reporting under Article 13.7 transparency provisions (APA agenda item 5).

Accounting for cooperative approaches involving ITMOs should:

- apply to all Parties that use ITMOs towards achieving NDCs, Hosts that transfer mitigation outcomes, and Parties that acquire ITMOs or transfer them
- be consistent with guidance under Article 4 (APA agenda item 3(c))
- cover the variety of NDC types, timeframes and scopes
- accommodate the range of cooperative approaches Parties may engage in, including but not limited to transfers between governments, the mechanism under Article 6.4, and transfers between private entities
- ensure double counting is avoided on the basis of a corresponding adjustment

Transparency of robust accounting

Parties should demonstrate that they have applied the guidance on robust accounting, including:

- explaining how double counting was avoided taking into account NDC target types, timeframes and scopes

³ <http://unfccc.int/focus/items/10131.php>

- demonstrating they have made a corresponding adjustment as set out in the guidance
- providing transparent and timely reporting of their use of ITMOs

Parties should report this information under Article 13.7. Work is required to elaborate details of the transparency guidance on robust accounting under Article 13.7, which should be informed by elaboration of the guidance under Article 6.2.

Double counting

To avoid double counting, it is necessary to ensure that none of the following arises during the 'life cycle' of a mitigation outcome:

- double registration: a mitigation activity, and by extension outcome, is registered under multiple schemes or mechanisms
- double issuance: multiple instruments are issued for the same mitigation outcome
- double usage: multiple Parties or entities use the same outcome for different purposes, including where elements of an NDC overlap (e.g. emissions and renewable generation), or where an ITMO used towards an NDC is also used in some other arrangement (eg CORSIA)
- double claiming: mitigation outcome claimed twice towards one NDC or towards two or more NDCs

The guidance under Article 6.2 provides a process for avoiding double usage and double claiming. Parties will also need to report under Article 13.7 how their governance and institutional arrangements prevent all forms of double counting.

Parties should avoid double counting of ITMOs by

- ensuring the cooperative approaches they engage have environmental integrity
- in deciding to use particular ITMOs, taking into account:
 - their own and Host Party NDC target types,
 - whether an ITMO arises from an activity or category covered by the NDCs,
 - whether it is generated during the Host's NDC timeframes, and
- only counting towards the achievement of their NDCs ITMOs that are in accordance with guidance developed under 1/CP.21 paragraph 36
- making a corresponding adjustment as set out in the guidance

Corresponding adjustment

Parties engaging in cooperative approaches must make corresponding adjustments to avoid double counting.

When Parties report the quantified tracking of progress towards their NDCs, they should report, in the form of accounting tables:

- the quantified amounts of corresponding adjustments and inventory emissions relevant to their NDC
- how an appropriate addition or subtraction of ITMOs was made
- evidence that both sides acknowledge and record the corresponding adjustment, for example through the use of compatible accounting tables.

Before the initial transfer of a mitigation outcome, the Host should convert it into tonnes of CO₂e to facilitate robust accounting and corresponding adjustments. Common approaches to convert mitigation outcomes in tonnes of CO₂e should be developed.

Further work is required to elaborate technical details of the corresponding adjustment, including for the variety of NDC types.

Authorisation

Article 6.3 requires that the use of ITMOs shall be voluntary and authorised by participating Parties. The nature of this authorisation requires elaboration, which should be included in guidance for robust accounting. Authorisation is a fundamental step in ensuring that Parties' use of ITMOs is subject to robust accounting.

We consider that authorisation should be required for Parties that dispose, acquire or use ITMOs towards their NDCs.

MODE OF WORK

Article 6 of the Paris Agreement and related paragraphs 36-40 in 1/CP.21 reflects a careful balance agreed by Parties.

Attempts to broaden the scope of the mandate for guidance beyond that reflected in para 36 of Decision 1/CP.21 risks the timely delivery and implementation of approaches and mechanisms under Article 6 which may contribute to uncertainty for investors and stakeholders.

Technical papers prepared by the UNFCCC secretariat on how to apply corresponding adjustments to different NDC types would be an informative resource for Parties to consider as they continue to negotiate the technical elements of Article 6.2.

Australia would welcome further submissions by Parties and observers before the next negotiating session and a synthesis of the submissions prepared by the UNFCCC secretariat, which would enhance Parties' ability to engage on technical detail.

Australia notes the valuable contribution observers can make to this process and welcomes their participation through both formal submissions and presence in negotiating sessions. We welcome the initiative by the International Emissions Trading Association to provide a website for observers to post views on Article 6 and encourage Parties to consider the views provided.⁴

⁴ IETA Article 6 Submissions Portal: <http://www.ieta.org/Article-6-Submissions-Portal>

Annex 1: Outline of guidance for Article 6.2

1. Preamble

- a. Purpose and objectives of the guidance

2. Definitions

- a. (ITMO, double counting, corresponding adjustment, ...)

3. Reporting

- a. Parties must report under the guidance for Article 13.7 on their application of this robust accounting guidance

4. Guidance for robust accounting

Parties should describe in their reporting under Article 13.7 the following, in relation to ITMOs, at the earliest opportunity during the implementation period of each NDC:

- a. Information relating to their own NDC
 - i. Quantification of the NDC in tCO₂e
 - ii. NDC type (absolute, BAU etc), timeframe (year or years covered, and whether point, budget), and scope (economy-wide, sectors etc)
 - iii. Annual inventory emissions relevant to the NDC
- b. Institutional arrangements to manage ITMOs
- c. How to access information relating to the ITMOs used (for example, a website):
 - i. Target or project type
 - ii. Scope and coverage
 - iii. Time frames and/or periods for implementation
- d. Transfers of ITMOs
 - i. Each Party with which there has been a transfer of ITMOs, and the net transfer with that Party by year
 - ii. Total net acquisitions of ITMOs for the year, calculated by summing all net transfers to the Party
 - iii. Total net disposals of ITMOs for the year, calculated by summing all net transfers by the Party
- e. Corresponding adjustment
 - i. An accounting adjustment equivalent to adding to the annual inventory emissions mentioned in 3.a.iii the Party's total net acquisitions of ITMOs for the year and subtracting the total net disposals of ITMOs for the year
- f. Authorisation

5. Revision of guidance following experience with implementation at a future point