



Submission to SBSTA on Article 6.2 of the Paris Agreement September 2017

Context

New Zealand welcomes the opportunity to respond to the invitation to “Parties to submit views, inter alia, on the content of the guidance, including the structure and areas, issues and elements to be addressed, including those raised by parties at SBSTA 46”.

2 This submission:

- a. Introduces Article 6.2 cooperation in the context of scaling up climate action
- b. Clarifies the elements of Article 6 and the differences between Articles 6.2, 6.4 and 6.8
- c. Identifies key issues affecting our ability to progress our work and proposes solutions
- d. Responds to the matters sought in the call for submissions
- e. Provides a proposal for draft decision text
- f. Provides a proposal for draft guidance

3 Article 6 of the Paris Agreement acknowledges Parties’ ability to cooperate and thereby enhance ambition. New Zealand wishes to emphasise the importance of operationalising this aspect of the Paris Agreement by completing without delay the guidance we are tasked with developing. Without Article 6 cooperative approaches, Parties are unable to lift ambition beyond the emission reductions available through their domestic policies and actions. **The World Bank has identified \$23 trillion worth of climate-smart investment opportunities in the NDCs of 21 emerging economies, most of which they believe will need to come from the private sector.**¹ Through cooperation we have the opportunity to ramp up climate action by encouraging Parties to share the costs and opportunities for climate action. This is essential if we are to achieve the goal of holding the increase in global temperature to well below 2 °C, and pursuing efforts to limit it to 1.5 °C.

4 We anticipate that there will be (and need to be) many instances where Parties working together will deliver transformative climate action that otherwise would not happen. Parties that have identified the limits of what they can afford to deliver and commit themselves to may be able to take further or greater climate action that would otherwise

¹ [International Finance Corporation, World Bank Group \(2016\) Climate Investment Opportunities in Emerging Markets.](#)

have been too costly, in exchange for a transfer of those mitigation outcomes towards a cooperative partner's NDC.

5 Conversely, without the cooperation envisaged in Article 6, the ambition of some Parties' NDCs will be constrained by the affordability of their low carbon economic transition. These Parties can achieve greater global emissions reductions when they are able to invest in driving additional reductions abroad, where they can be delivered at lower cost.

Article 6 and decision 1/CP.21

6 Article 6 of the Paris Agreement includes three elements that recognise and provide for voluntary cooperation between Parties to allow for higher ambition:

- a. **a “bottom-up” world of cooperation** in which mitigation outcomes are transferred from one Party to another and used towards the achievement of that other Party's Nationally Determined Contribution (NDC);
- b. **a mechanism** – “top-down” – established under the guidance and authority of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) with a supervising body designated by the CMA; and
- c. **a framework for non-market approaches** to sustainable development to promote non-market approaches to assist in implementing NDCs.

7 The paragraphs related to Article 6 in 1/CP.21 request the SBSTA to work on a discrete task for each of the three elements of Article 6. The Conference of the Parties:

- a. requested SBSTA to **develop and recommend the guidance** referred to in Article 6.2 for adoption by the CMA at its first session;
- b. recommended that the CMA adopt **rules, modalities and procedures** for the mechanism established by Article 6.4; and requested that they be drafted by SBSTA and recommended for consideration and adoption at the CMA's first session; and
- c. requested SBSTA to undertake **a work programme** under the framework for non-market approaches and recommend **a draft decision** on this work programme at the CMA's first session.

8 This submission addresses the first task.

9 In our view, it is important not to conflate or confuse the three distinct elements and associated tasks. For example, the COP did not request the SBSTA to develop rules or recommendations for a supervising body for the cooperative approaches envisioned in Article 6.2. That is only required for the mechanism under Article 6.4 where it is explicitly established and requested as the mechanism is specifically characterised as “supervised by a body.”

10 The informal information note by the co-facilitators contains their reflections on the discussions under the Subsidiary Body for Scientific and Technological Advice (SBSTA) at its forty-fifth session. The list contained within the note includes many items that are not in the Paris Agreement because we did not collectively agree at the time of adoption of the

Agreement that they were matters that should be included.² A consequence of their not being included is that there is no request by the COP for work on these matters. Diffusion of our effort beyond the matters specified by the COP in Paris reduces the amount of time we have to spend working on the tasks we were mandated to deliver. Therefore, we should focus on elements clearly within the mandate as the basis for our urgent and important work over the coming year.

11 As context for this submission we re-iterate from our September 2016 and March 2017 submissions the following observations:

- a. Party to Party cooperation will be given effect in a number of ways including linked emissions trading schemes, trading in emission reductions, Article 6.4 unit trading and government to government arrangements;
- b. effective robust accounting for mitigation transferred between Parties and used towards NDCs is critical for gauging the effectiveness of our collective mitigation efforts and avoiding an increase in global emissions; and
- c. there are tables and guidelines already in use that provide useful material to build on for the guidance and operationalisation of Article 6.2 accounting and transparency.

Issues to be addressed

12 We recognise that there are substantive issues that are unresolved between Parties and these are impeding progress on the development of guidance under Article 6.2. Key issues, the divergent views of Parties and possible pathways for resolving these issues are described below.

13 **Principles:** We have heard that some Parties wish to see a list of principles from the Agreement, the Convention and from Article 6 itself used in the guidance to reinforce what they regard as critical considerations in the implementation of cooperative approaches under Article 6.2. Other Parties see no need to list principles at all. A way through this divide could be to develop preambular text for the guidance, or the decision under which it is adopted, that connects it to the purpose of Article 6 with the key considerations Parties wish to emphasise, for example the voluntary nature of cooperative approaches.

14 **Scope:** Some Parties see the scope of guidance being developed for Article 6.2 as confined to accounting, specifically on how Parties are to make “corresponding adjustments.” Other Parties consider accounting guidance to be broader than corresponding adjustments. Many Parties are concerned to ensure that there is also direction to Parties as to how they will meet their responsibilities with respect to the promotion of sustainable development (though many also regard this as nationally determined), and ensuring environmental integrity and transparency, including in governance, should be addressed.

² For example the following matters were not agreed in Paris and are not within the scope of Article 6.2 or they belong specifically in other parts of Article 6: “share of proceeds” and “centralised governance” (specifically in 6.4); “eligibility;” “limits and safeguards;” “supplementarity;” “transitional issues.”

15 We agree with those Parties that have said that the scope of our work, as mandated in the Agreement and decision 1/CP.21 paragraph 36, is confined to guidance for robust accounting but we accept that Parties will need guidance on other matters too.

16 We think that a constructive way through this unresolved issue is to **discuss how guidance will be used** in relation to cooperative approaches, and **how the reporting guidelines being developed by the APA as part of the transparency framework will include SBSTA's recommendations on robust accounting and other matters when the use of cooperative approaches is reported.**

17 Furthering this discussion requires clarity about:

- how and where **guidance on reporting** on the use of cooperative approaches will be used;
- agreement on what guidance is needed, and clarity about whether (or not) some of this work is being done under other agenda items, so as to ensure all guidance necessary for the operationalisation of Article 6.2 is developed; and
- how we will avoid duplication of work, and ensure that what we develop is both coherent and complete.

18 **Governance:** There is broad understanding among Parties that cooperative approaches are emerging “bottom-up.” Some Parties call for a centralised body, ex-ante rules and eligibility requirements before Parties can engage in cooperative approaches under Article 6.2. Others have expressed a strong view that no central oversight body or system is mandated or even necessary for Article 6.2 activities (unlike Article 6.4).

19 We think that a way through the divergent views on this issue may be to consider the way that governance by the Parties can be exercised via a robust and transparent system of reporting, review and multilateral consideration. This form of “governance” is consistent with the nationally determined nature of contributions under the Agreement and its comprehensive requirement for enhanced transparency, review and multilateral consideration. In our view, it can be effective in delivering transparency and confidence.

20 Through the transparency framework governance will be exercised by:

- a. the CMA overseeing the provision of information (including, inter alia, evidence of the application of accounting guidance);
- b. technical review of Parties' reporting on use of cooperative approaches (including with respect to environmental integrity for example)³;
- c. Parties exercising the opportunity to ask questions about Parties' use of cooperative approaches through the multilateral consideration process; and
- d. the CMA receiving the annual report of the Article 15 Committee.

21 **Mode of work:** Notwithstanding the very limited time left before our work is expected to be completed, we tend to spend a great deal of time debating each next step in our work programme. New Zealand does not have a particular preference for how we progress our

³ See New Zealand's submission on APA agenda item 7 describing the relationship between technical expert review and the Article 15 Committee.

work but we do have a sense of urgency and feel the need to use all opportunities and avenues available to us to expedite the work and deliver complete guidance at COP 24.

22 We consider it would be useful to seek the preparation of a synthesis of proposals for the guidance (containing options) to serve as the basis for the next session. Alternatively, the SBSTA Chair might, based on Parties' submissions, propose draft guidance to serve as the basis for negotiation.

23 New Zealand wishes to state again that **the expertise and experience of non-state actors and observers can contribute greatly to our work** and we ask SBSTA to invite them to make that contribution.⁴

Content, structure and elements of the guidance

24 We set out below our views of matters listed in the call for submissions. Proposals for a draft decision and draft guidance are annexed to this submission.

Scope and content of the guidance

25 In our view, **the guidance we are to develop is for robust accounting** to ensure, inter alia, the avoidance of double-counting. Decision 1/CP.21 paragraph 36 states specifically that the guidance for avoiding double-counting should be on the basis of a corresponding adjustment by Parties. The application of this accounting guidance should be demonstrated in Parties' biennial communications.

26 Parties have discussed how the **other requirements of Parties** that engage in cooperative approaches under Article 6.2 should be addressed. The "shalls" contained in Article 6.2 invite the scrutiny of Parties to the Paris Agreement. In addition to applying robust accounting guidance, Parties will need to respond to this scrutiny by providing information in biennial communications: that will advise how the relevant Party has promoted sustainable development, ensured environmental integrity and transparency including in governance; that will be subject to technical expert review; and noting that each party shall participate in a facilitative, multilateral consideration of progress.

27 While SBSTA is clearly tasked with developing guidance for robust accounting, until it has done so, a placeholder for this guidance should be noted by those tasked with developing the transparency guidelines under APA agenda item 5. New Zealand's submission of September 2017 on the transparency framework contains a draft outline of guidelines that includes such a placeholder. This accounting guidance along with guidance on reporting how Parties promoted sustainable development, ensured environmental integrity and transparency including in governance, should be integrated into the transparency guidelines and apply to Parties when they voluntarily engage in cooperative approaches.

⁴ New Zealand notes with appreciation the initiative of the International Emissions Trading Association (IETA) in launching a [web facility](#) submissions portal to gather businesses' thoughts on how Article 6 of the Paris Agreement should be operationalised.

28 Parties would benefit from having the reporting guidelines elaborate on those additional reporting responsibilities with respect to Article 6.2 that are not related to accounting. We are open to such guidelines being developed by SBSTA. Discussion to develop such guidance should focus on areas on which Parties are likely to find convergence.

29 As we outlined in our submission of March 2017, robust accounting requires Parties using cooperative approaches involving ITMOs to report on all the matters required under Article 6.2 in their biennial communications. We propose such reports should include ITMO accounting tables (see Table 1 below) showing the number of tonnes transferred to or from the reporting Party, and by which other Party the transfer was authorised.

Table 1: *Internationally transferred mitigation outcomes – transfer record 2024 for Party A*

Column a	b	c	d	e
Party authorising transfer	Transferred kt CO ₂ -e to Party A	Transferred kt CO ₂ -e from Party A	Inventory: Total emissions ¹	Total ITMO-adjusted emissions ²
Party X	100		590	425
Party W	70			
Party Y		10		
Party Z	5			

¹ The relevant inventory total here might be the total emissions of sectors covered in the NDC

² **ITMO-adjusted emissions figure = Inventory emissions +/- ITMOs**

Applicability of guidance

30 All Parties that have transferred mitigation outcomes for use towards NDCs (their own or others') must apply the robust accounting guidance. Both the Party that counts the ITMO towards its NDC and the Party that has transferred the mitigation outcome must make corresponding adjustments. This **includes emission reductions generated under the 6.4 mechanism**.

Structure and elements of the guidance

31 The guidance for robust accounting for Parties may be structured in the following way:

- I. **Purpose – context – overarching issues:**
This section should be preambular in nature. (See draft proposal below)
- II. **Definitions:**
- III. **Accounting processes:**
 - Information requirements
 - Accounting tables
 - Corresponding adjustments
 - Authorisation
- IV. **Functions of the Secretariat**
- V. **Reporting and review**

Annex 1

New Zealand's proposal for a "skeleton" outline for the COP/CMA decision that adopts the Article 6.2 guidance.

Draft Decision X/CMA.1

Guidance for cooperative approaches under Article 6.2 of the Paris Agreement

The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement,

Recalling [the relevant provisions of the Paris Agreement in particular Article 6 and Article 13.7(b)] [others],

Recognizing that voluntary cooperation in the implementation of their nationally determined contributions can allow for higher ambition,

Noting that [there is other guidance that is relevant adopted under Article 13 – reporting and review guidelines etc.],

1. *Adopts* the guidance for robust accounting for cooperative approaches involving the use of internationally transferred mitigation outcomes towards nationally determined contributions as contained in the annex to this decision;
2. *Requests* [SBI / SBSTA] to develop tabular formats for accounting for internationally transferred mitigation outcomes... to be completed by [date];
3. *Decides* that Parties cooperating under Article 6.2 will apply this guidance in their first and subsequent biennial communications;
4. *Requests* the secretariat to begin publishing the annual compilation and accounting reports referred to in para [x] of the annex after... and to forward them for consideration to the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement;
5. *Decides* that the [Subsidiary Body for Implementation] will revise this guidance in [2028] taking into account the experience of Parties in its use; and
6. *Invites* Parties to submit, by [date], their views on experiences with the use of the guidance for the preparation of biennial communications related to the use of cooperative approaches under Article 6.2, to assist with the revision of the guidance outlined in paragraph 5 above.

Annex 2: New Zealand's proposal for elements of 6.2 guidance

Annex to draft decision:

PURPOSE

1 The purpose of this guidance for cooperative approaches under Article 6.2 is to enable Parties, where they are engaging on a voluntary basis in cooperative approaches that involve the use of Internationally Transferred Mitigation Outcomes towards Nationally Determined Contributions (NDCs), to apply robust accounting and to ensure that double-counting is avoided on the basis of a corresponding adjustment by Parties, which is regularly reported under the transparency framework.

APPROACH

2 If a Party chooses to engage in cooperative approaches that involve the use of Internationally Transferred Mitigation Outcomes towards NDCs, both the Acquiring and Transferring Parties are required to use the following guidance for their reporting under the transparency framework, taking into account guidance developed under Article 13 of the Paris Agreement as appropriate.

DEFINITIONS

For the purpose of this guidance

3 "Acquiring Party" is the Party that received an ITMO that occurred in a Transferring Party's [country] and was transferred by that Party.

4 "Double counting" occurs where two or more Parties claim the same emissions reductions towards their nationally determined contributions.

5 An "ITMO-adjusted emissions figure" is a figure that results from adding or subtracting the number (in tCO₂-equivalent) of ITMOs transferred to or from the reporting Party to the Inventory Total of the reporting Party.

6 "Internationally Transferred Mitigation Outcomes" (ITMOs) are emissions reductions or removals of GHGs expressed as tCO₂-equivalent, transferred to a Party and used towards that Party's NDC.

7 "Inventory Total" is the total... as reported by a Party under Article 13.7(a).

8 "Participating Parties" are Parties that engage on a voluntary basis in cooperative approaches that involve the use of ITMOs towards NDCs.

9 "Transferring Party" is the Party that transferred the ITMO to the Acquiring Party.

ACCOUNTING PROCESSES

A. Information on the use of cooperative approaches

10 In reporting on their use of cooperative approaches under Article 6.2 Parties [shall] provide the following information:

- (i) The coverage of the NDC
- (ii) The quantification of the NDC in tCO₂-equivalent

B. ITMO Accounting Tables for transfers and corresponding adjustments

11 In reporting on the use of cooperative approaches under Article 6.2 that may be used towards NDCs, Parties shall provide ITMO accounting tables in a standard electronic format including:

- (i) net transfers (in numbers of tCO₂-equivalent) between Parties by year
- (ii) the Party from which or to which ITMOs have been transferred
- (iii) “Inventory Total” emissions relevant to the NDC by year
- (iv) ITMO-adjusted emissions figures by year

C. Corresponding adjustments in ITMO accounting

12 Corresponding adjustments shall be made by:

- (i) the Acquiring Party subtracting the number of tCO₂-equivalent acquired as ITMOs from the “Inventory Total” of the year of transfer; and
- (ii) the Transferring Party adding an equal number of tCO₂-equivalent to the “Inventory Total” of the year of the transfer where these are covered by the Transferring Party’s NDC.
(respectively, each Party’s ITMO-adjusted emissions figure).

13 Participating Parties shall report their ITMO-adjusted emissions figures and shall show the corresponding adjustment in the ITMO accounting tables for the year of the transfer and for all relevant years covered by the NDC period concluding with a compilation table in accordance with [guidance adopted under the transparency framework and the provisions below].

14 Where ITMOs from outside the coverage of a Transferring Party’s NDC are transferred to an Acquiring Party, the Transferring Party shall record the number of tCO₂-equivalent transferred as ITMOs but not calculate an ITMO-adjusted emissions figure.

D. Authorisation

15 Participating Parties authorise the use of ITMOs to achieve NDCs under the Agreement when both Parties record the transfer in their respective accounting tables and note the other Party involved in that cooperative approach.

FUNCTIONS OF THE SECRETARIAT

16 The Secretariat shall:

- (i) establish a database to compile and account for ITMOs
- (ii) record the number of tonnes of ITMO transfers that have been authorised, the Transferring and Acquiring Parties, and that corresponding adjustments have been made in the accounting tables of the Participating Parties; and
- (iii) publish annual accounting information on ITMOs

REPORTING AND REVIEW

Other reporting information

17 Other information shall be provided in the biennial communications, by Participating Parties on how Parties have:

- (i) promoted sustainable development;
- (ii) ensured environmental integrity; and
- (iii) ensured transparency, including in governance.

UPDATING OF THE GUIDANCE

18 This guidance shall be reviewed and revised, as appropriate, in accordance with relevant decisions of the CMA.