



## Submission of views on the content of Article 6.2 guidance and Article 6.4 rules, modalities and procedures, presented by the Republic of the Maldives on behalf of the *Alliance of Small Island States*

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On behalf of the Alliance of Small Island States (AOSIS), the Republic of the Maldives welcomes this opportunity to provide further views, inter alia, on

- the **content** of Article 6.2 **guidance**, including the structure and areas, issues and elements to be addressed, including those raised by Parties at SBSTA 46 (FCCC/SBSTA/2017/4, para. 105) and
- the **content** of Article 6.4 **rules, modalities and procedures**, including the structure and areas, issues and elements to be addressed, including those raised by Parties at SBSTA 46 (FCCC/SBSTA/2017/4, para. 114).

These views should be read in conjunction with AOSIS's April 27, 2017 submission on the elements to be addressed in the guidance referred to in Article 6.2 and the elements to be addressed in the rules, modalities and procedures for the mechanism established by Article 6.4.<sup>1</sup> In responding to this call for views, AOSIS has considered the elements papers developed at SBSTA 46.

### I. Context for the content of guidance and rules, modalities and procedures

Article 6.1 recognizes that some Parties choose to pursue cooperation in the implementation of their NDCs **to allow for higher ambition in their mitigation and adaptation actions** and to promote sustainable development and environmental integrity. In this context, priority issues for AOSIS under Article 6 include:

- providing **centralized oversight** over all units generated under the UNFCCC and transferred for recognition at the international level toward achievement of NDCs;
- ensuring that use of market-based mechanisms **does not erode the environmental integrity** of Parties' NDCs, individually or in aggregate;
- establishing a **common international accounting framework** to ensure no double counting or claiming of reductions takes place, as well as to ensure transparency; ensuring that Article 6 **delivers a substantial overall mitigation in global emissions**
- ensuring that use of Article 6 tools is only **supplementary to domestic mitigation efforts** and does not replace them, keeping Article 4.2 in mind;
- directing a substantial **share of proceeds** to support the adaptation needs of particularly vulnerable developing country Parties;
- promoting **sustainable development**;
- creating opportunities and **positive incentives** to support mitigation ambition, while **avoiding incentives that run contrary to the principles and goals** of the Paris Agreement.

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<sup>1</sup> [http://www4.unfccc.int/Submissions/Lists/OSPSubmissionUpload/167\\_317\\_131382181838031501-AOSIS\\_Submission\\_Art%206%20and%206%20of%20PA.27.04.2017.FINAL.pdf](http://www4.unfccc.int/Submissions/Lists/OSPSubmissionUpload/167_317_131382181838031501-AOSIS_Submission_Art%206%20and%206%20of%20PA.27.04.2017.FINAL.pdf)

In addition, the achievement of an **overall mitigation in global emissions** and the delivery of a **share of proceeds for adaptation** are features of the 6.4 mechanism, but they could also be features of cooperative approaches under Article 6.2, so that Article 6 as a whole contributes to the mitigation and adaptation goals of the Paris Agreement. The application of these Article 6.4 elements under Article 6.2 would avoid disadvantaging the role of Article 6.4 and leverage the utility of these provisions.

## II. Content of Guidance - Article 6.2

### A. **Overarching issues**

Article 6.2 contains a series of binding requirements for Parties engaging in cooperative approaches that involve the use of internationally transferred mitigation outcomes (ITMOs) towards NDCs. It provides that Parties shall:

- (1) promote sustainable development
- (2) ensure environmental integrity, and transparency, including in governance; and
- (3) apply robust accounting to ensure, inter alia, the avoidance of double counting.

Decision 1/CP.21 para. 36 further provides that this guidance should include "guidance to ensure that double counting is avoided on the basis of a corresponding adjustment by Parties for both anthropogenic emissions by sources and removals by sinks covered by their nationally determined contributions."

Guidance should provide the **centralized oversight, tools, institutions, and processes** needed to deliver against these three requirements.

### B. **Structure of guidance**

Article 6.2 guidance should take the form of one or more annexes to one or more decisions to be adopted by the CMA. Guidance could contain cross references to other decisions to be adopted by the CMA.

### C. **Definitions**

Definitions section, addressing key terms and concepts (e.g., "ITMOs").

### D. **Participation**

Provisions ensuring that participation is voluntary, approved by participating parties, and participation is consistent with the agreed guidelines.

### E. **Scope and Applicability of Guidance**

#### ***Applicability of guidance***

Provisions stating that guidance under Article 6.2 applies to all Parties engaging in cooperative

approaches that involve the use of internationally transferred mitigation outcomes toward NDCs.

### ***Scope of guidance***

Provisions noting each of the binding requirements for Parties engaging in cooperative approaches that involve the use of internationally transferred mitigation outcomes (ITMOs) towards NDCs, and provisions addressing and providing the **tools, institutions, processes and safeguards** needed to deliver against these requirements:

- (1) promoting sustainable development
- (2) ensuring environmental integrity, and transparency, including in governance; and
- (3) robust accounting to ensure, inter alia, the avoidance of double counting.

The scope of guidance includes "guidance to ensure that double counting is avoided on the basis of a corresponding adjustment by Parties for both anthropogenic emissions by sources and removals by sinks covered by their nationally determined contributions." Decision 1/CP.21 para. 36.

### ***Scope of transfers***

Provisions addressing:

- transfers of ITMOs between Parties with quantified economy wide emission reduction and limitation targets,
- transfers with other Parties that have quantified emission reduction and limitation targets in identified sectors,
- transfers of emission reductions from Article 6.4 mechanism, which could be used by any Party toward achievement of its NDC, provided sufficient measures for ensuring environmental integrity and the avoidance of double counting are in place, including through corresponding adjustments.

## **F. Promotion of sustainable development**

Provisions addressing, inter alia:

- reporting by Parties on the sustainable development criteria they apply to investment in Article 6.2 activities or to the hosting of Article 6.2 activities, including any specific tools or criteria they apply
- reporting by Parties on how sustainable development is being promoted through their engagement in cooperative approaches, and
- publication of criteria being applied by Parties, publicly available,

recognizing that Host Parties should have the flexibility to decide on standards for sustainable development which are dependent upon national circumstances.

## **G. Ensuring environmental integrity**

The use of Article 6 approaches and mechanisms cannot be permitted to erode the environmental integrity of Parties' NDCs, either individually or in aggregate. Accordingly,

guidance under Article 6.2 will have to address both the **quality of any ITMOs** considered for use, and the **quality of the cooperative approaches** through which these ITMOs are generated, transferred and tracked to ensure environmental integrity.

If Article 6.2 participating Parties are permitted to **transfer ITMOs from within the scope of quantified economy-wide targets, or from within the scope of quantified emission reduction and limitation targets in identified sectors**, this will require

- provisions to ensure that “hot air” is not created and transferred, addressing, inter alia:
  - Transparent Information on the scope coverage, and indicative quantification in tCO<sub>2</sub> eq of the NDCs of participating Parties
  - Presentation of an adequate time series of economy-wide and/or sectoral emission inventories so that the context of any transferred ITMOs clear
  - Submission of regular GHG inventories
  - Third party technical reviews, for example of inventories, reference points, baselines, assumptions and methodological approaches

If Article 6.2 participating Parties are permitted to **transfer activity-based ITMOs**, to ensure environmental integrity, provisions will need to ensure that outcomes meet standards that are at least as stringent as the rules, modalities and procedures applied under Article 6.4:

- provisions requiring
  - Application of common minimum standards that ensure ITMOs represent **real, measurable, additional, verified and permanent emission reductions**
  - Measures to address situations of **non-permanence or leakage**
  - Systems and procedures to ensure emission reductions reflected in ITMOs are not double counted, or double claimed
  - Transparent information to demonstrate that ITMOs satisfy each of these elements,
  - Systems and procedures to ensure ITMOs are surplus to the reductions host Parties need to achieve their own NDCs
- Provisions to ensure the **quality of the cooperative approaches** through which ITMOs are generated, transferred and tracked:
  - Transparent, comprehensible and publicly accessible information on the cooperative approaches and agreements in place between participating Parties (including, for example, baselines, timeframes of reductions, allocation of mitigation outcomes)
  - Information on the quality of the approaches used to **identify, manage, deliver and account** for mitigation outcomes for transfer as ITMOs

## H. Transparency, including in governance

Parties and the public need to have information sufficient to provide **confidence** that any emission reductions used toward achievement of Parties' NDCs are real and do not undermine the environmental integrity of what NDCs individually or in aggregate are intended to deliver.

To this end, provisions are needed ensuring that Participating Parties

- report consistently with Article 4 and 13 requirements
- provide the transparent, accurate, complete, comparable and consistent information

on emissions needed to support Article 6 requirements, demonstrate environmental integrity and support robust accounting, including through corresponding adjustments.

- provide information on national systems in place for reporting, review, and accounting
- provide information on registry holdings and transactions
- provide the full information needed to demonstrate the quality of ITMOs and the quality of the voluntary cooperative approaches producing the emission reductions that underpin these ITMOs

## I. Governance

Governance systems will be needed at both the international and national levels.

### ***Centralized oversight***

is needed at the **international level** to ensure that before ITMOs are allowed for use toward NDCs, Parties are applying agreed Article 6.2 guidance, the ITMOs and cooperative approaches producing such ITMOs satisfy environmental integrity criteria, and robust accounting systems are in place to ensure no double counting and the proper application of corresponding adjustments. Oversight systems under the UNFCCC should also ensure that where there are problems, issues or concerns in these contexts, systems are in place to address these problems, issues or concerns.

Provisions are needed in agreed guidance to ensure:

- before ITMOs are allowed for use toward NDCs, Parties have applied agreed Article 6.2 guidance
- **reporting structures, and reporting** is transparent, accurate, complete, comparable and consistent, uses internationally-approved methodologies and metrics and avoids double counting
- **third party technical review**, to ensure agreed Article 6 criteria are met before ITMOs are transferred
- **national registries** – able to transfer and acquire ITMOs, satisfy technical standards, and have the functionality agreed by the CMA
- **national accounts** – reflecting verified emission levels, to which additions and subtractions are made to reflect corresponding adjustments
- **transfers** - are undertaken in a transparent manner, through an international transactions log, that checks with conformity with technical standards and agreed rules
- **robust accounting** systems in place to avoid double counting; systems and tools in place to correct any issues found
- **corresponding adjustments** are undertaken in a transparent manner and verified to ensure ITMOs are not double counted or double claimed
- information on the cooperative approaches underlying intended ITMOs is publicly available, accessible and sufficiently detailed
- **rules and documentation are clear**, readily accessible to all Parties, and publicly available in English
- **unique serial numbers** for transfers indicate source Party, vintage of reduction and underlying ITMO/project/activity type, to facilitate tracking, and avoid double counting and double claiming

- participating Parties' initial accounting starting point is clear, a final accounting of NDC achievement is done, and ongoing reporting is sufficient to track progress toward achievement of NDCs, reflecting the impact of Article 6 transfers on verified inventories
- transfers have been authorized by the host Party
- private sector participation has been authorized
- capacity exists to report on registry transfers, acquisitions, retirement, cancellations, and registry holdings of ITMOs, including type, vintage and Party source
- measures are in place to address any problems that may arise

Provisions are needed that establish or refer to **centralized tools** to support transparency and governance, inter alia,

- **centralized registry** available to enable the transparent transfer and acquisitions of ITMOs that are intended for use toward achievement of NDCs
- **an international transactions log**, to ensure **transfers are undertaken in a transparent manner**, conformity checks with technical standards and agreed rules
- **summaries of transfers, acquisitions and holdings**, e.g., generated and maintained through a centralized accounting database

### ***National level information***

Provisions may be needed on **national level information** needed for transparency, including in governance, depending on the level at which oversight takes place and depending on the nature of ITMOs agreed:

- information on how relevant internationally-agreed guidance, standards, or rules, modalities and procedures are applied at the national level;
- information on cooperative approaches and agreements in place between participating parties;
- how ITMOs represent real, measurable, additional, verified and long-term emission reductions;
- how double-counting is avoided;
- stakeholder consultation and grievance procedures countries have put in place;
- what sustainable development criteria are applied;
- other relevant issues.

### **J. Robust accounting to ensure, inter alia, the avoidance of double counting**

Parties engaging in cooperative approaches that involve the use of internationally transferred mitigation outcomes (ITMOs) towards NDCs are required to apply robust accounting to ensure, inter alia, the avoidance of double counting. Robust accounting rules and infrastructure will also assist in ensuring transparency, including in governance, and in ensuring environmental integrity.

Provisions will be needed to ensure participating Parties satisfy transparency and governance requirements necessary to support robust accounting (see sections above), including, inter alia that they:

- clarify the scope of their NDCs and quantify their NDCs

- provide information necessary for clarity, transparency and understanding apply accounting guidance under Article 4.13 for emissions and removals in accordance with methodologies and metrics assessed by the IPCC and adopted by the CMA;
- provide inventories consistent with Article 13.7a
- provide information necessary to track ongoing progress made in implementing and achieving NDCs, consistent with Article 13.7b
- satisfy supplementary reporting, review and transparency requirements necessary to support robust accounting under Article 6
- report transfers, acquisitions, retirement and cancellation of ITMOs intended for use toward NDCs using common accounting rules and registries that satisfy technical standards under the UNFCCC
- correct accounting errors
- ensure that land sector uncertainties and difficulties in addressing non-permanence do not impact accounting for other sectors
- distinguish outcomes representing emission reductions from sources from removals from the land sector
- strive to include all categories of emissions or removals in their NDCs (1/CP.21, para. 31c)

### 1. Establishment of national accounts

Provisions addressing the establishment and management of national accounts reflecting corresponding adjustments:

- establishment of national accounts
- role of inventory emission levels, inventory reviews
- participating Parties' **initial accounting starting point**
- **participating Parties' final accounting** of NDC achievement, reflecting impact of Article 6 transfers on verified inventories
- **participating Parties' ongoing reporting** of transfers and acquisitions, to enable the tracking of progress toward achievement of NDCs, and ensure double counting is avoided on the basis of corresponding adjustments.
- impact of adjustments, recalculations, corrections

### 2. Corresponding Adjustments

Provisions addressing the mechanics of corresponding adjustments

- Corresponding adjustments representing mitigation outcomes applied as additions and subtractions **from reviewed and verified emission levels**
- Corresponding adjustments reflected in **accounts** established for this purpose, with *additions and subtractions* from transferring and acquiring Parties' accounts respectively
- Additions and subtractions to be made in **tonnes of CO<sub>2</sub> equivalent emissions**
- Timing of corresponding adjustments / vintage of reductions

### 3. Accounting for share of proceeds

The delivery of a **share of proceeds** for adaptation is a feature of the 6.4 mechanism, but it could be a feature of all cooperative approaches under Article 6.2, to contribute to **higher**

***ambition in adaptation actions***, as referenced under Article 6.1. The application of this Article 6.4 element to all transfers under Article 6.2 would avoid disadvantaging the role of Article 6.4 and would leverage the utility of Article 6.2 provisions. There is already experience in extending the share of proceeds under the CDM to Joint Implementation and International Emissions Trading under the Kyoto Protocol.

- Provisions addressing accounting for the share of proceeds for adaptation.
- Provision setting initial share of proceeds (AOSIS proposes 5%)
- Provisions addressing accounting for any share of proceeds for administration.
- Provision setting initial share of proceeds for administrative expenses (X%).

#### **4. Accounting for an overall mitigation in global emissions under Article 6.2**

The delivery of an overall mitigation in global emissions is a feature of the Article 6.4 mechanism, but it could also be a feature of all cooperative approaches under Article 6.2 ***to allow for higher ambition in mitigation actions, as referenced under Article 6.1.***

Use of the accounting system for ITMOs can be used to operationalize this higher ambition, by cancelling a percentage share of ITMOs upon transfer or use so that Article 6 as a whole contributes to the goals of the Paris Agreement by going beyond offsetting. The application of this Article 6.4 element under Article 6.2 would avoid disadvantaging the role of Article 6.4 and would leverage the utility of Article 6.2 provisions.

- Provisions addressing accounting for an overall mitigation in global emissions (e.g., through cancellations)

#### **5. Accounting Infrastructure**

Establishment, availability, use, functions, role, including

- Centralized registry system and national registries
- international transactions log
- centralized reporting systems
- centralized accounting database

#### **K. Limits on issuance, transfer, use**

- To protect environmental integrity, Parties **may need to consider:**
  - Quantitative restrictions on transfers, e.g., to address complementarity or overselling?
  - Restrictions on types of transfers?
  - Quantitative restrictions on carryover?
  - Restrictions on use of vintages of reductions?
  - Restrictions in sectors with a high degree of uncertainty in emission estimates?
  - ...?
- Centralized systems could ensure any restrictions that are agreed are properly applied (e.g., international transaction log checks).



## **L. Interlinkages**

The Informal Information note discussed in Bonn at SBSTA 46 captured a number of important interlinkages between Article 6.2 and other Articles of the Paris Agreement. The most significant interlinkages that need to be elaborated are the following:

1. Links between the principles and goals under Articles 2, 4 and 6.2.
2. Links to Article 4.13 accounting guidance, TACCC principles
3. Links to Article 13.7 (a) GHG inventories
4. Links to Article 13.7 (b) information to track progress
5. Links to Article 13.11 multilateral consideration
6. Links to Article 13.12 technical expert review
7. Links to Article 13.13 modalities, rules and procedures
8. Links to Article 14 global stocktake
9. Links to Article 15 mechanism to facilitate implementation and promote compliance

Some cross-cutting issues are:

- Principles and goals under Articles 2, 4 and 6
- Accounting and its implementation under Articles 4, 6, 13, 15
- Transparency and its implementation under Articles 4, 6, 13, 15
- The Global Stocktake and the need to avoid double counting of mitigation action.

### III. Content of Rules, Modalities and Procedures - Article 6.4

#### A. Overarching issues

Article 6.4 establishes a mechanism to contribute to mitigation and support sustainable development. To contribute to mitigation, Article 6.4 ***needs to add value***, by helping countries achieve their NDCs at least cost, facilitating the engagement of private entities in emission reduction activities, and providing Parties with both the ***opportunity*** and the ***incentive*** to support emission reduction activities that will not only generate transferable emission reductions that can be used by Parties toward achievement of their NDCs, ***but also at the same time generate a substantial overall mitigation in global emissions*** that the atmosphere sees. This will create an inherent value in Article 6.4 units, beyond offsetting, and inspire **greater confidence** in the mechanism.

#### B. Definitions

Definitions section, addressing key terms and concepts (e.g., “overall mitigation in global emissions” (see below), “own benefit”).

#### C. Overall mitigation in global emissions

The aim to deliver an ***overall mitigation in global emissions*** (OMGE) is a central and critical new element of the mechanism under Article 6.4 that takes it beyond the offsetting approaches of the CDM and Joint Implementation.

##### 1. Cancellation to deliver an Overall Mitigation in Global Emissions

An overall mitigation in global emissions (OMGE) takes place when through the operation of Article 6, emission reductions are delivered at a level that goes beyond what would be achieved through the delivery of the Host Party's NDC and the Acquiring Party's NDC in aggregate. This can be achieved by ensuring that some verified reductions are not used by either the Host or Acquiring Party toward its NDC – for example, by requiring ***cancellation of a fixed share*** of the emission reductions verified and recorded to a Host Party's account, at the time of issuance to the Acquiring Party.

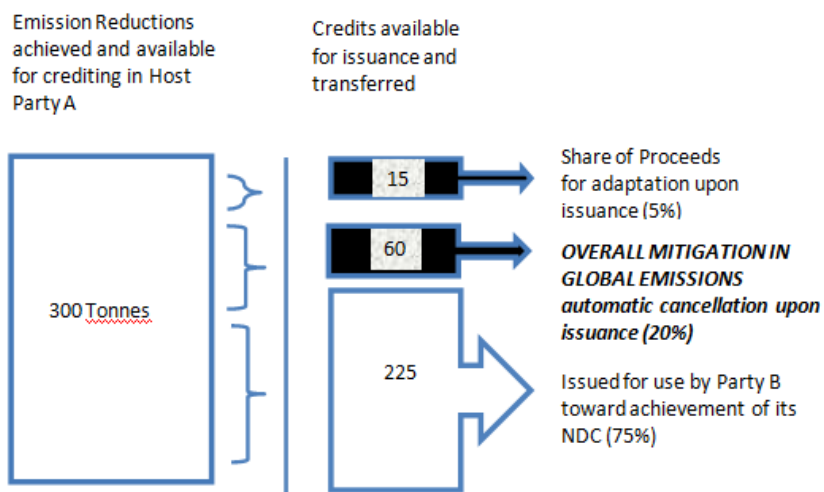
In this way, fewer emission reductions will be issued and transferred than have been recognized as having been achieved in the Host Party. Assuming that both Parties go on to achieve their NDCs, and a corresponding adjustment is applied, the cancellation will deliver an overall mitigation in global emissions, beyond what Parties' NDCs taken together would deliver in aggregate, in the amount of the difference between the amount of emission reductions in tonnes verified in the Host Party, and the amount of emission reductions in tonnes transferred to the Acquiring Party. The Acquiring Party will have to acquire further emission reductions to make up this difference.<sup>2</sup>

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<sup>2</sup> Consistent with Article 6.4, the project contributes to the reduction of emission levels in the host Party (6.4(c)(seen in its emissions inventories)); the host Party benefits from mitigation activities (6.4(c)); emission reductions result that can be used by another Party to fulfil its NDC (6.4(c)); but these reductions are not used by more than one Party to demonstrate achievement of its NDC (6.5). Double counting is avoided on the basis of a corresponding adjustment under Article 6.2 and decision 1/CP.21, para. 36).

**Overall mitigation in global emissions through fixed percentage cancellation of units**

*Example if 20% cancellation for overall mitigation, 5% for share of proceeds for adaptation, 300 tonnes of verified reductions achieved in the Host Party were assumed*



Through cancellation, an overall mitigation in global emissions would be achieved whether the Article 6.4 activity takes place inside the host Party's NDC or outside the scope of its NDC. How this overall mitigation in global emissions is **accounted in** the Host Party will depend on whether a corresponding adjustment is required for both Host and Acquiring Parties for all activities under Article 6.4, or only required where reductions take place inside the scope of a Host Party's NDC.

**Example 1: Project inside scope of Host Party NDC / corresponding adjustment by both Parties**

Using the above example, assume 300 tonnes of additional, real, measurable, permanent emission reductions are verified from a project in the Host Party. Assume a fixed 20% cancellation<sup>3</sup> is in place to achieve an overall mitigation in global emissions, and assume a 5% share of proceeds of Article 6.4 activities is directed toward adaptation. 60 tonnes of emission reductions are cancelled, representing an OMGE. 15 tonnes are directed to an account established to receive a share of proceeds. The remaining 225 tonnes of credited emission reductions (75%) are issued to the Acquiring Party. A corresponding adjustment subtracts 225 tonnes from the Acquiring Party account, where they can be used toward achievement of the Acquiring Party's NDC. A corresponding adjustment also adds 300 tonnes to the Host Party's account, reflecting the fact that these 300 tonnes of reductions have become unavailable for use by the Host Party toward achievement of its own NDC to avoid double counting.

It is important to point out that even if the Acquiring Party received all 300 tonnes of emission reductions credited, and there were no cancellations for an OMGE or share of proceeds, the Host Party would still have to add 300 tonnes to its account due to the need to avoid double

<sup>3</sup> A 20% figure is used in this example for illustration only; technical work is needed to identify an appropriate cancellation percentage.

counting under Article 6.5. So the cancellation creates no disadvantage to the Host Party from the perspective of the corresponding adjustment it must make, but an overall benefit to the atmosphere is achieved.

### **Example 2: Projects outside scope of Host Party NDC**

If activities are outside the scope of the Host Party's NDC, an overall mitigation in global emissions can again be achieved by identifying the reductions available for crediting, recording this credited volume, and cancelling a fixed percentage prior to issuance so that a percentage of the reductions achieved cannot be used by the Acquiring Party. The percentage cancellation is necessary to deliver an overall mitigation in global emissions, because otherwise 300 tonnes of transferred reductions would only be used to offset emissions in the Acquiring Party -- achieving no global mitigation benefit.

Because emission reductions take place outside the scope of the Host Party's NDC, an overall mitigation benefit will be achieved through cancellation -- with emission reductions achieved beyond the sum total of the Host Party and Acquiring Party's NDCs -- once a corresponding adjustment is made in the Acquiring Party's accounts, whether or not there is a corresponding adjustment in the Host Party accounts. Nevertheless, the CMA will need to decide whether: (1) to only require a corresponding adjustment in the Acquiring Party's account; or (2) to require corresponding adjustments in both Acquiring Party and Host Party accounts.

#### **(option 1) Only the Acquiring Party makes a corresponding adjustment (Acquiring Party subtracts 225 tonnes from its account).**

- It could be argued that because only one Party will be using these Article 6.4 reductions towards achievement of its NDC, there is no risk of double counting the same reductions toward more than one NDC, and therefore no corresponding adjustment is needed in the Host Party.
- However, it could also be argued that this approach may create a perverse incentive for Host Parties to maintain sectors outside the scope of their NDCs, where they can be used to generate offsets that do not require corresponding adjustments. This might deter Parties from moving to economy-wide emission reduction or limitation targets, or from putting mitigation measures in place in certain sectors, to protect these sectors for external investment.

#### **(option 2) Both Parties make corresponding adjustments (Acquiring Party subtracts 225 tonnes; Host Party adds 300 tonnes).**

- It could be argued that this might encourage Parties to bring relevant sectors and activities within the scope of their future NDCs, where they can use conservative baselines to achieve benefits from these activities that they can use toward their own NDCs.
- Corresponding adjustments on both sides may make it easier for Host Parties without economy-wide targets to move to economy-wide NDCs over time, with a clearer record of any Article 6.4 transfers previously made.

## 2. Level of cancellation percentage; mechanics of cancellation

An initial cancellation percentage should be established at the outset, set at a level that would generate a substantial overall mitigation in global emissions, while not disincentivizing Parties from engaging in Article 6.4 initiatives. The **cancellation percentage** applied could be uniform for activities across all projects /programmes/sectors, or tailored to project type.

**Although the example above uses a 20% cancellation percentage, this figure is used for illustration purposes only.** Technical work should be undertaken to identify an appropriate initial cancellation percentage that would address these two aims.

The examples above use cancellation on the supply side and corresponding adjustments at the time of issuance. This enables all issued units/reductions to be usable toward achievement of NDCs, without a subsequent discount and may support fungibility with Article 6.2 ITMOs. It is also possible to apply cancellations upon use (demand-side), but the delay in reflecting corresponding adjustments may make it difficult to track ownership of transferred reductions until corresponding adjustments are made, making it more difficult to track progress toward individual and aggregate goals.

**The following provisions are needed in the rules, modalities and procedures:**

- Provision establishing initial cancellation percentage (X%)
- Provision addressing the regular review of this cancellation percentage.
- Provision addressing the mechanics of the necessary cancellation (e.g., cancellation on supply side, to enable all Article 6.4 units to be usable toward achievement of NDCs without a subsequent discount; v. cancellation on use, with implications for delays in the reflection of corresponding adjustment, and implications for tracking progress toward individual and aggregate goals).

## 3. Role of conservative baselines to increase own benefit

Some have suggested that **conservative baselines** alone would be sufficient to deliver an overall mitigation in global emissions, but this is not the case where activities take place *inside* the scope of Parties' NDCs. **If a Host Party and Acquiring Party have capped emissions** as a result of their NDCs, and activities take place inside the scope of the Host Party's NDC, applying a more conservative baseline will only shift the distribution of reductions achieved between the two Parties, with the Host Party capturing a greater share of the resulting reductions in its own national GHG inventory, where they will help it in achieving its own NDC. ***Conservative baselines will make no difference to the emission reductions the atmosphere sees as a result of the Parties' NDCs in aggregate, assuming both Parties go on to achieve their NDCs***

Under the Paris Agreement, a Host Party contemplating transfers should always have an incentive to set conservative baselines, to retain a greater share of the actual reductions achieved that it can use toward its current and future NDCs. In fact, the opportunity to set more conservative baselines provides an incentive to the Host Party to host Article 6.4 projects; but conservative baselines, by themselves, will not deliver an overall mitigation in

global emissions.

**The following provision is needed in the rules, modalities and procedures:**

- Provision allowing host Party to set more conservative baselines, to enable host Party to retain a greater share of the reductions achieved toward its current and future NDCs.

**D. Share of proceeds**

The share of proceeds for adaptation under Article 6.6 can be operationalized through Article 6.4 by deducting a fixed percentage of the credited units/reductions upon issuance, and directing these units to an account for monetization.

The following provisions are needed in the rules, modalities and procedures:

- Provisions setting out the process for the deduction of a fixed percentage of credited emission reductions upon verification/issuance, with these reductions directed to an account for monetization for adaptation.
- Provision setting initial share of proceeds for adaptation (AOSIS proposes 5%)
- Provisions addressing accounting for any share of proceeds for administration.
- Provision setting initial share of proceeds for administrative expenses (X %).

**E. Environmental integrity and governance**

To ensure environmental integrity, the rules, modalities and procedures developed for Article 6.4 will have to address both the **quality** of any emission reductions being generated for use or transfer, and the **systems** through which these units or reductions are held, issued, and tracked, recognizing that there could be overlap with the guidance under Article 6.2.

**With respect to the quality of emission reductions**, rules, modalities and procedures need to address:

- Standards to ensure reductions that are **real and measurable, and provide long-term benefits related to mitigation** (para. 37 (b))
- **Specific scopes of activities (1/CP.21, para 37(c))**, addressing inter alia, development of a core set of methodologies, to minimize administrative expenses and transaction costs and support project replication
- Process for development of methodologies
- Recognition of need for stringent standards and criteria in context of sectoral approaches
- Reductions in emissions that are **additional** to any that would otherwise have occurred in the absence of the activity (para. 37(d))
- Reductions that have been **verified and certified** by designated operational entities (para. 37(e)).
- requirements to address situations of **non-permanence** or **leakage**
- **crediting periods** that do not undermine additionality

With respect to the **quality of systems**, provisions are needed to address

- a supervisory body, under the guidance of the CMA (Art. 6.4)
- application of common accounting framework, to ensure no double counting or double claiming takes place
- a robust accounting system at the international level to transfer and track transfers and acquisitions of reduction units
  - procedures for voluntary participation (para. 37(a))
  - notification of voluntary participation in specific mitigation activities, to ensure that the ownership status of any emission reductions resulting from Article 6.4 activities is clear at all times and that these reductions are not claimed by more than one Party toward its NDCs as set out in Article 6.5
- national focal points
- information on stakeholder consultation
- third party technical reviews of relevant inventories, proposed baselines, proposed crediting thresholds and/or caps
- standards for the accreditation of designated operational entities (para. 37(e))
- unique serial numbers that indicate the Party source, vintage and project type, to facilitate tracking, and avoid double counting and double claiming
- systems for correcting errors where reductions are improperly transferred or credited
- a centralized registry function - to facilitate transfers
- an international transactions log function - to track transfers, check transfers for conformity with technical standards and agreed quantitative and qualitative restrictions, enable verification of corresponding adjustments, facilitate periodic summary reports of transfers and holdings.
- regular reporting to the CMA of transfers, holdings and corresponding adjustments

#### **F. Limits on issuance, transfer, use**

- To protect environmental integrity, Parties need to consider:
  - Quantitative restrictions on transfers, e.g., to address complementarity or overselling
  - Restrictions on types of transfers
  - Quantitative restrictions on carryover
  - Restrictions on use of vintages of reductions
  - Restrictions in sectors with a high degree of uncertainty in emission estimates
  - . . .
- Centralized systems could ensure any restrictions that are agreed are properly applied (e.g., international transaction log checks).

#### **G. Experience gained with and lessons learned from existing mechanisms and approaches adopted under the Convention and its related legal instruments (para 37(f)).**

The Kyoto Protocol is a distinct legal instrument from the Paris Agreement. Nevertheless, many lessons have been learned from the Kyoto Protocol's flexible mechanisms that are directly relevant to the rules, modalities and procedures that will be developed for Article 6.4.

The draft revised JI Guidelines,<sup>4</sup> for example, addressed challenges with the operation of Joint Implementation in situations in which participating Parties both have emission targets. After years of operation, in reflecting on the shortcomings of the JI guidance, KP Parties agreed upon improved international oversight, transparency and governance provisions, methodologies, standardization of common approaches, technical requirements to ensure additionality, simplified methodologies, net mitigation benefits, and many other issues detailed in the JISC's "*Analysis of the experiences and lessons learned from JI for the possible design of mitigation mechanisms and on links and interactions with other tools.*"<sup>5</sup>

Similarly, the review of the CDM modalities and procedures has raised a number of issues, including:

- the need to avoid double counting of emission reductions between Host Party and acquiring Party
- securing net global emission reductions that the atmosphere sees ("an overall reduction in global emissions")
- appropriate crediting period lengths in the context of required additionality and the new Paris Agreement context
- measures to ensure environmental integrity
- sustainable development benefits and the role of the Host Party in this regard
- transparency in holdings by Party.

Ongoing activities registered under the CDM require consideration in the context of the new rules, modalities and procedures agreed under Article 6.

## **H. Interlinkages**

The Informal Information note discussed in Bonn at SBSTA 46 captured a number of important interlinkages between Article 6.4 and other Articles of the Paris Agreement. The most significant interlinkages that need to be elaborated are the following:

1. Relationship between Article 6.4 and Article 6.2
2. Links to Article 2, 3
3. Links to Article 4.7 mitigation co-benefits
4. Links to Article 4.13 accounting guidance, TACCC principles
5. Links to Article 4.15 impacts of response measures
6. Links to Article 13.7(a) GHG inventories
7. Links to Article 13.7(b) information to track progress
8. Links to Article 14 global stocktake
9. Links to Article 15 mechanism to facilitate implementation and promote compliance
10. Links to Article 19 subsidiary bodies and other institutional arrangements

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<sup>4</sup> See FCCC/SBI/2016/L.8 (Review of Joint Implementation Guidelines), Annex I (Work undertaken by the Subsidiary Body for Implementation on the review of the joint implementation guidelines), and FCCC/SBI/2016/L.8/Add.1.

<sup>5</sup> FCCC/KP/CMP/2016/5 (Annual report of the Joint Implementation Supervisory Committee to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol), Annex 1 (Reflections on and analysis of experiences and lessons learned from joint implementation).



Some cross-cutting issues are:

- Principles and goals under Articles 2, 4 and 6
- Accounting and its implementation under Articles 4, 6, 13, 15
- Transparency and its implementation under Articles 4, 6, 13, 15
- The Global Stocktake and the need to avoid double counting of mitigation action.

Consideration also needs to be given to developments under CORSIA.