



## **NEW ZEALAND**

### **Submission to SBSTA on matters related to Article 6 of the Paris Agreement 1 April 2021**

#### **Context**

1. The SBSTA Chair in collaboration with the COP25 Presidency and incoming COP26 Presidency has invited Parties to submit their views on the matters related to rules, modalities and procedures for Article 6 of the Paris Agreement, in fulfilment of the mandate in paragraphs 36 – 40 of decision 1/CP.21, and subsequently referred to in Decision 8 of CMA.1, including on:

- (a) Financing for adaptation/Share of Proceeds (Article 6.2 and Article 6.4)
- (b) Avoiding double use for outside the Nationally Determined Contributions (NDC) for Article 6.4.
- (c) Ensuring rapid operationalization (Articles 6.2, 6.4 and 6.8)
- (d) Enabling ambition in Article 6 instruments.
- (e) Clean Development Mechanism (CDM) activity transition to Article 6.4 mechanism

2. This submission responds to items (a) and (b).

#### **Financing for adaptation/Share of Proceeds (Article 6.2 and Article 6.4)**

3. New Zealand recognises the clear need to scale up adaptation, and adaptation funding significantly, and rapidly, by all appropriate means. Through Article 2.1.c of the Paris Agreement, we have made commitments to ensure adaptation finance flows are consistent with climate resilient development. In meeting those commitments, our focus is on the Pacific region. New Zealand has set a target of delivering 50% of its climate finance to adaptation, and in UNFCCC discussions on climate finance, New Zealand actively encourages other Parties to do the same. New Zealand's climate finance is delivered bilaterally, regionally and through multilateral funds including the Adaptation Fund.

4. New Zealand recognises the primary channel for new adaptation finance commitments will be climate finance negotiations in which the importance of increasing, and more effective, total spending and proportional commitment to adaptation can be considered. Delivery of a Share of Proceeds through the 6.4 mechanism will be a complementary process, but one that is secondary in nature, relative to direct commitments and private finance mobilized by Parties.

5. In the context of the ambition gap, mitigation is of vital importance to reduce adaptation burden. Strong and urgent action on both mitigation and adaptation is necessary to achieve the goals of the Paris Agreement. In light of this, when considering the UNFCCC's support for adaptation, New Zealand maintains that support for adaptation must not come at the expense of global mitigation action, or disincentivise strong progression of ambition in NDCs. We must avoid a counterproductive scenario where these pull against each other. New Zealand's approach to adaptation financing through Article 6 is grounded in this principle.

#### *Article 6.2*

6. A Share of Proceeds for cooperative approaches under Article 6.2 was not agreed by Parties in Paris and has not been agreed subsequently. Discussions on the matter to date have underscored that imposing this would not be practicable or feasible in the context of the broad range of cooperative approaches that will occur under Article 6.2; may not deliver increased or predictable adaptation finance in practice; or could cause perverse outcome, including discouraging higher ambition (i.e. setting higher targets if these depend on use of international cooperation), and, subsequently, generating less action.

7. Specifically, a mandatory Share of Proceeds on cooperative approaches under Article 6.2:

- (a) Assumes that all cooperative approaches under Article 6.2 will be market-based and universally fungible. In practice, Article 6.2 cooperation could occur for a number of reasons – such as the exchange of ITMOs for in-kind support. Similarly, an Article 6.2 ITMO may not have value other than to the direct participants in a cooperative approach. For example, the protections Parties have around authorisation and the voluntary nature of participation in cooperative approaches may mean ITMOs will not be authorised for use by any other than the participating Parties. This means a Share of Proceeds through Article 6.2 would not be an effective, predictable or reliable way to raise adaptation finance.

Experience under the Kyoto Protocol has demonstrated the impractical nature of Share of Proceeds on the type of cooperative activity anticipated under Article 6.2. The mixed results suggesting that share-of-proceeds is not a one-size-fits-all solution. While well suited to the Clean Development Mechanism, we expect that contributions to the Adaptation Fund from International Emissions Trading activities and Joint Implementation in the Second Commitment period will be near zero.

- (b) Acts as disincentive to ambitious mitigation action by imposing an additional cost, as previously raised. This means imposing a Share of Proceeds on Article 6.2 may see climate finance redistributed from mitigation to adaptation. This is a perverse incentive – reaching the Paris Agreement goals requires greater mitigation and adaptation action, not displacement of one into the other. In turn, less mitigation action means an increased adaptation burden.

- (c) Will retrospectively alter the nationally determined nature of existing Nationally Determined Contributions by imposing an additional cost commitment, which was not agreed by each Party prior to NDCs being finalised. The precedent of retrospectively changing the Paris Agreement obligations for Parties has serious consequences in some legal systems and should be avoided.

8. New Zealand is committed to the Paris Agreement, and ambitious and urgent mitigation and adaptation action. In light of the concerns raised above, we do not see a mandatory Share of Proceeds on Article 6.2 as helping achieve both of these purposes. New Zealand hears calls for scaled up, predictable adaptation finance, and continues to believe the UNFCCC would be better to concentrate efforts to encourage more effective and direct means to provide adaptation support, such as specific adaptation finance commitments.

9. We observed at COP25, however that constructive approaches to this issue were emerging. Some parties have made voluntary bilateral agreements under article 6.2 that also deliver predictable adaptation financing. Further discussion of these and other approaches may be helpful before COP26.

#### *Article 6.4*

10. New Zealand considers it important to ensure the agreed Share of Proceeds from the Article 6.4 mechanism works well. There are implementation challenges nonetheless, and to overcome these we would encourage discussions on rules, modalities and procedures for the implementation of this over the coming months.

#### **Avoiding double use for outside the NDC for Article 6.4**

11. It is critically important to the integrity of Article 6, the transparency framework, and the Paris Agreement overall that transfers of mitigation outcomes generated through cooperative approaches are robustly accounted for, as agreed by Parties. This includes ensuring there is no double counting of emission reductions in the context of all international transfers of mitigation, including those delivered through the Article 6.4 mechanism. Avoiding double counting requires the application of corresponding adjustments.

12. New Zealand is concerned by the potential to obscure double-counting through NDC scope (e.g. different definitions of what is inside/outside depending on circumstance). This would undermine the environmental integrity and credibility of cooperative approaches under Article 6.4, as well as the clarity and transparency of NDCs and Parties' ability to understand them. We welcome the SBSTA Chair's invitation to discuss this topic at the upcoming informal discussion on 20 April 2021, to enhance Parties' understanding of the implications of the currently proposed texts on the agreed principle of no double counting.

## **Conclusion**

13. New Zealand will continue to work constructively and inclusively, including by virtual means, to reach agreement on all negotiation matters for COP26.