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Submitted to:
Tosi Mpanu Mpanu,
Chair of the SBSTA

IETA'S INPUT ON FINANCING FOR ADAPTATION AND THE SHARE OF PROCEEDS UNDER ARTICLE 6 OF THE PARIS AGREEMENT

IETA SUBMISSION TO THE CHAIR OF SBSTA

INTRODUCTION

The **International Emissions Trading Association (IETA)** welcomes this opportunity to provide input on the financing for adaptation and Share of Proceeds under Article 6 of the Paris Agreement. The COVID-19 pandemic has disrupted and halted the international negotiations on the implementation of the Paris Agreement, which could potentially cause harmful delays in the ability of the global community to respond to the climate crisis.

We therefore warmly applaud the initiative by the Chair of SBSTA, Tosi Mpanu Mpanu, to convene informal technical expert dialogues on Article 6 of the Paris Agreement. These informal dialogues can be instrumental in maintaining the momentum of the negotiations and help to prepare the groundwork for political negotiations at COP26 by bridging diverging positions and developing common understanding.

We are grateful that observer organisations representing the broader stakeholder community have also been invited to prepare submissions, as this can definitely enrich the discussion and bring more perspectives to the table. We hope that IETA's insights and recommendations, levering on the wealth of experience and expertise of our members, are used to inform these dialogues.

By way of brief introduction, IETA is a global multi-sector business association created in June 1999 to promote the establishment of a functional international framework for trading in greenhouse gas emissions. **As the leading international business voice on climate markets and finance**, IETA represents over 150 companies. IETA's market expertise is regularly called upon to inform market-based policies that deliver greenhouse gas (GHG) reductions and removals, address economic competitiveness concerns, and balance economic efficiencies with social equity and co-benefits.

IETA and its members actively support the advancement of the objectives of the United Nations Framework Convention on Climate Change and the Paris Climate Agreement, with a long history of engagement in the UNFCCC process.

IETA's VIEWS ON FINANCING FOR ADAPTATION AND THE SHARE OF PROCEEDS

International and domestic market mechanisms can be an important source of finance to fund adaptation and other climate-related priorities. For instance, under the CDM the Share of Proceeds (SOP) was levied to sustain the mechanism's operations and to provide contributions to the Adaptation Fund. At the domestic level, several emissions trading systems (ETS) use revenues from auctioning to finance climate-related actions, including on adaptation[1].

Looking more closely at the Article 6 context, it is worth noting that both SOP and adaptation finance are clearly linked to the operations of the Article 6.4 mechanism. The SOP provision in Article 6.6 is straightforwardly outlined, as it clearly defines where it should be levied from, i.e. activities under the mechanism, and what it should be used for, i.e. administrative expenses and adaptation finance. As a concept, it therefore closely resembles SOP under the CDM.

IETA believes that the operationalization of SOP is relatively straightforward, as it can easily draw from the CDM experience. We note that at COP25 there was general agreement among Parties on levying the SOP for adaptation purposes as a percentage (2%, 5%, X%) at issuance of 6.4 credits. The SOP for administrative purposes is instead foreseen to be a monetary contribution levied at the issuance of every credit. This is no different from how it was levied under the CDM.

Drawing from the experiences with the CDM, we believe that levying SOP at 2% for the Article 6.4 mechanism would be an appropriate trade-off between the need to generate adaptation finance and the need to avoid imposing an excessive burden on the functioning and the appetibility of the mechanism, which could make it unattractive.

We note that there is a push by some Parties to extend the SOP application to activities under Article 6.2 as well. We also note that there is discussion on how the SOP should be applied to Article 6.2. This includes whether it should be levied in the same way as 6.4, or differently (given the different nature of Article 6.2), and whether it should be mandatory or voluntary.

IETA does not believe that the SOP should be levied for Article 6.2 transfers, because of several reasons:

- Article 6.2 is an accounting framework for international transfers of mitigation outcomes, not a mechanism itself. In several cases, mitigation outcomes that will be transferred under Article 6.2 will already be associated with contributions to adaptation finance, for instance in the case of units generated by the Article 6.4 mechanism or units from national systems that make adaptation contributions.

[1] https://icapcarbonaction.com/en/?option=com_attach&task=download&id=646

- We also note the lack of legal basis (and mandate), as SOP is only referenced in the context of Article 6.4 in the Paris Agreement. There is therefore no basis in the Paris Agreement to extend the application of SOP to Article 6.2 activities.

- The third reason is that it would effectively mean imposing an additional 'UN tax' on domestic policies (especially in the case of linked ETSs or bilateral crediting mechanisms), which could create a legal challenge to the ability of several Parties to participate in Article 6 activities.

- We are also concerned that SOP would pose a disincentive to the use of Article 6.2 approaches, which would instead have negative implications for adaptation finance.

We note that the latest versions of the draft negotiating text from COP25 include a voluntary encouragement to deliver adaptation funding under Article 6.2 activities, which we think could be a constructive compromise.

The implementation of SOP should be done in a manner that does not impede the flow of the transactions, given that a successful implementation of the Article 6.4 mechanism could result in very large-scale activities as the energy system transitions towards net-zero emissions. The earlier such an outcome is achieved, the higher the level of transaction that may result. At COP26, Parties need to define how the share of proceeds will be set and administered. The Article 6.4 Supervisory Body should then be tasked to take steps to implement the share of proceeds.

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