

SUBMISSION BY THE ENVIRONMENTAL INTEGRITY GROUP (EIG) ON ARTICLE 6 OF THE PARIS AGREEMENT

Financing for adaptation / share of proceeds (Article 6.2 and Article 6.4)

1. Background

- For all EIG members, both adaptation and mitigation is a key priority. Ambition has to increase significantly in both areas at all levels. Adopting robust guidance and rules, modalities and procedures that provide strong incentives for an enhanced ambition in both areas has to be a key priority not only for the EIG, but for all Parties to the Paris Agreement.
- The EIG as a diverse group containing potential host Parties and buyers of Internationally Transferred Mitigation Outcomes (ITMOs) under Article 6 is well positioned to understand both sides of the argument and would like to address the discussions on the need for enhanced adaptation ambition with an open mind.
- The EIG is of the view that we should reach a concise and practical solution to the issue of adaptation financing, providing a clear rule under Article 6.4 and exploring flexible options under Article 6.2, that incentivize ambition and synergies between mitigation and adaptation.
- Notwithstanding the need for enhanced adaptation ambitions in all areas, the EIG would like to recall that the main purpose of Article 6 is to ensure the establishment of credible, robust market mechanisms for additional mitigation actions that will help us achieve the Paris temperature goal.
- The EIG fully acknowledges the need for enhanced adaptation finance. Let us, however, keep sight of the bigger picture that Article 6 will not be the only vehicle to address these needs.
- We need to learn lessons from the past (CDM) for the future on how best to use market mechanisms in contributing to adaptation finance.

2. Legal mandates in the Paris Agreement and their implications

- **Article 6.6:** *“The Conference of the Parties serving as the meeting of the Parties to this Agreement shall ensure that a share of proceeds from activities under the mechanism referred to under paragraph 4 of this Article is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.”*
 - Article 6.6 is clear in its mandate for a SOP under 6.4 for both administrative expenses and to adaptation – it does not specify how the SOPs are to be levied and gives flexibility to Parties to decide on the preferred approach.
 - The EIG is open-minded in the context of Article 6.4 to discuss monetary as well as in-kind contributions (both have advantages and disadvantages).
 - The EIG is open-minded to reallocate existing funds generated through administrative fees from the CDM for both operationalization of Article 6.4 and a share to the Adaptation Fund.

- The EIG can also envisage a reallocation of future administrative fees under the 6.4 mechanism to the Adaptation Fund, should it become apparent that not all of the administrative fees levied are needed for its smooth operation.
- **Article 6.1:** *“Parties recognize that some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contributions to allow for higher ambition in their mitigation and adaptation actions to promote sustainable development and environmental integrity.”*
 - The EIG would like to recall that the wording is the result of a careful compromise achieved in Paris.
 - The EIG recognises adaptation reference in Article 6.1 chapeau, which sets the framing for all of Article 6; yet the mandate is not as specific as Article 6.6 is for the mechanism referred to under Article 6.4.
 - Article 6.1 does not use the verb “*shall*” but the verb “*allow*”. Without specific references to how the higher ambition is to be achieved, contributions could take many different shapes, including but not limited to financial contributions to the Adaptation Fund. The specific reference of “*their mitigation and adaptation actions*”, demonstrates that Article 6.1 foresees the possibility of higher ambition in both areas being integrated directly into the voluntary cooperation involving the engaged Parties acting as partners.
 - As such, Article 6.1 provides a foundation for Parties to demonstrate how their voluntary cooperation allows for higher ambition not only with regard to mitigation but also in their adaptation actions.

3. Differences between Article 6.4 and Article 6.2

- Inclusion of SOP under Article 6.4 is legally mandated and will need operationalization through a CMA decision. The centralized nature of the 6.4 mechanism makes levying shares of proceeds easy to operationalize within the standardized procedures adopted through the rules, modalities and procedures.
- As Article 6.4 is effectively a service provided through the CMA to Parties and private sector, it is only sensible that the CMA can decide conditions for using the service, as it has done through Article 6.6 of the PA (contribution to administrative fees and adaptation finance).
- In contrast, Article 6.2 has a different nature, which is bottom-up, and provides a framework for concrete cooperation between specific partners who have to fully bear the transaction costs of their cooperation, allowing for a variety of cooperation that may not necessarily involve the issuance of standardized units. In light of this, a share of proceeds would be harder to implement than under Article 6.4.
- However, Parties are encouraged to integrate in their respective cooperation under Article 6.2 suitable elements to increase adaptation ambition, which could be achieved by making contributions to adaptation actions and adaptation finance.
 - Contributions could range from voluntary government contributions to the Adaptation Fund (as one EIG member has done in the past) to countries charging fees for registering activities in the context of Article 6.2.

- Contribution could also be focused on specific adaptation activities in the cooperating countries, ranging from including adaptation components directly into the mitigation activities taking place under the cooperation to other measures helping to increase the ambition in adaptation.
- The EIG believes that we have to listen carefully to different countries positions on this matter, there is no one-size-fits-all approach under Article 6.2 as there is under Article 6.4. It will be participating Parties that will have to determine in a bottom-up manner which approach works best in their specific context.

4. Conclusion

- Article 6.4 will have a compulsory SOP and the EIG is open to discuss the specific approach taken. It shall be guided by the objective to adopt an effective and efficient system that builds on the lessons learnt under the CDM.
- The EIG sees an opportunity to enhance available adaptation financing for the Adaptation Fund through partial reallocation of CDM trust fund and future fees generated under the 6.4 mechanism as long as there are sufficient funds for the smooth operation of the mechanism. We commend the efforts of the Adaptation Fund and recognize its current work, particularly on the areas of increased regional collaboration, sharing of lessons learned, and exploring alternatives for innovation for adaptation, all areas we find valuable for increasing adaptation action.
- Article 6.2 is a more bottom-up vehicle and requires tailored solutions. Cooperative approaches should allow for higher ambition both in mitigation and adaptation actions; Parties that plan to engage under Article 6.2 should be transparent on how they would plan to respond to Article 6.1 in the specific context of their cooperation, including through contributions to the Adaptation Fund or specific actions on adaptation agreed between the cooperating Parties.

Avoiding double use for outside the Nationally Determined Contributions (NDC) for Article 6.4

1. Background and basic approach

- The EIG is not opposed to the development of Article 6 activities outside the host Party's NDC altogether. Article 6 activities or climate finance support for sectors outside the NDC scope may present opportunities to better understand previously under-analysed sectors and allow for those sectors to be included in the next NDC of the host Party, thereby contributing to the ambition-raising principle enshrined in Article 4.3 of the Paris Agreement.
- Avoidance of double counting in the context of the Paris Agreement is a key principle of Article 6, reflected in Article 6.2, Article 6.5 of the Paris Agreement, and Decision 1/CP.21 paragraph 36.
- Paragraph 36 of Decision 1/CP.21 explicitly mandates corresponding adjustment as the instrument for ensuring the avoidance of double counting or double use. To date, the UNFCCC negotiations have not identified alternative mechanisms for the mechanical implementation of double counting avoidance.
- In light of this, corresponding adjustment as accounting approach is clearly reflected in the COP25 draft texts for both Article 6.2 and Article 6.4 and the EIG regards this should be strictly applied.
- One of the more controversial questions in the Article 6 negotiations is whether this well-acknowledged system of accounting through corresponding adjustments is applicable in the case where mitigation activities occur in sectors or gases that are not covered by the NDC of the host Party.
- For the EIG, accounting through corresponding adjustments must be equally applied for ITMOs generated and transferred from inside and outside the scope of the NDC given:
 1. The practical difficulty of clearly differentiating between inside and outside the NDC scope;
 2. The need for long-term incentive alignment for the submission of more ambitious NDCs with enhanced scope over time.

2. Definition of the NDC scope

- In line with the draft decision texts of COP25, the scope of an NDC shall be defined as "sectors and greenhouse gases covered by the NDC".
- The respective Party has full authority to determine its own NDCs in a bottom-up manner and once the Party communicates its NDC, or any update thereof, the information contained in the NDC shall serve as reference for accounting under Article 6.

3. Accounting needed outside NDC scope

- Many NDCs do not provide enough information to infer whether a proposed activity is in fact inside or outside the NDCs' scope. This could lead to confusion and arbitrary arguments in favour or against declaring a certain activity to fall inside or outside the NDC scope, particularly when such a classification has accounting implications.

Private sector actors and final users of the ITMOs generated will benefit from the transparency and coherence of a single accounting system.

- Secondly, if rules on accounting gave preferential accounting treatment to activities in sectors outside the NDC scope, it would bear the risk of misaligned incentives in view of the need for progression of NDCs over time. Such rules could encourage Parties to leave certain sectors or gases outside their future NDC updates in order to receive more investments and sell emission reductions without any need for corresponding adjustments. The potential incentives that would come with such rules would be in conflict with Article 4.3 of the Paris Agreement.

4. Conclusion

- The EIG strongly believes in the necessity of a coherent system of accounting both under Article 6.2 and under Article 6.4 as well.
- A coherent and equal set of accounting rules is necessary both inside and outside the scope of the NDC given:
 - The practical difficulty of clearly differentiating between inside and outside the NDC scope
 - The need for long-term incentive alignment for the submission of more ambitious NDCs with enhanced scope over time
- Activities outside the scope of the NDC can occur, be it through Article 6 or climate finance support as they provide additional emission reductions and great learning potentials for the future inclusion of a sector in a Party's NDC update.