Submission by Canada on avoiding double-counting in the Article 6.4 mechanism

In furtherance to the request from the SBSTA Chair, Canada is pleased to present its views on "Avoiding double use for emissions reductions achieved outside the nationally determined contribution, Article 6.4".

The Paris Agreement and Decision 1/CP.21 contain multiple clear and broad prohibitions against all forms of double-counting of greenhouse gas (GHGs) emissions and removals, including in the context of NDCs (Art. 4.13), national inventories and biennial transparency reports (1/CP.21, para. 92f), internationally transferred mitigation outcomes (Art. 6.2 and para. 36) and emissions reductions from the new Article 6.4 mechanism (Art. 6.5).

Each of these textual references, whether taken alone or together, broadly and firmly prohibit all double-counting of physical quantities of GHGs ("emissions and removals") and changes in these quantities over time ("mitigation outcomes" and "emission reductions"); including in relation to any certificates, units or accounting entries that represent those physical quantities. These prohibitions apply in all years of all NDC time frames, whether or not any particular GHG sector or gas is 'included' within the scope and coverage of the relevant NDC(s).

In this context, Canada is open to considering some limited transitional provisions in the rules, modalities and procedures (RMPs) for the new 6.4 mechanism. However, we will not accept the launch of a new mechanism without clear and explicit RMPs to prevent all forms of double-counting, as required by the Paris Agreement. We note that the SBSTA has no mandate to establish indeterminate exemptions or to legitimize 'creative' accounting practices that would violate the letter and spirit of the Agreement.

We have noted proposals from some Parties that temporary exemptions could apply only to A6.4ERs generated from "outside" host Party's NDCs. Canada is concerned that such an approach could create significant loopholes, due to misleading language in the draft RMPs about NDC coverage (e.g., "among others") as well as incontiguous time frames in the NDCs communicated by Parties. Before we can evaluate proposals for opt-out periods, each Party must provide clear, transparent and understandable information about which sectors, gases, categories and pools are covered by their respective NDCs.

Canada recognizes that not all emissions units issued by the 6.4 mechanism ("A6.4ERs") will necessarily require corresponding adjustments (CAs) to avoid double-counting their underlying reductions or removals. Rather, we have heard that many Parties and non-Party actors are interested in generating and/or acquiring A6.4ERs for three general categories of 'use cases', namely:

A. Use of A6.4ERs toward NDCs or other international mitigation purposes, such as ICAO CORSIA, subject to host-Party authorization in accordance with Article 6.3. Host Party CAs would certainly be required to account for these A6.4ERs, since they would be ITMOs per Article 6.2. Owners of these A6.4ERs may also cancel them as a 'gift to the atmosphere', which some Parties have associated with the term 'overall mitigation of global emissions' contained in Article 6.4(d).

B. Some host Parties wish to use A6.4ERs as domestic offset credits in their domestic compliance markets. Donor countries and non-state actors may also purchase some A6.4ERs as a form of results-based climate finance. We presume that these A6.4ERs would not be authorized as ITMOs, so that their underlying reductions/removals would remain with the host Party as already reflected in its national inventory. Therefore, no CAs would be applied by any Party.

C. Some non-state actors intend to purchase A6.4ERs for use toward foreign compliance obligations or voluntary climate pledges. Whether or not a CA is required in these 'use cases' would depend on the specific rules or parameters of the relevant obligation or pledge.

Article 6.4(c) of the Paris Agreement requires that the new mechanism aim to contribute to the reduction of emissions levels in the host Parties, as well undertake activities that are beneficial to host Parties *and* that generate emissions reductions that can be used toward other countries' NDCs. To that end, the new mechanism should have the ability to generate A6.4ERs that are eligible in each of the possible 'use cases' described above, consistent with their respective accounting obligations. We note that some carbon markets are already moving toward such a two-type taxonomy for offset credits:

- **Type I:** A6.4ERs that are associated with corresponding adjustments, and would thus be eligible for the use cases described in 'A' above, and some use cases in 'C', depending on the rules or parameters of the particular use case.

- **Type II:** A6.4ERs which are not associated with corresponding adjustments, and would thus only be eligible use cases in 'B' above, as well as cases in 'C' where Type I credits are not required.

Should Parties decide to establish a two-type system in the new mechanism, the RMPs will require detailed procedures to that effect. These procedures would need to (1) empower the host Party to designate the 'type' of each A6.4ER issued from activities on its territory; (2) track that designation through the full lifecycle of each A6.4ER, including any changes from Type II into Type I as authorized by the participating Parties; and, (3) ensure that the accounting obligations applicable to each designation are clearly communicated; (4) in any instance where double-counting is identified, take appropriate measures to correct the issue.