

# Submission by Canada on Article 6 and adaptation finance

Canada is pleased to present its views on financing for adaptation and Article 6 of the Paris Agreement, in furtherance to the request from the SBSTA Chair. The submission below discusses the share of proceeds (Article 6.4) and cooperative approaches involving the use of ITMOs (Article 6.2) in tandem.

## Share of proceeds for adaptation (Article 6.4)

Article 6.6 of the Paris Agreement provides that the CMA shall apply a share of proceeds (SoP) to the new Article 6.4 mechanism, in order to cover administrative expenses and to assist developing countries that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation. Paragraph 37(f) of Decision 1/CP.21 further mandates that the CMA establish rules, modalities and procedures (RMPs) for the new mechanism on the basis of experience gained with and lessons learned from existing mechanisms and approaches adopted under the Convention and its related legal instruments.

The 2<sup>nd</sup> and 3<sup>rd</sup> versions of the Madrid texts propose to operationalize the SOP for adaptation as in-kind render of emissions units (“A6.4ERs”) applied at the time of issuance. This proposal is quite similar to the approach used for the Clean Development Mechanism (CDM) under the Kyoto Protocol. While the in-kind approach did raise significant revenues for adaptation during the first Kyoto commitment period (2008-2012), it was not as successful after 2013 due to persistently low prices and issuance rates in the CDM. Canada encourages Parties to apply lessons learned from this experience to the RMPs of the new mechanism, as per their mandate from COP21.

While some Parties may be anticipating higher unit prices and volumes in the new mechanism, we note that prices and trade volumes in most carbon markets do normally fluctuate over time. So while Canada can accept continuing the previous approach, should there be interest among recipient countries, we would also be open to discussing further improvements to ensure that the new mechanism consistently delivers a significant adaptation funding through its SoP, including in the context of different supply, demand and price scenarios that are typical of international carbon markets.

## Financing for adaptation in the context of Article 6.2

Article 6.6 states clearly that the SoP (above) is applied to the Article 6.4 mechanism, and not to other cooperative approaches under Article 6.2. At COP21, Parties considered the option of applying a share of proceeds more broadly but did not agree to do so. The precise wording of Article 6.6 reflects this agreement, namely that CMA does not have the authority to impose duties on trade flows between sovereign states. This understanding is also consistent with Canada’s national approach to pricing carbon pollution, in that all direct proceeds from federal carbon pricing instruments must be returned to the jurisdiction of origin.

In relation to Article 6.2, the SBSTA's mandate in paragraph 36 of Decision 1/CP.21 is to develop robust accounting guidance. This mandate does not include the possibility of revisiting what was agreed in Paris with respect to the applicability of the share of proceeds. Any Party that wishes to modify the text of Article 6.6 of the Paris Agreement has the right to propose an amendment in accordance with Article 22. Canada does not support amending the Paris Agreement at this time.

That said, Canada recognizes that cooperative approaches involving the use of ITMOs do not take place in a vacuum. The broader context is described in Article 6.1 of the Paris Agreement, which recognizes that Parties may choose to pursue various forms of voluntary cooperation in implementing their NDCs, in order to allow for higher ambition in their mitigation and adaptation actions. For example, a participating Party or non-Party actor might opt to “bundle” or “blend” its decision to participate in international carbon markets together with other forms of voluntary cooperation, such as trade or commercial agreements, technical cooperation, development aid, and indeed climate finance.

In such cases, the accounting requirement under Article 6.2 would apply only to portion of the ‘bundle’ that involves the use of internationally transferred mitigation outcomes (ITMOs). Other elements of the voluntary cooperation “bundle” are beyond the scope this agenda item. For example, if a Party or non-Party actor decides to blend a carbon market transaction with a climate finance initiative, the climate finance portion of the ‘bundle’ would be subject to the rules and provisions of Article 9; and the climate finance provided, received and mobilized would be reported in accordance with Sections V and VI of the Annex to Decision 18/CMA.1.

The rules and norms Official Development Assistance (ODA) do not permit donor countries to use ODA (including climate finance) to realize a domestic benefit: donor countries may not use climate finance to advance their economic self-interests or to help achieve their own NDCs. Therefore, any payments for the ITMO portion of the bundle may not be reported as climate finance, and by extension, any emission reductions funded by receipts of climate finance may not be re-sold to a third country as ITMOs.

## **Mobilizing and reporting on adaptation finance**

Canada is open to sharing experience and best practices on how to mobilize finance for adaptation by leveraging other forms of voluntary international cooperation (e.g., commerce, ODA, carbon markets, etc.), including how to ensure that these financial flows are allocated and reported in a transparent manner. However, such a discussion must take place in within the parameters established by the Paris Agreement and related decisions, *i.e.*, it is beyond the scope of the accounting guidance under Article 6.2 and this agenda item.