



ALLIANCE OF SMALL ISLAND STATES

SUBMISSION

TOPIC: ARTICLE 6 OF THE PARIS AGREEMENT (MARKETS & NON-MARKET APPROACHES) – AVOIDANCE OF DOUBLE USE FOR OUTSIDE THE NATIONALLY DETERMINED CONTRIBUTIONS UNDER ARTICLE 6.4 OF THE PARIS AGREEMENT

MAY 2021

MANDATE

SBSTA Plan for 2021: Chair of Subsidiary Body for Scientific and Technological Advice ('SBSTA') extended an invitation on 18th March 2021 for a submission on 'Avoiding double use for outside the Nationally Determined Contributions (NDC) for Article 6.4' in advance of their informal technical expert dialogues on this same subject.

Antigua and Barbuda on behalf of the Alliance of Small Island States ('AOSIS') welcomes the opportunity to present views in response to the invitation extended by the Chair of SBSTA, relating to 'Avoiding double use for outside the Nationally Determined Contributions (NDC) for Article 6.4.'

AOSIS supports the use of the third iteration of the Madrid Text produced by the COP Presidency ('3rd Iteration Text') as a basis for discussion. There is, however, merit in considering options from previous iterations that can help address environmental integrity risks with regard to the accounting provisions in the 3rd Iteration Text.

RELEVANT TEXT

Article 6 of the *Paris Agreement* in its entirety is relevant to this topic. In particular,

- Article 6.4 provides that the mechanism shall aim, *inter alia*:

"(c) to contribute to the reduction of emission levels in the host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfil its nationally determined contribution"

"(d) to deliver an overall mitigation in global emissions"

- Article 6.5 provides that:

"Emission reductions resulting from the mechanism referred to in paragraph 4 of this Article shall not be used to demonstrate achievement of the host Party's nationally"



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determined contribution if used by another Party to demonstrate achievement of its nationally determined contribution."

- Article 6.6 provides that the Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement ('CMA'):

"shall ensure that a share of proceeds from activities under the mechanism is ... used to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation."

Decision 18/CMA.1 is also relevant, particularly paragraph 77(d) on tracking progress made in implementing and achieving NDCs.

APPLICATION

In AOSIS' view, the issuance of all Article 6.4 emission reduction units ('A6.4ERs') needs to be associated with a corresponding adjustment by the host Party to satisfy the requirements of Articles 6.1, 6.2, 6.3, 6.4, 6.5 and 6.6. Corresponding adjustments need to take place in connection with issuance of A6.4ERs and match the total volume of emission reductions credited for which issuance takes place, as indicated under the 3rd Iteration Text.

At the time of issuance, a fixed percentage of the units issued will be directed to an account for purposes of the adaptation share of proceeds ('SOP'), consistent with Article 6.6. This share of issued units will be directed to the Trustee of the Adaptation Fund for monetization. It should be noted that A6.4ERs which are subsequently monetized by sale to raise revenues for the Adaptation Fund end up back in circulation, where a purchaser may wish to use them toward NDCs. This will lead to double counting if no corresponding adjustment has been made by the host Party.

At the time of issuance, another fixed percentage of the units issued will be directed to a cancellation account for purposes of delivering an overall mitigation in global emissions ('OMGE'), consistent with the requirement of Article 6.4(d) that the mechanism shall aim to deliver an overall mitigation in global emissions. This cancelled share of issued units will not be available for use by any Party toward its NDC, other international mitigation purposes, or for offsetting purposes. It will be a contribution to net global emission reductions. In the absence of a corresponding adjustment by the host Party for the full volume of emission reductions for which A6.4ER are issued, the cancellation of these units would have no impact on global emissions and Article 6.4(d) would not be satisfied.

The balance of the emission reductions that have been issued will be delivered to the participating Parties, or to public and private entities that have been authorized by a Party pursuant to Article 6.4(b). Once delivered, A6.4ERs reflect emission reductions that may be used for any purpose without risk of double counting, double use, or double claiming. This is because these units have already been associated with a corresponding adjustment. In this way the host Party benefits from emission reduction activities, resulting in emission reductions in the host Party *"that can also be used by another Party toward its NDC"* consistent with Article 6.4(c). They cannot be used by more than one Party toward an NDC, as prohibited by Article 6.5 because a corresponding adjustment has already been undertaken, through which the host Party relinquishes its claim to the underlying reductions. A6.4ERs can be used for other mitigation purposes (e.g. CORSIA) or acquired from the Adaptation Fund for use, without fear of double counting, double claiming or double use because a corresponding adjustment has already been made for the full volume of credited reductions in conjunction with issuance.



Because issued A6.4ERs are already associated with a corresponding adjustment by the host Party – through an addition to the host Party’s NDC-related emission level -- a host Party holding issued A6.4ERs from domestic project activities, or that reacquires these units from another Party, may use these units toward its own NDC if it wishes, subtracting them from its own NDC-related emission level at the time of use consistent with Decision 18/CMA.1. Private sector stakeholders may also use these units without risk of double counting or double claiming.

In this way, the UN architecture can

- incentivize and facilitate the participation of public and private entities in mitigation activities pursuant to Article 6.4(b);
- generate needed resources for adaptation (consistent with Articles 6.1 and 6.6); and
- generate needed net emission reductions through OMGE (consistent with Articles 6.1 and 6.4)

while avoiding double counting, double claiming and double use. All project activities under Article 6.4 will contribute to higher mitigation ambition and to higher adaptation ambition, regardless of the ultimate use of the units issued to participating Parties or their authorized public or private entities (e.g. whether used for NDCs, for CORSIA if this is permitted, or for other voluntary uses). A6.4ERs will be freely transferable and their holders can be confident that they hold a unique claim to the underlying reductions. The Adaptation Fund will also then have the widest possible market, enabling the monetization process to deliver a higher price than if A6.4ERs were limited in their possible uses. No further corresponding adjustments are needed, other than by Parties using A6.4ERs for Article 6 compliance purposes.

Any other approach would lead to double counting, create administrative difficulties, create confusion in the secondary market and undermine the liquidity of the market.

Participation in Article 6 is voluntary. Where the host Party of a planned activity does not wish to authorize emission reductions from mitigation activities for possible use by other Parties toward NDCs, or other international uses, it can pursue support for this activity as a non-market approach under Article 6.8 or, if it is a developing country, under Article 9, or from other funding sources. It is neither desirable nor appropriate to establish two classes of Article 6.4 units - those for which corresponding adjustments have been made, and those for which corresponding adjustments have not.

INSIDE / OUTSIDE NDC SCOPE

The COP Presidency has asked for Parties to come forward with ideas for possible compromises on this issue.

AOSIS has repeatedly expressed the view that Article 6 activities should be limited to those activities that are undertaken inside the scope of Parties' NDCs. This is needed to avoid creating a perverse incentive for Parties to maintain sectors outside the scope of their NDCs to avoid making corresponding adjustments, and to create an incentive for Parties to move toward economy-wide NDCs, as encouraged and agreed under Article 4.4, where Parties would therefore have the broadest opportunity to engage in Article 6.4 project activities.

The entire context of the Paris Agreement is NDC implementation. Articles 6.1, 6.2, 6.3, 6.4 and 6.5 contain explicit references to NDCs. Accordingly, it is consistent with Article 6 to limit project activities under Article 6.4 to those activities undertaken within the scope of host Party NDCs.



Some Parties have nevertheless argued that engagement in projects outside the scope of their NDCs might assist them in bringing sectors or gases ultimately inside the scope of their NDCs, and would help in the discovery of emission reduction possibilities for gases or sectors currently outside the scope of their NDCs.

With a view to enabling compromise, AOSIS would be willing to consider allowing the inclusion of projects outside the scope of Parties' NDCs in Article 6.4, but only if:

- (1) corresponding adjustments are required for these project activities in the same manner as for all other Article 6.4 project activities, as described above;
- (2) the same level of contextual information is required for activities undertaken outside the scope of NDCs as is required for activities undertaken inside the scope of NDCs, to ensure the avoidance of overselling, ensure no hot air is created, ensure the avoidance of double counting, and avoid creating perverse incentives for Parties not to move towards economy-wide NDCs over time, contrary to the encouragement in Article 4.4 of the Paris Agreement.

Corresponding adjustments are needed because Article 6.4(c) indicates that Article 6.4 units can be usable by another Party toward its NDC. This is only possible in a context where corresponding adjustments by host Parties have been made. Similarly, SOP and OMGE implementation under 6.6 and 6.4(d) require corresponding adjustments by host Parties to avoid double counting, double claiming or double use.

AOSIS notes that the possibility of a timeframe without corresponding adjustments for ITMOs from “outside” NDCs has been raised. This would be problematic in view of the Paris Agreement’s requirement that Parties ensure robust accounting and ensure the avoidance of double counting. It would also be in conflict with implementation of SOP and OMGE – two core features of the Article 6.4 mechanism.

INFRASTRUCTURE FOR REPORTING

Regardless of the inside/outside scope issue, modalities and procedures relating to infrastructure will need to be in place to support the reporting and tracking of Article 6 activity and avoid double counting, double claiming, and double use. This includes national registries, the mechanism registry, the international registry under Article 6.2, the Article 6 database, and the centralized accounting and reporting platform (‘CARP’).

These systems are needed, inter alia, to: track authorizations, transfers, acquisitions, cancellations and use related to both Articles 6.4 and 6.2; support accuracy, transparency, and efficiency in data management; support robust accounting; and support annual and periodic reporting. Detailed and unique unit identifiers, indicating source Party, vintage, and underlying project/activity type, will need to be established to facilitate tracking and transparency in holdings, and avoid double counting, double claiming or double use.

LAND SECTOR ACTIVITIES

In addition, with respect to environmental integrity risks, protections will be required to address potential accounting complications in the land sector due to the risks of reversal of removals and displacement of emissions.

