



ALLIANCE OF SMALL ISLAND STATES

# SUBMISSION

**TOPIC: ARTICLE 6 OF THE PARIS AGREEMENT (MARKETS & NON-MARKET APPROACHES) – FINANCING FOR ADAPTATION/SHARE OF PROCEEDS (ARTICLE 6.2 AND ARTICLE 6.4)**

MAY 2021

## MANDATE

*SBSTA Plan for 2021:* Chair of Subsidiary Body for Scientific and Technological Advice ('SBSTA') extended an invitation on 18<sup>th</sup> March 2021 for a submission on 'Financing for adaptation/Share of Proceeds (Article 6.2 and Article 6.4)' in advance of the 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 'Financing for adaptation/Share of Proceeds (Article 6.2 and 6.4)'.

While AOSIS supports the use of the third iteration of the Madrid Text produced by the COP Presidency ('3<sup>rd</sup> Iteration Text') as a basis for discussion, there is, however, merit in considering options from previous iterations that can help deliver substantial financing for adaptation.

## RELEVANT TEXT

Article 6 of the *Paris Agreement* in its entirety is relevant to this topic. In particular, Article 6.6 provides that:

*'The [CMA] shall ensure that a share of the proceeds from activities under the mechanism referred to in 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.'*

## RELATIONSHIP BETWEEN ARTICLES 6.4 AND 6.2

Article 6.4 explicitly establishes a centralized mechanism under the authority and guidance of the CMA and overseen by a supervisory body. This mechanism contemplates transferable units that can be used toward Nationally Determined Contributions ('NDCs') (Article 6.5). Under Article 6.6, the CMA is required to ensure that a share of the proceeds from activities under Article 6.4 is used to cover administrative expenses as well as to assist developing countries that are particularly vulnerable to the adverse effects of climate change to meet costs of adaptation.



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Article 6.2 provides requirements for all cooperative approaches that involve the use of internationally transferred mitigation outcomes. Some Parties interpret Article 6.2 as creating the possibility of generating emission reductions outside Article 6.4 but still under the Article 6 umbrella – reading Article 6.2 to also allow for the creation of a parallel, decentralized system, involving transfers of mitigation outcomes. If there is to be a parallel decentralized system, requirements under Article 6.2 should be as stringent, as those set out for Article 6.4, including with respect to SOP.

The operation of a decentralized system under Article 6.2 cannot be permitted to undermine the core aims of Article 6.4, which include the delivery of SOP. If decentralized mitigation outcomes under Article 6.2 can be used toward NDCs, they will compete in the marketplace with 6.4 units and there is a risk that the benefits of Article 6.4 with respect to SOP would be undermined.

All Article 6 activities should contribute predictable adaptation financing to support the needs of particularly vulnerable developing country Parties as under Article 6.4, to the Adaptation Fund.

Some Parties have raised the concern that the Paris Agreement does not explicitly require a SOP under Article 6.2 and have expressed reservations to parallel treatment on this basis. This formal concern can readily be addressed through adoption of a decision by CMA on extending SOP to Article 6.2.

UNFCCC Parties that are Parties to the Kyoto Protocol already have experience in extending the share of proceeds under the Clean Development Mechanism ('CDM') to both Joint Implementation and International Emissions Trading – two other Kyoto mechanisms. That experience is analogous to the current situation and was accomplished by adoption of Decision 1/CMP.8 in connection with the Doha Amendment. Moreover, since adoption of the Paris Agreement, emissions have continued to increase, which makes it all the more essential that all tools under Article 6 be used to generate revenues to support vulnerable developing country Parties in meeting the costs of adaptation.

## **SCALE OF SHARE OF PROCEEDS**

The scale of SOP is not yet agreed. AOSIS has sought application of a 5% share of proceeds. The 3<sup>rd</sup> Iteration Text on Article 6.4 text proposes a percentage for SOP that is unsatisfactory, as it would retain the same % as now under the CDM. The previous quantified options for SOP presented in 1<sup>st</sup> Iteration of the COP Presidency's text should be included in any updated draft negotiating text.

The Adaptation Fund has the potential to support more adaptation projects with access to more funding. A higher % SOP will bring significantly more revenues for the Adaptation Fund and help mobilize adaptation finance from the private sector. Technical work is needed to consider what higher levels of SOP and additional modalities can deliver for revenues to support the adaptation needs of developing countries.

## **MANDATORY NATURE OF SOP UNDER 6.4 AND 6.2**

Section VII of the 3<sup>rd</sup> Iteration Text for Article 6.2 'strongly encourages' participating Parties using cooperative approaches to commit to contribute resources to adaptation primarily through contributions to the Adaptation Fund, and to contribute commensurate with the rate delivered under the Article 6.4 mechanism.



This language helpfully aims to find space between the calls by some Parties for direct **mandatory** application of the Article 6.4 percentage to Article 6.2, and the **concerns** raised by some other Parties that there is no formal legal requirement under Article 6.2.

However, while this language **enables** a situation in which both Articles 6.4 and 6.2 would be treated alike, and **could** produce a level of adaptation revenues consistent with Article 6.4, this approach is not likely to be sufficient to give comfort or security to Parties seeking mandatory application unless:

- the percentage to be applied is satisfactory;
- the mechanics of application to Article 6.2 are clear and established in sufficient detail in a supporting decision; and
- the process for commitments begins from the assumption that all Parties will be making such commitments.

Parties will benefit from an opportunity for technical discussions that go into greater detail on how SOP will be implemented for both Articles 6.2 and 6.4, to resolve any outstanding issues before COP 26. This will help to provide confidence to all Parties: both to those Parties concerned that use of Article 6.2 risks undermining Article 6.4 provisions on SOP, and to those Parties participating Article 6.2 cooperative approaches.

#### **TECHNICAL ISSUES FOR FURTHER DISCUSSION WITH A VIEW FOR A RESOLUTION PRIOR TO COP 26:**

- **Rate** - 'commensurate with the rate' indicates that at least the same rate applied under Article 6.4 would be applied to Article 6.2 first transfers.
- **Timing of contribution** – i.e., issuance, use
- **Mechanics of contribution**
- **Reporting on commitments to contribute** – for example, in initial reports

