



## **Submission by Portugal and the European Commission**

### **On behalf of the European Union and its Member States**

**Subject:** Enabling ambition in Article 6 instruments to inform the SBSTA regarding the informal technical expert dialogues during the June session

**2 June 2021**

#### **Enabling ambition in Article 6 instruments**

The EU and its member states would like to thank the SBSTA Chair for the encouragement to provide views ahead of the Article 6 technical dialogues. We welcome in particular this opportunity to engage with Parties on enabling ambition in Article 6 instruments.

International cooperation can foster innovation, identify synergies and efficiencies in mitigation, mobilize finance for abatement where public resources are insufficient, and enable higher ambition in individual and in collective commitments, in line with the long term goals of the Paris Agreement, provided arrangements are in place to ensure the appropriate ambition over the long term. Guidance for Article 6.2, rules, modalities and procedures for the mechanism under Article 6.4, and the work programme for Article 6.8, will need to avoid incentivizing cooperation that undermines ambition or inhibits progression. Article 6 needs to contribute to transformational change and sustainable development.

We need to consider recent developments. An increasing number of Parties has indicated they will step up their ambition until 2030, until 2050, and beyond, but in many cases these intentions need to be reflected in updated or new NDCs, or in long term strategies. At the same time stated interest in international cooperation for the implementation of NDCs, particularly the use of markets, has increased significantly. In addition, there is a growing number of non-state actors committing themselves to more climate action and we note that their interest in using carbon markets as an instrument to deliver such action has also grown.

At COP-26 we have an opportunity to agree to guidance for implementation of international cooperation that supports these developments by enabling higher ambition in the new generation of carbon markets. To do so we need to create the conditions that facilitate innovative approaches to cooperation, move international cooperation on markets beyond pure offsetting, and enable those with less capacity to participate in carbon markets, particularly with the support of the new mechanism under Article 6.4.

#### **Article 6 and the ambition gap**

As pointed out in scientific reports, more effort is needed to limit the rise in global temperature above pre-industrial reports. We know that current NDCs fall short of the long term mitigation goal agreed in Paris and that the implementation of policies falls short of meeting targets expressed in NDCs. International cooperation will not enable ambition in line with the Paris goals if emissions reductions or removals are double counted, if they are not real, additional and

verified, if they are not robustly accounted and tracked, or if they are based on weak reference levels or baselines, crediting at historic or business as usual levels.

Article 6.1, which “recognizes that some parties may choose to pursue voluntary cooperation in the implementation of their nationally determined contributions to allow for higher ambition in their mitigation and adaptation actions”, provides the context for all cooperation under Article 6. The Paris Agreement, and in particular Articles 2 and 4, provides the context within which this higher ambition is framed, including:

- a long term temperature goal to limit global warming to well below 2, pursuing efforts to 1.5 degrees Celsius, compared to pre-industrial levels;
- early peaking of global emissions and pursuit of a balance between emissions and removals;
- all parties to prepare, maintain and account for successive nationally determined contributions at their highest possible ambition, and representing a progression;
- developed countries taking the lead and developing countries encouraged to enhance their mitigation actions, and move towards economy wide emissions limitation and reduction targets.

The IPCC in its special report on 1.5 degrees from 2018 concluded that there is a significant ambition gap between what is needed to limit rise in global temperatures and what NDCs up until then delivered in terms of mitigation, pointing to the need for rapid and significant reductions in 2030 as well as reaching net zero CO<sub>2</sub>-emissions in 2050.

UNEP, in their emission gap reports have consistently pointed to the significant emissions gap, when comparing planned policies and NDCs with the long term goal of the Paris Agreement. The most recent UNEP gap report (December 2020), concluded that by 2030 annual emissions need to be 15 GtCO<sub>2</sub>e (range: 12–19 GtCO<sub>2</sub>e) lower than current unconditional NDCs for a 2°C goal, and 32 GtCO<sub>2</sub>e (range: 29–36 GtCO<sub>2</sub>e) lower for the 1.5°C goal. Current policies still fall short 3 GtCO<sub>2</sub>e of meeting the level associated with full implementation of the unconditional NDC.

Finally, it is also clear from the recent UNFCCC NDC synthesis report (February 2021) that an increase in NDC ambition is needed – both in the short and the long term – to close this emissions gap. The assumption is thereby made, as noted in the report, that the aggregate effect of NDCs assumes no double counting of outcomes of actions to reduce emissions will occur. The synthesis report has also identified that interest in Article 6 for the implementation of NDCs has almost doubled compared with previous NDCs and many Parties have set limits, a few limiting voluntary cooperation to conditional mitigation or setting quantitative limits, many setting qualitative limits.

### **Risks to ambition**

Article 6 needs to be implemented in line with the objectives of the Paris Agreement. There are valuable lessons to be drawn from experience of the Kyoto Protocol. However, the new context requires particular attention for the framework within which international markets will be operationalized. Its starting point is the need to maintain and enhance ambition of all Parties.

We note with concern particularly that some compromise proposals on the table now propose to continue existing approaches indefinitely, or to avoid or defer rules that we consider essential to managing risks, including those that directly undermine ambition. A shared understanding of the risks to ambition posed by poor or inadequate rules for Article 6 could benefit future discussions.

We see risks in:

- Proposals that undermine, reduce or defer mitigation through carrying forward historic surpluses, or that lead to double counting of efforts;
- Proposals that undermine Parties efforts in mitigation by providing for levels of allocation or crediting inconsistent with NDCs or long term targets, locking in high levels of emissions, incentivizing lower levels of ambition or displacing own mitigation efforts.

If a compromise is to be found at COP-26, it will be important that all proposals put forward identify and, to the extent possible, quantify key risks, and that solutions offered ensure that risks can be minimized or limited in scale and time, so as to allow Parties to assess and manage the potential impact on their individual and collective ambition.

We know that no multilateral decision will ever completely avoid or manage all the potential risks and that a failure to reach agreement has its own risks, leading to the adoption of a multitude of bilateral approaches and standards. We also know that many Parties currently lack the capacity to assess and manage these risks and to secure and maximize the potential benefits associated with use of international markets, and that the absence of multilateral rules and guidance will act to their disadvantage. We consider that support to Parties for implementation is best achieved through multilateral rules and in particular the new mechanism.

### **Enabling ambition in Article 6.2**

While we are of the view that all Article 6 rules need to enable higher ambition, there are particular elements of the rules that Parties are negotiating under Article 6.2 that will have a significant impact on this objective. Key amongst them are the accounting rules designed to ensure the avoidance of double counting and the promotion of environmental integrity. As the EU has expressed in past sessions, how Parties account for their participation in cooperative approaches or in the Article 6.4 mechanism, needs to be comprehensive - through the general application of corresponding adjustment, and needs to be representative in the sense that it reflects the impact of such participation on their actual emissions and removals.

Specifically that means:

- Given the variety of NDCs, accounting for use of markets has to be emissions-based, adjusting an emissions balance on an annual basis. The emission balance would be derived from annual emission reductions and removals from sectors and GHGs covered by the NDC;
- The impact of the use of markets on emission reductions and removals needs to be clear and transparent, supported by robust reporting and review provisions and

common reporting tables, ensuring relevant information is provided at the earliest stage, is publicly available and is supported by robust centralized infrastructures;

- Parties should identify how the cooperative approach they participate in, and in particular the allocation methodologies that they adopt, contributes to the achievement of their NDC and their low emission long term strategy leading to carbon neutrality, and report on this regularly. We need to see a balance in what is expected of Parties in ensuring environmental integrity, across Article 6.2 and Article 6.4;
- Parties need to demonstrate how mitigation outcomes are real, verified and additional and in particular how they are resulting from the cooperative approaches. Clear methodologies and guidelines are needed to enable Parties to report and guarantee this;
- Parties should make clear, through their reporting, how their application of accounting rules ensures that there is no net increase in emissions within and between NDC implementation periods. Understanding how this is ensured, is important given the need for rapid cuts in emissions in the short term if we are to keep the temperature goal within reach;
- When applying corresponding adjustments, host Parties should adjust their emissions balances for the year in which the mitigation was achieved, by reducing emissions or increasing removals. Accounting would thereby reflect when there is an impact from the mitigation activity on the atmosphere;
- We need clear guidance to technical expert review to review the criteria on ensuring environmental integrity.

#### **Enabling ambition in Article 6.4**

There are particular elements of the rules for Article 6.4 that will have a significant impact on the objective of enabling higher ambition. We are of the view that the mechanism, given its centralized nature, presents a particular opportunity for the international community to facilitate and support those countries that face market barriers or require support in developing their mitigation strategies. It will do so principally by enabling these countries to integrate use of international markets in their NDC and their broader mitigation strategy. For this to happen it will be important to get the governance right, by establishing cooperation between the supervisory body and host Parties. Rules, modalities and procedures need to provide processes whereby the supervisory body and host parties promote ambition in line with national priorities, and ensure that there are enough resources available to participating countries to build the necessary capacity to manage their own mitigation.

Specifically that means:

- **Governance:** in contrast to the Kyoto Protocol and the CDM, host Parties need to ensure that when they authorize the transfer of mitigation outcomes from 6.4 activities, this is consistent with and contributes to achievement of their nationally determined contributions, and their low emissions long term strategy. This means in particular that:
  - The supervisory body has a duty to ensure host Parties ambition, as expressed by those Parties, is respected and met;

- Host parties need to make choices on how to distribute their mitigation potential and the consequences for the achievement of their own goals;
- Host Party choices will be communicated to the supervisory body of the 6.4 mechanism, and any decisions made by the body should be within the parameters set by the host country.
- **Baselines:** for the host Party to secure a proportion of the mitigation benefit from participation in the 6.4 mechanism, as well as to enable ambition, crediting levels need to be set not to credit improvements on business as usual or historic emissions. Baselines should ensure crediting levels:
  - that are forward looking performance standards, based on performance standards, and set with reference to best available technology (or equivalent approaches);
  - that incentivize long-term transition needed to get the economy to a balance in emissions by sources and removals by sinks in line with the Paris Agreement.
- **Additionality:** Additionality testing needs to identify transformative activities within sectors, and complement the more stringent approach to baselines. Technologies or approaches that lock-in too high emissions, such as coal, should be excluded. If NDCs contain ‘hot air’, the transfer of non-additional ITMOs will reduce global ambition compared to a situation where the ‘hot air’ cannot be transferred;
- **Crediting periods:** commitments to crediting need to reflect the ambition cycle of NDCs and LTS, this means crediting periods should be limited in general to five years, to reflect the ambition cycle under the Paris Agreement, with the possibility of limited renewal. In case of a renewal, the baselines and additionality assessment for activities need to be updated in accordance with national policy ambition. Investment in more sustainable longer term carbon removal activities should be encouraged compared with shorter term sequestration activities;
- **Capacity building:** there needs to be a significant focus on this as host countries should be able to secure support in aligning crediting of emissions reductions and removals with their NDCs and long term strategies. This could and should be provided by reallocation of resources from the CDM to the 6.4 mechanism. We need to ensure resources are targeted to countries that are facing barriers in participating in markets, and to generate capacity necessary for mitigation activities that lead to a progression in NDCs in the future;
- **Methodologies:** there needs to be a dedicated effort to the development of centralized methodologies that facilitate higher ambition.

### **Enabling ambition in Article 6.8**

Cooperation through non-market approaches can deliver innovation and enable ambition without the risks attached to market instruments. Such cooperation is fostered and realized through a range of institutional arrangements and instruments, both inside and outside the UNFCCC. The work programme under Article 6.8 represents an opportunity for Parties to explore cooperative approaches that have significant potential to deliver higher ambition.

We see the work programme as a space for exchange of practical experience and examples, and an incubator for catalyzing new ideas. The work programme is dedicated to identifying synergies and efficiencies in existing modes of cooperation, and we would expect it to enable Parties to explore and promote innovative and transformational approaches. To deliver these objectives, existing institutional arrangements and instruments should be engaged, so that ideas and proposals are informed by and addressed in the appropriate fora, for example in constituted bodies under the UNFCCC.

### **Final remarks**

Here, we have not addressed in detail other elements of the rules in Article 6 that we also consider to be essential for a robust outcome at COP-26 in Glasgow. Some of these elements have already been touched upon in the dialogues so far held, namely:

- The application of corresponding adjustments to the mechanism and clear guidance on inside/outside NDC scope (Submission topic: Avoiding double use for outside the NDC for Article 6.4);
- Increasing the scale and predictability of finance for adaptation, particularly for vulnerable developing countries (Submission topic: Financing for adaptation / share of proceeds - Article 6.2 and Article 6.4);
- Clarity on Article 6.2 reporting and review provisions; The need for rules, modalities and procedures for the Article 6.4 body, its support structure and host Parties; Coordinated CMA/CMP decisions on transitional elements (Submission topic: Ensuring rapid operationalization - Articles 6.2, 6.4, and 6.8).

Other elements will come up in upcoming technical dialogues including particularly on implementation of overall mitigation in global emissions, and treatment of other metrics.