

Ensuring rapid operationalization (Articles 6.2, 6.4, and 6.8)

Further to request from the SBSTA Chair, Canada is pleased to present its views on rapid operationalization of voluntary cooperation under Article 6 of the Paris Agreement. The submission below discusses cooperative approaches involving the use of internationally transferred mitigation outcomes (ITMOs; Article 6.2), the new international mechanism (Article 6.4), and the framework for non-market approaches (article 6.8).

Cooperative approaches involving the use of ITMOs (Art. 6.2)

In order to accelerate the deployment of cooperative approaches involving the use of ITMOs, Canada notes a variety of steps that the SBSTA should take, as well as other steps that 'early mover' participating Parties and non-Party actors have already begun.

I. Tables and outlines for reporting on Article 6

As context to our work on Article 6, Canada notes that the SBSTA must work swiftly to complete its mandate on common reporting tables, common tabular formats, outlines and the training programme under the enhanced transparency framework (ETF) for action and support. The tables, formats, outlines and programme must be adopted as a complete package, which necessarily includes table cells in the structured summary for Parties to report on their use of ITMOs and adjusted emissions balances, as required under para. 77.d.ii of the Annex to Decision 18/CMA.1. A complete transparency package, as mandated at COP24/CMA1, is necessary to operationalize many reporting requirements under the Paris Agreement, not only on ITMOs, but also on other aspects of mitigation, as well as on adaptation and support.

As a separate package, CMA1 mandated the SBSTA to develop robust accounting guidance for the use of ITMOs under this agenda item. The guidance will help Parties calculate the values of their corresponding adjustments, but would not modify the formatting of these values when they are reported in the structured summary table of each Party's Biennial Transparency Report (BTR). For this reason, the SBSTA's ongoing discussions on Article 6 accounting guidance do not prejudice, and certainly must not obstruct, the same body's continuing work pursuant to its transparency mandate.

Section IV of the draft Madrid texts on Article 6.2¹ proposes to establish further reporting requirements, beyond the modalities, procedures and guidelines (MPGs) contained in Decision 18/CMA.1, in order to help each participating Party fully explain its accounting

¹ All three versions of the draft Madrid texts are listed in footnote 2 to Decision 9/CMA.2 ([PDF](#), page 26).

for the use of ITMOs and how it complies with Article 6.2. We note that accounting guidance routinely includes not only practice requirements but also information/reporting requirements. The MPGs already contain a placeholder in paragraph 77.d.iii for Parties to report “any other information” on their cooperative approaches in their BTRs. The draft Madrid decision on Article 6.2 would have mandated further work on ‘ITMO background tables’ and outlines to help Parties populate that placeholder and/or other reporting vehicles (e.g. the proposed initial report and annual reports).

At COP26, the SBSTA is mandated to complete its work on both the Article 6.2 guidance and the transparency mandate. The CMA could also request the SBSTA to, thereafter, develop additional background tables and/or outlines for Article 6.2 reporting as described above. We note that both markets and transparency experts will have more time to discuss background tables after they complete their respective current mandates. However, if there is interest from Parties, Canada would also be open to initiating informal discussions on Article 6 background tables in the lead-up to COP26, working on the basis of Section IV of the final version of the draft Madrid text on Article 6.2.

II. Tracking infrastructure

Section VI.A of the Madrid text proposes that each participating Party shall have, or have access to, a registry for the purpose of tracking their ITMOs, including registry accounts as necessary. The draft text further proposes that the secretariat implement an international registry for those participating Parties that cannot otherwise meet this requirement. Typically, quantitative tracking infrastructure is established at the level of each cooperative approach, and may also be established at the national level, e.g., to inform a Party’s authorization assessments.

The draft Madrid text would allow each participating Party to choose from a variety of tracking arrangements with varying degrees of centralization, provided that these have adequate procedures in place to ensure transparency and avoid double-counting. For example:

- If a Party engages in only one cooperative approach, it would typically suffice to track its ITMO holdings and liabilities using the registry of that particular cooperative approach;
- If a Party engages in multiple cooperative approaches, it would likely need to set up some national infrastructure or procedures (e.g., a secure database), to track all of its ITMO holdings and liabilities across the different registries of those cooperative approaches; and/or,
- In either scenario, a Party may elect to establish a national ITMO tracking registry that is electronically linked to the registry or registries of the cooperative approach(es) in which the Party participates, or alternatively, would be able to designate the proposed international registry for that purpose.

Canada notes that several Parties and non-Party actors have begun to establish a variety of information technology solutions to enable robust and transparent tracking of carbon assets, including, where appropriate, across multiple international cooperative approaches that could involve the use of ITMOs. We encourage these initiatives to be mindful of the requirements of the Paris Agreement, including the accounting and reporting requirements proposed in the draft Madrid texts, as well as complementary standards for carbon market registries, such as the ICAO CORSIA Emissions Unit Criteria. For example, these tracking registries should have the capability to produce complete reports, both on a regular basis and upon request of the participating Party, on the number of tonnes authorized, first-transferred, transferred, acquired, held and cancelled/used (including the purpose of each cancellation or use).

Canada supports gradual progress toward alignment and harmonization of international carbon market standards and instruments, where appropriate, starting with a global minimum price on carbon pollution. While common data standards and electronic 'linking' can sometimes be conducive toward this objective, there is no immediate need for every carbon asset to be fully fungible in every cooperative approach, nor centrally tracked in a single global registry. At this stage, the more immediate priority is to ensure that each participating Party applies corresponding adjustments to a national emissions balance and reports transparently on all ITMOs first-transferred and used toward its NDC, and that this information be recorded in the Article 6.2 database.

III. Technical expert review

Section V of the draft Madrid texts on Article 6.2 propose to establish a new Article 6 technical expert review (A6TER), which would examine the information reported by participating Parties pursuant to Section IV (described above).

For context, we note that Section VII of ETF establishes modalities and procedures (M&Ps) for its own technical expert review (A13TER), including its scope, the information to be reviewed, roles and procedures, institutional arrangements, etc. These M&Ps specify that A13TER teams must include experts on Article 6 whenever the Party concerned engages in cooperative approaches involving the use of ITMOs. The draft Madrid text on Article 6.2 further proposes that the A6TER would forward its final report to the A13TER for its consideration, though the latter currently has no mandate to consider such a report.

Given that Parties have so far had little time to discuss any specifics of the A6TER, the draft Madrid text proposes to develop its M&Ps as part of a future work program. Canada agrees with this sequencing and looks forward to discussing the A6TER M&Ps after COP26, including how this body would complement and/or interact with the A13TER and potentially other Paris Agreement bodies. Should Parties wish to make early progress in the lead-up to COP26, we would welcome a technical paper by the Secretariat on this matter.

The new international mechanism (Art. 6.4)

Canada is eager to continue to working with all Parties on the rules, modalities and procedures (RMPs) for the new 6.4 mechanism. Given that the RMPs would effectively constitute the mechanism itself, their formal adoption is a prerequisite to its early operationalization. Canada stresses that no methodology, activity or credit pursuant to any other mechanism has any inherent right to ‘transition’ into the Article 6.4 mechanism, unless and until the CMA so decides.

In order to swiftly finalize the draft RMPs and allow for early operationalization, Canada recommends that Parties focus their efforts in the following areas:

- **Authorization procedures:** Article 6.4(c) of the Paris Agreement requires that the new mechanism have the capability to generate A6.4ERs that can be used as ITMOs toward another Party’s NDC. To that end, the RMPs must contain procedures to handle and track authorizations by host Parties, including their ensuing accounting requirements and any additional terms/conditions. Canada further explored this topic in our previous submission on double-counting.²
- **General rules for activity methodologies:** Although specific methodologies to estimate emissions reductions and removals from A6.4 activities would be assessed and approved by the Supervisory Body (A6.4SB), the SBSTA will need to develop general rules to guide this assessment. In this regard, we note that some Parties want 6.4 methodologies to reflect current best practices in project-level carbon offsetting, while others envision a greater role for standardized baselines and sectoral approaches. Canada is open to a variety of methodological approaches that maximize environmental integrity and transparency. We look forward to further discussing this matter in depth under the work programme proposed in para 7.d of the draft cover decision on Article 6.4.
- **Reversal management mechanism:** Para. 31.d of the draft RMP provides that 6.4 activities shall minimize the risk of non-permanence and, where reversals occur, ensure that these are addressed in full. While the Clean Development Mechanism used ‘temporary’ crediting (tCERs) to address non-permanence, newer offset programmes have instead opted to backstop ‘permanent’ credits through a combination of risk mitigation, monitoring, liability provisions (e.g., for sellers or project developers) and ‘buffers’ (i.e., insurance pools). The SBSTA should mandate the A6.4SB to establish such procedures, which could also apply to ‘accounting reversals’, i.e., a host Party neglects to apply the required corresponding adjustments for A6.4ERs it had authorized. .
- **Rights-based safeguards:** On several occasions, international and civil society organizations have raised concerns regarding human rights and the rights of

² Government of Canada. “Submission by Canada on avoiding double-counting in the Article 6.4 mechanism” May 7, 2021. Available via the UNFCCC submission portal [PDF]: [English version](#), [Version française](#)

Indigenous Peoples in relation to certain project activities registered under existing mechanisms. On the basis of this experience, the RMPs should include safeguards and procedures to ensure that all activity participants respect, promote and consider their respective obligations on human rights and the rights of Indigenous Peoples, as well as women and other marginalized groups. Such procedures are necessary to ensure that the Article 6.4 recognizes the inherent dignity and equal and inalienable rights of all members of the human family.

Roles and responsibilities in the new 6.4 mechanism

Canada continues to consider the views expressed on the respective roles and responsibilities of participating Parties, activity participants, and the Supervisory Body, particularly with respect to managing the risk of “overcrediting” or “overselling” A6.4ERs.

In deciding whether or not to authorize any particular set of A6.4ERs as an ITMO, each host Party will need to assess the revenues/benefits against the opportunity costs of applying corresponding adjustments, in the context of their domestic NDC implementation plans and longer-term emission pathways. In addition, activity participants, the A6.4SB and all Parties have a shared moral and reputational interests in ensuring that 6.4 activities do not undermine the ambition or implementation of any Party’s NDC or long-term strategy. To that end:

- Some have proposed that host Parties may elect to require more stringent baseline-setting approaches and/or shorter crediting periods to minimize the risk of ‘overselling’, while others prefer a uniform approach that would be clearly specified in the RMPs and/or the applicable methodology; and,
- Some have proposed that the A6.4SB should provide technical assistance in assessing the risk of ‘overselling’ or ‘overcrediting’, while others have argued that that such assessments are strictly the responsibility of participating Parties.

In Canada’s view, the Paris Agreement provides both host and acquiring Parties with wide discretion to apply various terms and conditions to their approval of Art. 6.4 activities and/or their authorization of A6.4ERs for use as ITMOs. Each participating Party should specify its terms and conditions clearly and transparently, in order to maximize environmental integrity and minimize political risk to 6.4 activities. Canada is open to discussing how best to operationalize this discretion in the mechanism’s procedures, and what technical assistance the A6.4SB could be mandated to offer and/or provide.

Framework for non-market approaches (Art. 6.8)

The draft Madrid text on Article 6.8 would have established the work programme under the framework for non-market approaches to mitigation and adaptation, pursuant to the SBSTA’s mandate in the para. 39 of Decision 1/CP.21. Canada is eager to initiate substantive discussions on non-market approaches, which could include a wide variety

of voluntary cooperation between Parties that does not result in ITMOs. In our view, adopting the final text proposed in Madrid would be sufficient to launch this work.

To help prepare for the work programme, Canada encourages all Parties and non-Party actors to reflect on their experiences with (a) existing non-market voluntary cooperation between Parties on the environment and climate change; (b) non-market international cooperation on other global issues, including how these could potentially inspire innovative approaches to address climate change; and (c) non-market domestic climate policy instruments, and how these could be potentially “scaled up” to the international level.