



Submission by Portugal and the European Commission

On behalf of the European Union and its Member States

Subject: Reporting and accounting for Article 6.2 (including GHG and non GHG metrics) regarding the informal technical expert dialogues during the June session

17 June 2021

Reporting and accounting for Article 6.2 (including GHG and non GHG metrics)

The EU and its member states would like to thank the SBSTA Chair for the encouragement to provide views on reporting and accounting for Article 6.2 (including GHG and non-GHG metrics).

1 – GENERAL VIEW

International cooperation under Article 6 can enable higher ambition in individual and collective commitments, and contribute to the goals of the Paris Agreement, but only if the decisions we adopt in Glasgow enable further mitigation action by reducing costs and harnessing innovations, and do not lock in already low ambition levels or defer necessary mitigation actions.

We have expressed elsewhere that our decisions should enable host Parties ambition by allowing them to retain mitigation benefits for their benefit when using Article 6 to implement their NDCs and LTS. In this submission, we focus on the accounting rules (including to avoid double counting), and on the reporting and review cycle, including in relation to environmental integrity, sustainable development and human rights. We view the guidance on accounting, reporting and review as key elements to ensure that Article 6 can enable higher ambition.

Robust and Comprehensive Approach

As the EU has expressed in past sessions and in other submissions, Parties participating in cooperative approaches need to report and account in a comprehensive and robust manner.

- **Comprehensiveness** requires the general application of the core obligations of the Paris Agreement - laid out in paragraph 36 of decision 1/CP21 – that double counting is avoided on the basis of a corresponding adjustment by Parties for both anthropogenic emissions by sources and removals by sinks, covered by their NDC. In order to track progress in the implementation and achievement of the NDCs of those Parties that participate in Article 6, paragraph 77d of decision 18/CMA1 (Transparency Framework) provides for the annual adjustment of these emissions and removals, based on information to be provided under the Article 6 guidance.
- **Robustness** requires a system of reporting and review that applies the TACCC Principles (Transparency, Accuracy, Consistency, Completeness and Comparability) and that ensures the reported adjustments and emissions balances are *representative* so that they reflect closely the impact of participation in Article 6 on the emissions by sources and removals by sinks of the Parties involved.



Non Greenhouse Gas Metrics and Mitigation Impact

We recognize that some Parties may wish to develop international markets for trading in metrics other than GHG, and are free to do so. However in order to meet the requirements of the Paris Agreement, and in order to ensure transparency and comparability of action, we believe transfers and uses of mitigation outcomes in these metrics need to be reported and adjusted in terms of their GHG impact

Paragraph 36 of decision 1/CP.21 and Paragraph 77d of decision 18/CMA.1 makes clear that Parties participating in cooperative approaches are required:

- to establish and report an annual indicator, representing the anthropogenic emissions and removals covered by their NDC, and
- to make corresponding adjustments to this indicator, in respect of mitigation outcomes internationally transferred or used towards NDCs or for other international purposes.

We are open to consider supplemental metrics and indicators to be reported in addition to the indicator mentioned in paragraph 77d. However, for accounting purposes, we consider that:

- The impact of the mitigation outcome on emissions or removals in the transferring party needs to be assessed and expressed in terms of GHG (in CO₂e); and
- A corresponding adjustment to the GHG-indicator specified in paragraph 77d of decision 18/CMA1 needs to be made by both the transferring and the using Party.

We do not consider that adjustments undertaken to indicators quantified and expressed in other metrics can deliver integrity as the impact of these metrics and adjustments on mitigation outcomes depend on context. For example, if a unit quantified in MWh of renewable electricity is generated by an activity in a country with low emissions from electricity generation, and is then exported to a country with higher emissions from electricity generation in order to meet a target expressed in MWh in that country, this may not lead to a reduction in emissions overall, but could rather lead to a net increase in emissions between these countries.

Robust accounting is essential whenever Article 6 is used, to avoid double counting, but also to avoid disincentives for progression in terms of ambition and coverage of NDCs. Avoidance of double counting and incentives to progression towards economy-wide targets are best maintained when the use of Article 6 is confined within the scope of an NDC. The use of Article 6 outside the scope of an NDC raises additional issues, such as how to address the risks related to non-permanence, where we consider that further appropriate measures are needed to compensate for potential reversals of emissions.

Mitigation and Emissions Based Accounting

Given the variety of NDC types, we need to establish an accounting system based on GHG emissions to respect the TACCC principles while still being flexible to account for the use of Article 6. Reporting of, and adjustments to annual emissions by sources and removals by sinks from the sectors and GHGs covered by the NDC (i.e. the GHG indicator), for each year of the NDC period, will generate a time series of annually adjusted GHG emissions balances, which will reflect the transfer and use of internationally transferred mitigation outcomes (ITMOs) over time, and enable both the tracking of progress in implementation and assessment of achievement for a variety of NDC types.



The impact of the transfer and use of ITMOs on emissions by sources and removals by sinks needs to be clear and transparent, supported by robust reporting through common reporting tables, with the relevant information to be provided at the earliest stage, be made publicly available, be supported by robust centralized infrastructures, and subject to international review.

2- SPECIFIC ELEMENTS

Definition of ITMOs

In the third iteration of the Madrid Presidency text, the definition of ITMOs is ambiguous and does not clearly define ITMOs as being *amounts, resulting* from a cooperative approach for a given *calendar year*. We propose that the definition in section I of the Annex to the third version of the Madrid Presidency text reads:

- ITMOs are *amounts*, authorized for transfer and/or authorized for use by Parties, expressed in terms of GHGs, representing real, additional and verified mitigation outcomes, *resulting* from a cooperative approach, achieved from the year 2021 onwards, generated from sectors and GHGs covered by the NDC of the host party, *and attributable to a calendar year*;
- Those amounts include:
 - o Mitigation outcomes used towards NDCs and mitigation outcomes used towards other international mitigation purposes (such as for CORSIA or potentially other uses);
 - o Emissions reductions from the Article 6.4 mechanism.

Environmental Integrity

Regarding the environmental integrity of cooperative approaches, the initial and regular reporting should in addition to the current text, enable Parties to demonstrate, and update, how each cooperative approach in which it decides to participate delivers mitigation benefits and host country ambition. These additional reporting requirements should also contribute to delivering balance in respect of similarly motivated provisions between Article 6.2 and 6.4.

In particular, through their reporting, Parties should address:

- **How mitigation outcomes are real, verified and additional**, that they result from the cooperative approaches in which the Parties decided to participate, that clear methodologies are in place to ensure this;
- **How the cooperative approaches in which they participate contribute to mitigation**, and in particular, an explanation of the allocation and crediting methodologies applied, and how the approach contributes to the implementation and achievement of their NDCs, to their low emission long term strategy, and to carbon neutrality;
- **How the Parties have ensured 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.



We also see the need to undertake **a work programme to elaborate on potential safeguards designed to avoid lock in of low ambition and high emissions**, including through the potential limitation on the use of ITMOs across NDC periods. Emission levels are currently far in excess of what they need to be to put us on a path to balancing emissions and removals in the second half of this century. The generation, use and banking of ITMOs in respect of "hot air" (i.e. resulting from NDCs that will be over-achieved without pursuing any further mitigation action), and any overselling of ITMOs, should be avoided.

In considering accounting methods, and triggers and timing of corresponding adjustments, we see a need for more clarity in the text, both in terms of the application of principles, including those listed in paragraph 8 of the third version of the Madrid Presidency text, and regarding more specification of the process.

Methods and tracking progress

Paragraph 8 of the Annex of the third version of the Madrid Presidency text refers to important principles, i.e. that corresponding adjustments ensure TACCC, no net increase of emissions within and between NDC period and representativeness in implementation and achievement of the NDC of participating parties.

We believe that this paragraph would benefit from additional wording to reflect the following issues:

- The tracking of progress in the *implementation* of an NDC should be performed by the comparison of the annually adjusted emissions levels with target level emissions, for each year of the implementation period;
- The Tracking of progress in *achievement* of an NDC, and accounting for the NDC, will be performed by the comparison of adjusted emissions levels with the target level emissions, for the relevant target year or period;
- The Tracking of progress can be done through direct comparison of the indicator to the target level in the case of absolute targets, or through the application of the relevant factors to the indicator in the case of relative targets, or targets denominated in other metrics;
- The use of cooperative approaches has an effect on emissions or removals *over a period*. Therefore methods that defer adjustments until the end of an NDC period should be avoided;
- The risk of non-permanence and reversal should also be addressed, including across several consecutive NDCs;
- In addition, each Party should apply the same method (for single year and multi-year targets) consistently for *all* the cooperative approaches in which it participates during the implementation of its NDC, while other participating Parties should also apply that *same* method.

Trigger and timing for corresponding adjustment

The adjustment for the emissions and removals from the sectors and GHGs covered by the NDC of the participating Parties should be done *annually*, for each year of the NDC implementation period, for *all* mitigation outcomes authorized for use towards NDCs or for other purposes.



As proposed in the last version of Madrid Presidency text, the ‘trigger’ for applying a corresponding adjustment should be the authorization or at the latest the first transfer of ITMOs, which should be provided as soon as possible once a Party decides to voluntarily cooperate with another Party.

The Article 6 guidance should ensure that *regular* adjustments are undertaken and that these adjustments are *representative* of the impact of the approach on emissions. To ensure representativeness, adjustments should be applied to the calendar years of the emissions balances such that the adjusted balances are representative of the impact of the cooperative approach on emissions.

In consequence, we believe that paragraph 9 of the Annex of the third version of the Madrid text should be complemented with the following elements:

- *For the host Party, the adjustment should be undertaken at first transfer, for the relevant year in which the mitigation outcome was achieved;*
- *For the using Party, the adjustments should occur during the same NDC implementation period during which the mitigation outcome was achieved.*

Recording and review

Information required under Article 6 (an initial report, annual, tracking & regular reports) should be reported by the participating Parties in a centralized Article 6 database (CAD) for transparency purposes and then be checked by the secretariat for inconsistencies. If inconsistencies are found, Parties should be invited to correct these and update their information.

Information reported in the CAD, review reports and inconsistencies found by the Secretariat should be publicly available, and made available to support the work of the Article 13 expert review team (ERT).

Article 6 ERT should review promptly the initial report as well as the annual information for tracking progress, and the regularly reported information. Their report should include a completeness check followed by a thorough assessment, be publicly available and be forwarded to the Article 13 ERT. Guidance on the review of *all* elements of the reporting cycle will need to be more elaborated and included in section V of the Annex of the third version of the Madrid Presidency text.

Initial report

The initial report should be provided as soon as possible, at the time of authorization, or at the latest at the time of first transfer of an ITMO.

Regarding each cooperative approach in which a Party voluntarily decides to participate, we highlight the need for more information to be provided in the initial report, than what is currently listed in paragraph 18(f) of the last iteration of the Madrid text.

We believe that the elements listed below should be known by Parties when they decide to authorize an approach. As a consequence, for transparency, they should be provided in the initial report, they should be reviewed promptly by the Article 6 ERT and they should be publicly available.



Paragraphs 18 and 19 of the Annex to the third version of Madrid Presidency must be complemented with the following elements:

- *A detailed description of the cooperative approach, including its duration, and the Parties involved;*
- *How ITMOs will be generated by the approach, how they are real, additional and verified;*
- *The anticipated amounts of ITMOs generated for each year of the duration of the approach;*
- *How the approach ensures environmental integrity, meaning that parties should report on paragraph 22(b) from the third version of Madrid text already in the initial report;*
- *How the approach will contribute to implement and achieve the NDCs of the Parties involved, their LTS or other international mitigation purposes;*
- *The institutional arrangements in place, including to establish the underlying approach, and for the local stakeholder consultations;*
- *Whether a Party will voluntarily cancel mitigation outcomes to contribute to an overall mitigation in global emissions and/or to a share of the proceeds;*
- *How the approach is consistent with the SDGs and with the sustainable development objectives of the host Party, noting national prerogative, and which relevant indicators will be used;*
- *How the approach is consistent with the Party's respective obligations on human rights.*

Updates of this information should then be provided on a biannual basis through the regularly reported information in the BTR.

Sustainable development and human rights

With regard to sustainable development and human rights, we believe that additional paragraphs should be added to the third version of Madrid Presidency text that would read as follow:

- *The use of Article 6 should promote positive sustainable development impacts and avoid negative environmental or social impacts, as per the interpretation of the host party, and should be consistent with the Party's respective obligations on human rights;*
- *The information on how each cooperative approach promotes sustainable development shall be provided through the use of appropriate indicators that should be relevant for each approach, and to be elaborated under a SBSTA work programme;*
- *In paragraph 2 of the decision: Request the SBSTA to elaborate relevant indicators on sustainable development. This work could be informed by the approaches taken by other financial instruments under the Convention, such as the Green Climate Fund or the Adaptation Fund and could take into account the safeguards established by other initiatives, such as the safeguards under REDD+ framework (e.g. decision 1/CP.16, appendix I).*

The appropriate indicators, elaborated under this SBSTA work programme, should then be available to Parties to report on how each cooperative approach in which it has decided to participate is consistent with the SDGs and with its sustainable development objectives, noting national prerogative.



3- TABULAR FORMAT FOR THE ANNUAL INFORMATION REPORT ON GHG EMISSIONS AND LINKS WITH ARTICLE 13

The Article 6.2 guidance on accounting, reporting and review of Article 6 related information is intended to support the reporting and review cycle under the transparency framework under Article 13, and the accounting guidance under Article 4.13.

Under Article 6.2, through reporting, consistency checks and review Parties will provide more granular information to support and complement the summary information provided by parties under paragraph 77d of the MPGs, and thereby provide assurance. This will facilitate the transparency, accuracy, completeness, consistency and comparability of the information related to the participation in Article 6, and tracking progress in the implementation and achievement of NDCs under Article 13.

The MPGs require that Parties participating in Article 6 report and adjust the emissions and removals from the sectors and GHGs covered by their NDC in their structured summary, in line with paragraph 77d.

As per paragraph 23 of the third version of the Madrid text, Parties that voluntarily choose to cooperate will need to report on their annual and cumulative emissions and removals covered by their NDC, their corresponding adjustments and an annual emissions balance after these adjustments. The summary of this information is also included in the structured summary as per paragraph 77.d of 18/CMA.1.

We show below an example of what the tabular format for the annual information mentioned in paragraph 23 of the third version of the Madrid text, to be reported in the BTR, could look like. This is summary information and tabular formats may be used to break down this information in more detail by cooperative approach, by sector, by using Party and by vintage of the ITMO, as requested by paragraph 23(e).

	Years covered by the NDC										Cumulative totals
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Annual GHG emissions and removals covered by the NDC.											
Additions for ITMOs first transferred for use towards NDCs											
Additions for mitigation outcome authorised and first transferred towards use for other international mitigation purposes											
Subtractions for ITMOs used towards the NDC											
Annual emissions balance											



The EU has already submitted its view on the common tabular format for the structured summary¹. The tracking progress example of a Party that voluntarily participates in Article 6, should be read in conjunction with the present submission. We list below the main elements of this submission that are related to our work on Article 6.2 accounting and reporting.

Main elements of our submission on the ETF:

- The work on both the structured summary and on methodological issues under Article 6 should progress in the coming months, in order for both workstreams to be completed by the end of CMA3;
- The MPGs already set out the provisions that need to be captured in the structured summary, including paragraph 77(d), 77(d)(i) and 77(d)(ii), which list essential information that Parties that voluntarily choose to use Article 6 will have to provide;
- Decisions on Article 6 may identify additional elements to be reported and reviewed. This possibility is recognised in paragraph 77(d)(iii) of the MPGs;
- Likewise, the structured summary suggested by the EU addresses the information to be provided according to paragraph 77(d)(iv) of the MPGs. It is suggested to provide this information in textual format in the BTR;
- Parties will need to agree to more granular information to be reported under Article 6, and ensure this information is available and reviewed by the time of the review of the biennial transparency report. The Article 13 technical expert review team would then check the consistency of the information reported under paragraph 77(d) of the MPGs with the information reported through Article 6.

¹ See submission by Portugal and the European Commission on behalf of European Union and its member states on further views on Methodological Issues under the Paris Agreement (transparency) from April 13, 2021.



Structured summary example 3 from the EU's submission on transparency, in bold the rows and columns for which information is provided through Article 6.

	Unit	Reference point(s), level(s), baseline(s), base year(s), starting point(s)	Years covered by the NDC ^a										Comparison of most recent reporting year with reference point(s), level(s), baseline(s), base year(s) or starting point(s)	Target level	Target year or period	Results achieved in the end year/period, compared to the target	Additional information ^b	
			2021	2022	2023	2024	2025	2026	2027	2028	2029	2030						
Indicator: Total greenhouse gas emissions and removals (before adjustment)	kt CO ₂ eq																	See section X.X of the BTR.
Supporting information: Trajectory of GHG emissions and removals consistent with coverage of the NDC 2021-2030. This trajectory is equivalent to a straight line from 2015 to 2030.	kt CO ₂ eq																	See section X.X of the BTR.
Where applicable, total greenhouse gas emissions and removals consistent with coverage of NDC under Article 4	kt CO ₂ eq																	NA
Contribution from LULUCF sector if not already included in total GHG emissions and removals in the row above, as applicable.	kt CO ₂ eq																	Contribution from LULUCF sector included above.
For Parties using voluntary cooperation under Art.6: Information to be provided consistent with CMA decision(s) on Article 6. This information includes the following elements listed in 77(d)^{c,d}	Annual level of emissions and removals covered by the NDC	kt CO ₂ eq																NA
	Additions for ITMOs authorised and first transferred	kt CO ₂ eq																Total first transfers and transfers of ITMOs to Parties X, Y, Z
	Subtractions for ITMOs used^e	kt CO ₂ eq																Total acquisitions and use of ITMOs from Parties X, Y, Z
	Additions for Mitigation Outcomes authorised for other uses (by the Party authorising the MO)	kt CO ₂ eq																Total transfer of MOs for other purposes
	Emissions balance	kt CO ₂ eq																NA
NDC target achieved (yes/no, including short explanation)^f																		See BTR p. 234



4- FURTHER WORK UNDER ARTICLE 6.2

We see a need for technical work *ahead* of COP26 in Glasgow, with the support of the Secretariat and with inputs such as technical papers and/or submissions from Parties, in order to clarify and, where needed, elaborate the reporting and accounting cycle of the Article 6.2 text.

Issues to be discussed during such a workshop would be:

- The elaboration of draft reporting outlines and common tabular formats as well as arrangements for the Article 6.2 infrastructure, in order to assess if the text is clear enough and implementable, with a particular focus on the initial report and the supporting infrastructure;
- The elaboration of a detailed mapping to clarify '*the how, the what and the when*', i.e.:
 - Who has to report what, by when and through which infrastructure;
 - Who has to review what, by when, how and what will be the next steps and consequences of the outcomes of the review;
 - How Parties should account for ITMOs, by when, and through which reporting format?

We would also welcome continuation of these informal technical dialogues with a focus on arriving at clear accounting rules and a clearly defined and well-functioning recording, reporting and review cycle. Providing clarity on these elements at COP26 would avoid delays or confusion in implementation.

With regard to the proposals for accounting in metrics other than GHG, we would need to understand how this would relate to the implementation of the transparency framework and in particular to paragraph 77d. Specifically, where options propose the use of alternative indicators, approaches or application of conversion, an assessment is needed to better understand the implications, in particular the impact on emissions, on transfers and use of ITMOs denominated or accounted in alternative metrics, or the impact when using conversions in different scenarios. We would need clarity on what is adjusted, when it is adjusted, how this ensures avoidance of double counting, and how this ensures no net increase in emissions.
