SUBMISSION BY SLOVENIA AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES

Implementation of cooperative approaches using non-GHG metrics per 6.2 guidance

29 October 2021

The EU welcomes the opportunity to submit its views on the implementation of cooperative approaches using non-GHG metrics as per the Article 6.2 guidance. The EU recalls its submission from June 17th 2021 on accounting for cooperative approaches[1] and of October 15th 2021 on reporting and review under Article 6.2[2].

This submission follows the guiding questions prepared by the SBSTA chair for the informal technical expert dialogue of 08/10/2021. Unless otherwise specified, the numbers of the chapters and paragraphs below refer to the third iteration of the Presidency text of the draft guidance on Article 6.2 cooperative approaches (15/12/2019).

General remarks

The EU has repeatedly expressed the view that ITMOs should be expressed in terms of GHG, as Parties have agreed in Paris, and as formalized through the wording of paragraph 36 of decision 1/CP.21 which refers to '*a corresponding adjustment by Parties for both anthropogenic emissions by sources and removals by sinks covered by their NDCs*[3].

However, in our submission of 17/06/2021 the EU also recognized that some Parties wish to transfer ITMOs in metrics other than GHG. The EU therefore indicated willingness to consider supplemental indicators, in other metrics, to be reported in addition to the indicator in paragraph 77(d)(i).

If this would be accepted, as part of a global ambitious package in Glasgow, we have to insist that it could only be at the condition that transfers and uses of ITMOs in such metrics are also reported and adjusted in terms of their GHG impact. This is crucial to meet the requirements of the Paris Agreement and to ensure transparency, environmental integrity, no double counting and comparability of action. It is also reflected in both paragraph 36 of decision 1/CP.21 and paragraph 77(d) of decision 18/CMA.1 that make clear that Parties participating in cooperative approaches are required to establish and report an annual GHG indicator (i.e.

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[1] https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202106171201---PT-06-17-2021%20EU%20Submission%20on%20Reporting%20and%20accounting%20for%20Article%206.2.pdf

[2] https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202110151116---SI-10-15-2021%20EU%20submission%20on%20Reporting%20and%20review%20cycle%20per%20Art.6.2%20guidance.pdf

[3] https://unfccc.int/resource/docs/2015/cop21/eng/10a01.pdf#page=2

'*the anthropogenic emissions by sources and removals by sinks covered by their NDC*') and to make corresponding adjustments to this indicator.

The need to ensure no double counting is important because transfers in non-GHG metrics may impact not only any targets or indicators in non-GHG metrics but also in GHG emissions. If, in such instances, only non-GHG indicators would be adjusted, double counting may occur with respect to the GHG emissions. For example, the import/export of KWh of renewable energy will have an impact on the GHG portion of the NDC of the participating Parties, and this impact will depend on the emission intensity (tCOe/KWh) of the energy sector of each party.

The EU therefore needs to see Parties report an annual balance in both non-GHG and GHG terms if they are using non-GHG as a metric, as well as reporting how they have prevented double counting when using non-GHG and GHG indicators in participating in Article 6.

Moreover, transfers in non-GHG metrics can change the total aggregated abatement from both countries. If total abatement is decreased as a result of the transfer, leading to an increase in emissions compared to when there would be no transfer, this would undermine the environmental integrity of the Article 6.2 guidance and in turn, of the Paris Agreement in general.

How can environmental integrity be undermined?

To explain these challenges, we introduce here an example of two Parties A and B that engage in ITMO transfers expressed in kilowatt hours of renewable electricity. Party A has an electricity system with a relatively high carbon intensity of 0.8 tCO_2e /MWh, whereas Party B has a system with a relatively low intensity of 0.3 tCO_2e /MWh. Both Parties engage in a cooperative approach under which Party A transfers 10 MWh of renewable electricity to Party B, corresponding to 10 ITMOs. We assume here that the overall amount of electricity demand and renewable energy generation does not change.

The transfer leads to an increase in emissions in Party A, as less renewable electricity is available. With the intensity of 0.8 tCO_2e /MWh, the transfer of 10 MWh increases emissions by 8 tCO2e. In Party B, which has a lower carbon intensity, the transfer leads to a decrease in emissions by 3 tCO_2e. In aggregate, the transfer thus results in an increase of emissions from both countries by 5 tCO_2e. If the transfer would occur from Party B to Party A, aggregate emissions would decrease by 5 tCO2e respectively.

This example shows that if both countries have communicated an NDC with a renewable electricity target and only account for ITMOs in MWh of renewable electricity generation, the total mitigation achieved by both countries would change due to the transfer of MWh. This would be the case even if the actions from the cooperative approach are real, additional, permanent and verified and even if both countries have ambitious NDC targets.

This is further illustrated through the example below, assuming that the same countries A and B have an NDC target of 100 MWh of renewable electricity generation. Corresponding adjustments in non-GHG metrics could be applied as follows:

- Party A generates 110 MWh of renewable electricity (10 more than if the target would have been achieved domestically) and subtracts 10 ITMOs to its reported indicator level expressed in MWh (i.e., 110 MWh reported renewable energy generation, minus 10 MWh exported, resulting in an adjusted balance of 100 MWh renewable energy generation).

- Party B generates 90 MWh of renewable electricity (10 less than if the target would have been achieved domestically) and adds 10 ITMOs to its reported indicator level expressed in MWh (i.e., 90 MWh reported renewable energy generation, plus 10 MWh imported, resulting in an adjusted balance of 100 MWh renewable energy generation).

Both Parties A and B have achieved their NDC. In this example, however, as explained above environmental integrity is undermined, as aggregated emissions from both countries would increase. The main reason is that the same non-GHG metric in two countries does not necessarily involve the same level of climate action. This holds also for other non-GHG metrics. For example, a hectare of land afforested in one country could imply a different storage of carbon than a hectare of land afforested in another country. This risk to environmental integrity does not arise if countries engage in transfer in tCO2e.

To address this challenge, conversion factors have been proposed. In some instances, such conversion factors may indeed avoid double counting and address environmental integrity, in other instances they do not work and still undermine environmental integrity. For example, if both countries would account in GHG emissions metrics and use conversion factors that reflect their respective carbon intensities of their electricity systems, Party A would make an addition to its reported emissions of 3 tCO2e whereas Party B would make a subtraction of 8 tCO2e. The two adjustments would thus not have the same value. As the subtraction by Party B is larger than the addition by Party A, environmental integrity would be undermined.

In this submission we set out options for how such supplemental guidance could ensure avoidance of double counting and ensure environmental integrity, and implement the decisions 1/CP.21 and 18/CMA.1.

What further guidance is needed in 6.2 decision text to ensure no double counting and environmental integrity?

The current guidance in the EU's view needs further work, as also indicated by many Parties during the dialogues on 11/06/2021 and on 08/10/2021.

As indicated by the EU during these dialogues and in our submission from 15 October, the EU considers that §77(d)(iii) is a placeholder for supplemental information for reporting on tracking progress for Parties participating in cooperative approaches.

In addition to the 6.2 guidance, the structured summary needs to be complemented making use of this placeholder in paragraph 77(d)(iii) to facilitate TACCC principles while tracking progress across Parties participating in Article 6. In this view:

1) Chapter III on corresponding adjustments needs to clarify that Parties engaging in a cooperative approach involving ITMOs traded in the same non-GHG metric:

- Must apply corresponding adjustments to their non-GHG indicator as well as report the annual GHG balance.
- Must ensure that the transfer does not increase the aggregated emissions from the countries involved in the cooperative approach,
- Must ensure that any subtractions to emissions applied by Parties involved in the cooperative approach are equal to than any additions to emissions applied by Parties.

2) Chapter IV on reporting must clarify

- in paragraph 18: what is the non-GHG indicator and
- in paragraphs 22 and 23: which information on non-GHG metrics would need to be added to the structured summary through placeholder 77(d)(iii): i.e. the Party Must have defined a non-GHG indicator to track progress towards their NDC in their initial report, that is expressed in the same metric as the ITMOs traded and that is consistent with the relevant target in their NDC;
- in paragraph 23: which additional rows need to be added in the structured summary need to be specified. More specifically, the EU sees the need for the following additional rows for each non-GHG metric used by the participating party:
    - Annual level of the non-GHG indicator used to track progress towards the NDC, expressed in the same metric as the non-GHG ITMOs and consistent and relevant to the NDC;
    - Additions and subtractions to the reported indicator level for ITMO transferred and acquired, expressed in the same non-GHG metric;
    - Annual balance of the non-GHG indicator expressed in the same non-GHG metric.

Those same lines will be needed if more than one non-GHG metric is used (i.e. for non-GHG X, Y, Z, etc.). In addition, both Parties will need to specify the conversion factors that will be used to reflect the impact of the transfers in non-GHG to the emissions and removals covered by the NDC as per 77(d), based on guidance adopted by the CMA.

What methods of conversion could be used for ITMO transfers and for purposes of reporting GHG impact?

As pointed out in our submission of 17/06/2021, and illustrated through the examples above, the EU does not consider that adjustments to indicators quantified and expressed non-GHG metrics can deliver environment integrity and avoid double counting in a comparable manner as corresponding adjustments to a GHG indicator.

It will therefore in the EU's view be technically challenging to agree to factors for conversion at CMA3. What we could realistically agree to in Glasgow is to establish a SBSTA work program for further work on how to establish these conversions, as well as under which conditions and how such conversion factors may be used, in view of a decision at CMA4. This would be a similar process to further guidance that will need to be adopted for corresponding adjustments for multi-year and single year NDCs (Article 6.2 decision paragraph 2).

How can the buffer registry be implemented in respect of various indicators and what is its relationship to other Article-6 infrastructure?

The EU has not been a proponent of introducing a buffer registry, given that the infrastructure for Article 6 is already comprehensive with registries, an Article 6 database for entering quantified information for tracking ITMOs and checking the consistency of such information within and across parties, and a centralized accounting and reporting platform for enabling access by review teams to reported information and making Article 6 information from Parties publicly available. However, we recognize that some Parties wish to establish a buffer registry for applying corresponding adjustments in non-GHG metrics.

Given that the EU is of the view that Parties will also need to track progress in GHG, the buffer registry would need to operate alongside the reporting and review cycle as well as supporting infrastructure for GHG. To streamline processes, it would in our view be most logical if the buffer registry were to operate inside the Article 6 database (possibly as a function within the database) or with a direct connection to the Article 6 database. This would contribute to a comprehensive overview for tracking ITMOs in both GHG and non-GHG and enable the secretariat to operate consistency checks also for the buffer registry. In the EU's view this can be captured in Chapter VI on recording and tracking, section B on the Article 6 database.

How do these issues relate to the rest of the package (Article 6/the wider Glasgow outcome) and how could resolving these issues contribute to reaching consensus?

Key to establishing rules for participation in Article 6 that instill confidence in the next generation of carbon markets, is ensuring environmental integrity and no double counting. Although carbon markets under the Article 6.2 guidance will operate in a decentralized manner and may trade in non-GHG metrics, we need rules that ensure that Parties' participation in such markets will fulfill the mandate we agreed in Paris. Given the importance of this issue to no double counting, we see a link to discussions on accounting, reporting and review within

Article 6, including the discussion on accounting inside and outside the scope of NDCs, as well as to the discussions in Article 13 on tracking progress. If we can reach a better understanding on how we can accommodate the diversity in NDC types while ensuring no double counting and environmental integrity for non-GHG metrics, this would also help us to make progress on these other issues.