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## Submission by Czech Republic and the European Commission on behalf of the European Union and its Member States

### Subject: Submission on elements of Article 6.4

Prague, 29<sup>th</sup> August 2022

#### Introduction

The EU and its Member states welcome the opportunity to submit their views on any of the elements referred to in decision 3/CMA.3, paragraph 7, for consideration by the SBSTA.

The EU would like to recall our views previously expressed in our submissions on Tables and outlines for the reporting as per the Article 6.2 guidance<sup>1</sup>, Article 6 Infrastructure for recording and tracking<sup>2</sup> Financing for adaptation<sup>3</sup>, Ensuring rapid operationalization<sup>4</sup>, Enabling ambition in Article 6 instruments<sup>5</sup>, Clean Development Mechanism (CDM) activity transition to Article 6.4 mechanism<sup>6</sup>.

The views expressed in the present submission are complementary to the views previously expressed in our previous submissions, which are still valid.

#### General views

##### 1. Rapid implementation and new yardsticks regarding ambition

The EU is looking forward to the rapid implementation of the Article 6.4 mechanism, which will succeed only if we adopt clear and unambiguous decisions to **design a forward-looking mechanism** that ensures and promotes **ambition** in the short and longer term, thereby contributing to the long-term goals of the Paris Agreement. It is further important

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<sup>1</sup> [https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202205121125---FR-2022-05-12%20EU%20Submission%20on%20A6.2\\_tables%20and%20outlines%20for%20reporting.pdf](https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202205121125---FR-2022-05-12%20EU%20Submission%20on%20A6.2_tables%20and%20outlines%20for%20reporting.pdf)

<sup>2</sup> [https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202205120909---FR-2022-05-12%20EU%20Submission%20A6.2\\_Infrastructure.pdf](https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202205120909---FR-2022-05-12%20EU%20Submission%20A6.2_Infrastructure.pdf)

<sup>3</sup> <https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202104131426---PT-13-04-2021%20EU%20Submission%20SOP.pdf>

<sup>4</sup> <https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202105101017---PT-05-10-2021%20EU%20Submission%20Rapid%20Operationalization%20A6.pdf>

<sup>5</sup> <https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202106021558---PT-06-02-2021%20EU%20Submission%20on%20Enabling%20ambition%20in%20A6.pdf>

<sup>6</sup> <https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202106021558---PT-06-02-2021%20EU%20Submission%20CDM.pdf>



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that the mechanism enable the enhancement of urgently needed domestic emission reductions and transformative action. The mechanism should not be used as a substitute of domestic mitigation action.

The Article 6.4 mechanism needs to set **new yardsticks in terms of ambitious climate action** as we need to move swiftly towards compensating emissions by removals by mid-century:

- To support potential hosts in considering the implication of participation in the mechanism for their NDCs and LT LEDS and consistent with establishing a path to GHG neutrality;
- to facilitate greater ambition in mitigation, and the sharing of the benefits of the mechanism between user of credits and hosts;
- to secure and enhance ambition through baselines that are aligned with the goals of the Paris Agreement and take into account the impacts of climate change;
- to enable all implementing countries to build institutional and strategic capacity for the development of their LT LEDS to carbon neutrality by using the mechanism in addition to existing domestic mitigation actions;
- To provide for needs-based capacity building to countries with less capacity to access to a well-designed mechanism that operates in their interests.

## 2. Removals and nature-based emission reductions

When **removals or nature-based emission reductions** are addressed by the mechanism under Art. 6.4, the appropriate coverage by the NDC and the integration in the LT LEDS to carbon neutrality need to be set before the start of such activities. Special concern has to be given:

- to ensure environmental integrity by defining adequate social and environmental safeguards including for addressing the risks of reversals, leakage and impacts on biodiversity;
- to minimize the risk of non-permanence of emission reductions over multiple NDC implementation periods, calling also for long-term monitoring and comprehensive/full integration of carbon accounting;
- to ensure, where reversals occur, that these are addressed in full and that due account of reversals is secured;
- to raise ambition, and help support transformation towards alternative and more sustainable practices, underlining that nature-based emission reductions face physical

limitations and will be challenged by severe adaptation requirements already in the time ahead.

### **3. Application of the Article 6.4 mechanism in various contexts**

We need to consider the application of mechanisms in various contexts because:

- the mechanism can be used either for compliance (e.g. towards NDCs and CORSIA) or not for compliance (e.g. for results based finance or domestic carbon markets).
- the expectations of stakeholders in respect of access to the mechanism can be diverse and should be clarified and addressed;
- the design of details could be different for authorized and unauthorized A6.4ERs.

### **4. The Supervisory Body (SB) should implement key requirements and report on progress to the CMA**

The SB should work efficiently, be supported by the Secretariat, and come up with clear and transparent decisions, with solid technical and scientific underpinning.

We are looking forward to SB recommendations on removals, baselines and rules of procedure:

- Role of removals needs to be seen in a long term context: a stable net sink in the face of climate change depends on healthy and resilient ecosystems, with long term investment, be climate proof, and addressing potential risks; we need clear view to the balance of domestic emissions and removals; we need clear standards to address reversals and leakage, inside and outside the scope of NDCs and across different NDC periods; we believe that once a pool or activity is accounted for, it needs to be accounted for in all future NDC periods.
- Baselines need to reflect host country targets, and generate a clear mitigation benefit to the host, otherwise these will inflate emissions and make targets more difficult to achieve; baselines need to reflect LT LEDS and long-term goals of the PA, otherwise these risk to inflate emissions and undermine global ambition.
- Regarding the rules of procedures: paragraph 62 of the rules, modalities and procedures for the A6.4 mechanism (RMP) allows stakeholders, activity participants and participating Parties to appeal decisions of the SB and expresses the need for a grievance process: therefore, we urge the SB to include this issue in its agenda and address it in the draft rules of procedure to be published before CMA.4.

## Specific views

### 1. Role of host countries

Host countries have a key role to play regarding the governance of the A6.4 mechanism. They should be actively consulted on the application of RMP to their national circumstances. Moreover, when elaborating procedures, the SB should make a provision for consultation with host countries, and propose a clear framework and channel of communication in respect of host country requirements.

Depending on the general framework having been established by the SB, we are open to explore potential advantages of additional host country functions jointly with other parties.

This issue also needs to be addressed under the capacity building programme in order to help host countries to be ready for applying national arrangements, including by starting with mitigation activities.

### 2. Transition of CDM activities

We reiterate that the RMP for the A6.4 mechanism apply to the transitioned CDM activities, including applying corresponding adjustments based on the provisions from paragraph 73 (c) of the Annex of Decision 3/CMA.3. If the host country decides that the CDM methodologies (the “current methodologies”) shall not be used, (e.g. if they are not in line with their NDC, LT LEDS or long term goals of the Paris Agreement), the exception provided in paragraph 73 (d) may not apply, since the host country will have the possibility to decide whether or not to approve the transition of activities and under which conditions, accordingly to paragraph 73 (b).

Therefore, our understanding is that:

- Host countries should be invited to consider the effects of the activities on their NDC and LT LEDS and on their progression. This could be through a discount that will ensure a contribution to the mitigation ambition of the host country, something that should be recommended by the SB in order to be included in a CMA.4 decision;
- The provisions related to the Share of Proceeds (SOP) and the Overall Mitigation in Global Emissions (OMGE) need to be undertaken;
- Since the transitioned activities will be subject to the compliance with the RMPs according to paragraph 73 (c), they will need to demonstrate that:
  - ⇒ They would not be implemented in the absence of an incentive offered by the mechanism (cf: Additionality criteria in paragraph 38);



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⇒ They must be deregistered from other programmes before they can be registered as A6.4 activities.

### 3. Transition of CERs

With regard to the implementation of the provision related to the transition of CERs to the A6.4 mechanism, and bearing in mind the agreement found in Glasgow last year, the following has to be taken into consideration:

- A provision should be made for the transfer of the relevant CERs to the Article 6.4 mechanism registry, after approval of the host country (e.g. by linking both registries or through a cancellation and reissuance process), noting that this needs to be further explored;
- CERs transferred will need to be clearly identified as 'pre2021 emissions reductions', and their use clearly limited to the first NDC period of the host country, as defined in paragraphs 75 (b) and (c);
- OMGE has to be applied since, according to paragraph 75(d), the only exemption apply to SOP and corresponding adjustments.

### 4. Reporting

We reiterate that transparency is the bedrock of a well-functioning market mechanism and reporting requirements form a key element of transparency. Therefore, we would like to stress that:

- There should be clear reporting requirements for the host parties regarding authorised and unauthorised A6.4ERs, that should be clarified by a CMA.4 decision:
  - ⇒ For the authorised A6.4ERs: the reporting requirements should be in respect of all reporting and participation requirements under Article 6.2 (i.e. submit an initial report, annual report and regular report) and this should be clarified by a CMA.4 decision;
  - ⇒ For unauthorised A6.4ERs: the SB should address the issue of reporting requirements for unauthorised A6.4ERs and make specific recommendations for consideration by CMA.4, under the provision from paragraph 7(d). On this basis, a CMA.4 decision should define what must be reported by host Parties for unauthorised A6.4ERs, when and where (e.g. in the BTR).
- We expect that the Technical Papers, requested to the Secretariat by the draft conclusions from SBSTA 56 would:



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- ⇒ Provide a mapping exercise with regard to reporting and address overlaps and gaps in respect of the participation requirements under A6.4, and the broader reporting requirements under A6.2;
- ⇒ Clarify what are the host parties reporting requirements for all A6.4ERs (authorised and unauthorised), including ways to report, and also addressing reporting regarding reversals and leakage for activities involving removals;
- ⇒ Specify the responsibility of host parties to verify/take responsibility of the information they include in their initial report. (cf: Some of this information will be based on project development descriptions which are created by project developers and not necessarily by the host party);
- ⇒ Specify the elements to be included in the authorisation (which is the trigger for Article 6.2 reporting) and specify the timing of the authorisation (including to ensure that A6.4ERs are used during the NDC implementation period when the mitigation outcome occurred).

## **5. The A6.4 mechanism registry**

We consider the mechanism registry to be an integral part of a common infrastructure, where a fully integrated system of electronic databases would minimise complexity and operate across both A6.2 and A6.4.

In this regard, we would like to emphasize that the A6.4 mechanism registry should provide for the issuance and transfer of A6.4ERs to third parties, and should link to the international registry to record ITMO transactions associated with transfers of authorised A6.4ER.

## **6. Share of Proceeds (SOP)**

With regard to the implementation and levy of the SOP for administrative expenses and for the adaptation fund (under paragraphs 68 and 67 (b) respectively), a couple of considerations should be taken into consideration, many of which we have been transmitting over time, namely:

- We need to avoid any potential disadvantage between the A6.4 and A6.2, while setting the level for both monetary fees (for the adaptation fund (AF) and for administrative expenses);



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- Both fees could be set at the same level, using as a basis the CDM approach, and varying according to the size of project; or another option is that both fees would be charged as a percentage of the potential price of issued A6.4ERs;
  - ⇒ Fees should be set at levels that meet a defined budgetary need; therefore, the SB should report a budget, and indicate what percentage of that budget is covered by the administrative fees, to enable assessment and advice from the CMA.
- Both the level and the implementation process may be re-evaluated further in time under the SOP process review to be undertaken before 2026 by the SB, according to paragraph 8 of the decision text;
- First transfer of the surplus (from the administrative expenses of the A6.4 mechanism to the AF) should only happen sometime after the first projects are implemented in order to get a better understanding of the annual administrative expenses. Later on, a shorter frequency can be fixed (e.g. annually, biannually).

## **7. Overall mitigation of global emissions (OMGE)**

Our understanding of OMGE is that the mitigation outcome neither accrues to the buyer nor the seller but to the atmosphere, which implies that:

- The emission balance of the host party would need to be correspondingly adjusted to reflect OMGE, as clearly stated in paragraphs 43 and 44 of the annex of the decision text;
- The OMGE should also apply to unauthorized A6.4ERs because it is a key feature of the A6.4 mechanism, and because the status of the A6.4ERs might change over time (i.e. unauthorised A6.4ERs could be authorised at a later stage);
- The OMGE has to be applied to CERs that are transferred to the mechanism registry for use during the first and first updated NDCs of host countries.

## **8. Emission Avoidance and Conservation Enhancement Activities**

As stated previously in other occasions, we would like to reiterate that we do not consider that a new category of mitigation activity is needed in addition to anthropogenic “emissions reductions” and “enhancement of removals”. “Emission avoidance” could potentially contribute to a stabilisation of emissions but does not lead to a raise in ambition, which is different for emission reductions and removals.

In some cases, conservation enhancement activities can represent an emission reduction or an enhancement of removals, as highlighted in the REDD+ framework, which includes



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the activities of conservation and enhancement of forest carbon stocks. Conservation enhancement activities, defined as an activity of emission reductions and/or enhancement of removals, can generate some A6.4ERs if they fulfil all the requirements of the A6.4 RMPs (e.g. in terms of baseline setting, additionality, etc.). However, on a general basis, conservation enhancement activities may better be subject to other type of payments or incentives, including non-market based approaches or approaches based on non-climate related markets, including payments for ecosystem services.

The environmental integrity of the A6.4 mechanism could be seriously undermined if we allow emission avoidance under A6.4, thereby crediting the conservation of existing carbon stocks, or the crediting of risk reduction exercises, without pre-defined emission reductions, and without a clear demonstration of additionality. We should therefore not allow that emission avoidance can qualify to generate A6.4ERs, including also because this could lead to large volumes of stock-based credits competing with credits based on emission reductions and/or enhancement of removals, which in turn could trigger a major problem for the stability and the proper functioning of carbon markets. There are also several other obstacles including the risk of over-crediting, the use of unverifiable and inflated baselines, and the need for eternal monitoring of carbon stocks.