

IETA Submission to the UNFCCC

on the matters referred to in paragraph 9 of FCCC/PA/CMA/2022/L.14

March 2023

A) CONSIDERATION OF WHETHER ARTICLE 6, PARAGRAPH 4, ACTIVITIES COULD INCLUDE EMISSION AVOIDANCE AND CONSERVATION ENHANCEMENT ACTIVITIES

IETA observes that the debate within SBSTA and the CMA over the crediting of emission avoidance has generated unnecessary uncertainty and confusion among market participants. There is no unequivocal definition of ‘emission avoidance’ among practitioners. Climate change practitioners commonly use this term to indicate the first step of the widely used mitigation hierarchy (“avoid, minimise, restore, offset”) without any direct reference to carbon crediting activities. In carbon markets, this phrase is sometimes used to indicate all crediting activities that are not an emission removal, so the term is often conflated with emission reduction. For instance, the Clean Development Mechanism (CDM) has characterised methodologies under “GHG emission avoidance” defining it as “various activities where the release of GHG emissions to the atmosphere is reduced or avoided,” even though the mechanism has been defined by the IPCC as including only emission reductions and removals. In light of this, perceived lack of progress on emission avoidance within the UNFCCC process led some observers to believe that many common emission reduction activities would not be eligible under Article 6. Such a confusion has been particularly damaging for developers and investors in forestry and land-based carbon projects that aim to *reduce emissions*.

Activities that reduce emissions from deforestation and forest degradation deliver emission reductions, whereas the enhancement of forest carbon stocks deliver emission removals. Thus, forestry and land-based carbon projects, which may include REDD+, should be classified as either emission reductions or removals rather than emission avoidance. As such, REDD+ activities do not need a positive outcome of this work programme to be eligible under Article 6.

The origin of the concept of ‘emission avoidance’ under Article 6 differ from the current discussions within the negotiations, which has further perpetuated confusion around its definition. As a preliminary step to give consideration of whether A6.4 activities could include emission avoidance, SBSTA should agree on a definition of emission avoidance that would serve as the basis for further discussion on whether such activities could be credited. Progress made under 6.4 should inform the work programme under 6.2 on the same topic, planned for 2024.

(B) CONNECTION OF THE MECHANISM REGISTRY TO THE INTERNATIONAL REGISTRY AS PER PARAGRAPH 63 OF THE RULES, MODALITIES AND PROCEDURES FOR THE MECHANISM, AS WELL AS TO OTHER REGISTRIES REFERRED TO IN DECISION 2/CMA.3, ANNEX, PARAGRAPH 29, IF APPLICABLE, INCLUDING THE NATURE AND EXTENT OF INTEROPERABLE FEATURES

IETA believes that interoperability and connection between registries is highly desirable as it enhances transparency and ease of access to data for market participants. Therefore, we support a prompt full

operationalisation of paragraph 63 of the RMPs mandating the connection of the mechanism registry to the international registry.

When implementing such a connection, consideration should be given to the connection of national registries for countries that will not use the international registry. We understand that the direct connection between several registries (potentially hundreds) could be costly and complex, and potentially prejudicial to the sovereign rights of individual Parties and the decentralised nature of Article 6.2 cooperative approaches. In this regard, the deployment of meta-registries that receive information from multiple registries and make them available to users can offer a suitable solution. We urge the Secretariat to review existing solutions and technologies that deliver on the objectives agreed by the CMA and the needs of Parties and market participants. The adoption of existing solutions should be generally preferred to the development of in-house capabilities, so resources can be directed when most needed. For instance, in December 2022 IETA launched the Climate Action Data Trust (CAD Trust) in cooperation with Singapore and the World Bank. The CAD Trust is an open source, decentralised meta-data platform that unifies all major carbon registry data from countries and independent crediting standards, using a common format to enhance market transparency, reporting and accounting. It aims to provide a portal for public access to data from all major crediting programmes used in the context of Article 6 of the Paris Agreement. The CAD Trust is expected to be fully operational in Q2 2023. It will operate as an independent non-profit organisation, informed by a Technical Committee of registry and reporting experts and a User Forum including experts from Parties and the private sector.

(C) PROVISION OF A STATEMENT BY THE HOST PARTY TO THE SUPERVISORY BODY SPECIFYING WHETHER IT AUTHORIZES ARTICLE 6, PARAGRAPH 4, EMISSION REDUCTIONS ISSUED FOR AN ARTICLE 6, PARAGRAPH 4, ACTIVITY FOR USE TOWARDS ACHIEVEMENT OF NATIONALLY DETERMINED CONTRIBUTIONS AND/OR FOR OTHER INTERNATIONAL MITIGATION PURPOSES, AS DEFINED IN DECISION 2/CMA.3, IN ACCORDANCE WITH PARAGRAPH 42 OF THE RULES, MODALITIES AND PROCEDURES, INCLUDING ITS TIMING, RELEVANT INFORMATION ON THE AUTHORIZATION AND ANY REVISIONS

IETA recalls that according to paragraph 42 of the RMPs, the host Party shall provide a statement to the Supervisory Body specifying whether it authorizes A6.4ERs for use towards the achievement of NDCs and/or for other international mitigation purposes (OIMP).

IETA emphasises the importance of host Parties establishing a clear policy on authorisation including stable guidelines on which sectors, activities, and vintages will be eligible for authorisation. While this consultation only pertains to the authorisation of 6.4ERs, IETA believes the same principles should apply to authorisation of activities under 6.2 cooperative approaches.

Format

IETA understands that the host Party should provide such an authorisation statement to the Supervisory Body in English and in a simple, standardised and digital format. A model Letter of Authorisation should be published to streamline and standardise processes, reducing risk and uncertainty for all parties involved. The A6.4 SB should endorse a standard template and authorisation process to promote standardisation and harmonisation. The Supervisory Body should also request that host Parties indicate their designated national authority (DNA) for the A6.4 Mechanism before providing authorisation statements.

IETA believes that authorisation statements should be part of a fully connected, secure digital ecosystem connecting national, international, and the mechanism registries so that the process of tracking authorisation statements and applying corresponding adjustments can be digitised. This would increase transparency and minimise human errors.

Use

IETA recognizes that Decision 3/CMA.3, paragraph 55, allows A6.4ERs to be authorised for specific uses. Whether authorisations are granted for use towards an NDC, OIMP, or both should be made unequivocally clear. Frequent regulatory changes would be extremely damaging and may lead to forgone mitigation opportunities.

Given the nature of the A6.4 Mechanism, IETA believes that host Parties should provide authorisation statements that do not limit the scope for the use of A6.4ERs to specific uses or countries. The authorisation statement should indicate that the A6.4ERs it refers to are authorised for all types of uses and by all Parties and account holders in the mechanism registry. This consideration is critical to ensure the fungibility of credits issued by the A6.4 Mechanism and the development of a liquid market that will contribute to achieving the long-term temperature goals of the Paris Agreement.

Timing

IETA urges host Parties willing to authorise activities under the A6.4 mechanism to provide an authorisation statement *as early as possible* to provide a more predictable price signal for investors in mitigation activities and avoid the uncertainty that could damage the economic viability of projects. Ideally, host Parties should consider providing such authorisation statements before the registration of projects. Such predictability is vital to attracting long-term private investments in mitigation activities.

Authorisation statements should therefore be provided prior to the issuance of A6.4ERs. The provision of an authorisation statement before the first transfer would still be preferable to a lack of guidance that may lead some Parties to authorise units at a later stage of activity development. However, authorising units at first transfer would create a circular definition in the case of A6.4ERs that are authorised for OIMPs given that, according to paragraph 2(b) of the annex to decision 2/CMA.3, the first transfer for this type of units is defined as either the authorization, issuance, or use/cancellation of the units.

We believe it would be unfeasible to allow for the provision of authorisation statements after the first international transfer of the A6.4ERs as this would impinge on the ability of Parties to properly apply corresponding adjustments to the 7% of units that are set aside or cancelled for the purposes of raising a share of proceeds (SoP) for adaptation finance and overall mitigation of global emissions (OMGE).

Relevant information

Authorisation statements must indicate the authorising authority, the date when the authorization was issued, the number of units authorised, the name of the project, its identification in the mechanism registry, and methodology it refers to, the activity participant(s) involved, the vintage(s) it refers to, and the authorised uses. The host Party should also indicate how and when it will apply the corresponding adjustments to the respective A6.4ERs.

Revisions

Revisions and revocations should be avoided, as lack of certainty around the status of authorisations would negatively impact the value of A6.4ERs and discourage investment in mitigation activities. If host

Parties are allowed to easily revoke or amend authorisations, private sector investment in projects under the A6.4 Mechanism would likely decrease. IETA recognises the sovereign right of host Parties to revoke the approval status of projects that no longer meet national regulations, emphasizing that in such cases previously issued A6.4 ERs should not be impacted.

Revocation of authorisations should only be permissible in extreme cases, such as when fraud with the involvement of the buyer is uncovered. For this purpose, the Supervisory Body shall be tasked with developing robust guidance identifying such cases and the processes to follow when revocation can take place. In any case, revocation cannot apply to units that have already been transferred, as this would be incompatible with agreed reporting and transparency rules. As an example of how the integrity of the A6.4 Mechanism can be protected from the issuance of A6.4ERs from dubious projects, IETA recalls the experience under the CDM and the voluntary carbon market in which overissuance from a projects is compensated in future issuances or through the use of buffer pools.

Host Parties shall not be allowed to revoke previously granted authorisations merely because they are at risk of not meeting their NDC. This would seriously impinge on the rights of private and sovereign buyers and could create a perverse incentive for some Parties to “over-authorise” and then revoke such authorisation statements.

Should a host Party engage in transactions and eventually not achieve its NDCs or submit NDCs that are not in line with the long-term goals of the Paris Agreement, buyers (either sovereign or private) may be exposed to significant reputational risk. For this reason, IETA urges the Supervisory Body to consider ways to avoid such risks when developing provisions for authorisation statements, but we do not believe that revocation of authorisations is an appropriate remedy.

IETA recalls that according to paragraphs 26 and 33 of the RMPs, each host Party under Article 6.4 mechanism shall, prior to its participation in the mechanism, ensure that the types of activity and any associated emission reductions it would consider approving will contribute to the achievement of its NDC, and that the mechanism methodologies shall contribute to reducing emission levels in the host Party, and align with its NDC and the long-term goals of the Paris Agreement. On the other hand, the RMPs do not state that activities can only be authorised if the host Party has met its NDC. Host Parties can grant authorisations before the achievement of the host Party’s NDC as inferring the opposite would severely limit the generation and sale of authorised A6.4ERs, thus hampering the potential of the A6.4 Mechanism to support developing and least developed countries in attracting finance to achieve their NDCs and increase ambition. Such a pragmatic approach to authorisation and NDC compliance would also remove the perverse incentive for host Parties to submit unambitious NDCs.