

**SUBMISSION BY COSTA RICA ON BEHALF OF THE AILAC GROUP OF COUNTRIES - CHILE,
COLOMBIA, COSTA RICA, HONDURAS, GUATEMALA, PANAMA, PARAGUAY AND PERU
May 2022**

Guidance on the Article 6, paragraph 2, of the Paris Agreement

Introductory Remarks

1. Following the invitation by the CMA.4, AILAC welcomes the opportunity to provide their views on several aspects related to Article 6, paragraph 2 of the Paris Agreement, including the following issues mandated by the paragraph 16, item a) of decision 6/CMA.4:
 - a. Recommendations for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its fifth session on:
 - i. Further consideration of the special circumstances of the least developed countries and small island developing States;
 - ii. The modalities for reviewing information that is confidential;
 - iii. The reviews specifying recommended action to be taken when inconsistencies are identified, and provisions on how a Party should respond to those recommendations and the implications of non-responsiveness, if any;

And the paragraph 17 of Decision 6 CMA.4, including:

- a. The sequencing and timing of the submission of the initial report, the completion of the Article 6 technical expert review of that report, and the submission of the agreed electronic format;
- b. The process of authorization pursuant to decision 2/CMA.3, annex, paragraphs 2, 18(g) and 21(c), notably the scope of changes to authorization of internationally transferred mitigation outcomes towards use(s), and the process for managing them and for authorization of entities and cooperative approaches with a view to ensuring transparency and consistency;
- c. The application of decision 2/CMA.3, annex, paragraph 2, on mitigation outcomes authorized by a participating Party for use towards achievement of a nationally determined contribution and for other international mitigation purposes in accordance with decision 2/CMA.3, annex, paragraph 1(d) and (f);
- d. Tables for submitting annual information as part of the regular information, as referred to in decision 2/CMA.3, annex, paragraph 23(j);
- e. Consideration of possible implications for the reporting of annual information pursuant to decision 2/CMA.3, annex, paragraphs 20 and 23, from the application of methods for converting the non-greenhouse gas metric into tonnes of carbon dioxide equivalent in accordance with decision 2/CMA.3, annex, paragraph 22(d), with a view to ensuring that the amount of internationally transferred mitigation outcomes in a non-greenhouse gas metric acquired by a participating Party does not exceed the amount of internationally transferred mitigation outcomes in the non-greenhouse gas metric of the participating Party initiating the transfer;

- f. The process of identifying, notifying and correcting inconsistencies in data on internationally transferred mitigation outcomes in the Article 6 database, in accordance with decision 2/CMA.3, annex, paragraph 33, and its dependence on the agreed electronic format;
- g. The need for additional functionalities and procedures for the international registry to allow for transfer of Article 6, paragraph 4, emission reductions to the international registry and to provide services for cooperative approaches if voluntarily requested by Parties participating in a cooperative approach, including, inter alia, additional technical functionalities and administrative arrangements, for authorizing account access, and further guidance on procedures for reporting and review for the cooperative approaches of the participating Parties requesting such services, which may be required in addition to the relevant guidance in decision 2/CMA.3 and annex I to this decision;
- h. The accounts of the international registry and the role of the international registry administrator, in accordance with the guidance contained in annex I;
- i. The submission of information by Parties using the international registry as the basis for tracking internationally transferred mitigation outcomes;
- j. The common nomenclature referred to in annex I, chapter II.B, including for cooperative approaches reported by participating Parties, first transferring Party, sectors, activity types, non-greenhouse gas metrics and their units of measurement, registries that track internationally transferred mitigation outcome from cooperative approaches and action types; first transfer specifications; and purposes towards which use of internationally transferred mitigation outcomes is authorized;

Topics to be addressed in this submission.

The modalities for reviewing information that is confidential

1. AILAC is of the opinion that all information created under Article 6 must be reported and become accessible to the public, at this moment, the group does not identify any information related to Article 6 to be considered as confidential.

Notwithstanding, if a Party reports any information as confidential to the Article Technical Expert (in accordance to Decision 6/CMA.4, Annex II, paragraph 22), should states such condition arguing national security, sovereignty reasons or is sensitive information related to the way business are conducted. In any case, this information will not be publicly available in the CARP, but is subject to review for consistency. The A6 TER team could use this information during the review process maintaining the confidentiality of such information.

The reviews specifying recommended action to be taken when inconsistencies are identified, and provisions on how a Party should respond to those recommendations and the implications of non-responsiveness, if any

2. According to the Annex II of the Decision 2/CMA.3, paragraph 3, information submitted by a participating Party is considered to be consistent with the art 6.2 review guidelines if:
 - a. The information is complete, transparent and consistent with the annex to decision 2/CMA.3 and any future relevant decisions of the CMA;

9. Ideally, the annual report should be submitted once the review of initial report finishes. However, there is a time barrier caused by the fact that the annual information must be submitted the April 15th of each year, while the submission of the initial report does not have a specific date in the calendar year.
10. In this line, analyzing the implications of waiting for the initial report to be reviewed before the annual information is reported is necessary. This sequence of events could impact the review of the progress in implementing and achieving the NDC, since the annual information is crucial for understanding how Parties use Article 6 for their NDCs and other international purposes. Nevertheless, it is clear for AILAC that it is necessary to ensure, at least, that the initial report is submitted and the review of this report begins before reporting annual information, even if the review still needs to be completed.
11. On the other hand, if the initial report is submitted in conjunction with the BTR, it must be ensured that the report's review is elaborated independently from that of the BTR to avoid any delay due to the differences in timing in the Art 6 and Art 13 review processes.

The process of authorization pursuant to decision 2/CMA.3, annex, paragraphs 2, 18(g) and 21(c), notably the scope of changes to authorization of internationally transferred mitigation outcomes towards use(s), and the process for managing them and for authorization of entities and cooperative approaches with a view to ensuring transparency and consistency;

12. For AILAC countries, defining a robust process for all types of authorization established in the Article 6 Guidance and rules is a top priority, especially, the process, timing, and other features of the authorization of ITMOS towards different uses.
13. In the case of authorization, it is necessary to clarify if not only authorization de ITMOS but also authorization of the cooperative approach or activity participants must be reported. In addition, regarding authorization of ITMOS, both, the authorization of the transferring Party and the acquiring Party must be submitted once the authorization is provided.
14. In addition, it is worth to remark that although the processes and features of the authorization of ITMOS coming from the article 6.4 mechanism and cooperative approaches have many similarities but also differences that could be observed comparing this submission and AILAC's submission on additional RMP of the Article 6.4 Mechanism.
15. In this sense, we would like to enunciate the main aspects of the ITMOs' authorization process that needs to be clarified in the relevant decision made during CMA 5:

a. Content of the statement/letter of authorization

It should contain, at a minimum:

- i. Date of authorization;
- ii. Information on first transferring Party;
- iii. Standard or entity that issues the ITMOS;
- iv. Information on the cooperative approach where the ITMOS come from;
- v. Information on the origin (activity, sector, geographical location, methodology used to calculate the baseline, etc.) and the

information on the use if it is certain about it;

- vi. information on activity participants authorized for the DNA of the Host Party;
- vii. information of the acquiring Party and public and private entities that the acquiring Party authorize as activity participants.
- viii. In case of other international mitigation purposes, the Party shall inform:
 - the definition of ITMO that applies to it, in accordance with paragraph 2 b) of the annex of the Decision 2/CMA.3;
 - The specification of the international mitigation purpose;
 - The name of the entity that is going to use the emissions reductions transferred;
- ix. The number of ITMOS that are authorized.
- x. Information on the unique identifier of the authorized ITMOS.
- xi. Metrics of authorized ITMOS.
- xii. Period of accreditation of the Article 6 activity.

b. Who must provide the authorization?

- 16.** According to the Article 6, paragraph 3 of the Paris Agreement, all Parties involved in a cooperative approach must provide the due authorization of ITMOs, in particular, the first transferring and the acquiring Party. This requirement must be set to ensure that not only the transferring Party is accountable for the conditions that must be met to authorize the first transfer, but also that the acquiring Party is also accountable for the origin of the ITMOS, the process behind the issuance of the ITMO and the use that will be given to that ITMO.

c. Timing of authorization

- 17.** In the case of the use of ITMOS towards the achievement of the NDCs, the authorization must be given before the first transfer. In the case of other international mitigation purposes, it is crucial to analyse the implications of applying the three different definitions of first transfer described in the Annex of Decision 2/CMA.3.
- 18.** In any case, it will be necessary that the Party announce the definition of first transfer related to other international mitigation purposes in advance of the, for example, annual information report. In addition, for the sake of transparency, it would be ideal if Parties could report on the other international mitigation purposes and other uses of ITMOs that could be authorized before those ITMOs are internationally transferred.

d. Actions related to the authorization:

- 19.** It is crucial to differentiate whether it will be necessary to modify an authorization and whether and under which causes and conditions an authorization must be revoked and decide about how those actions must be implemented accordingly. In addition, it is necessary to clarify the effects of

revocation and if these should be defined by consensus between the Parties or only between the Parties participating in the cooperative approaches.

The need for additional functionalities and procedures for the international registry.

The accounts of the international registry and the role of the international registry administrator, in accordance with the guidance contained in annex I.

The submission of information by Parties using the international registry as the basis for tracking internationally transferred mitigation outcomes.

20. AILAC is of the view that, while there is up to the Parties how they can implement their cooperative approaches and how they ensure compliance with the principles of environmental integrity and double counting during their implementation, it is imperative to have a tool that centralizes and tracks the information related to ITMOS (including transactions and transfers) to ensure traceability of ITMOS.
21. To this purpose, the international registry, together with the Article 6 database, needs to become the tool that allows Parties: a) to maintain and use a registry account in case they do not have their own registries, b) to submit a facilitated reported of the annual information to the Article 6 database and c) using it as a means to facilitate the interconnection between registries.
22. It is worth mentioning that, as part of the inputs used for possible answers to these questions, the group recovered some elements proposed in the first versions of the texts produced by both the SBSTA chair and the co-facilitators during COP 27.
23. Although in Sharm El Sheikh the basis for the registry's operating rules was laid down, some questions have not yet been answered (or not answered at all) and should be resolved through the decision to be taken at session 5 of the CMA:
 - a. what does the registry track?
24. The international registry should keep track of both units (including the units of the Article 6.4 mechanism that have been converted to ITMOS), as well as accounting amounts that are duly identified.
 - b. Who should have access to the registry?
25. A Party must designate an administrator (a national entity that could perform this role) of its specific section in the international registry who in turn must assign the proper permissions to the activity participants who have received the proper authorization from the transferring Party and the acquiring/using Party acquiring the ITMOs.
 - c. What type of accounts must the registry have?
26. The international registry must guarantee at least the following accounts-(which are consistent with the accounts defined for the registry of the mechanism of Article 6.4 in Decision 7/CMA.3, Annex I, paragraph 32):
 - a) Pending account, for the case in which it is necessary to reflect the due reconciliation processes between the international registry and other registries through unit cancellation-recreation processes.

- b) Holding account;
- c) Adaptation account, which acquires, holds or transfers ITMOs to be monetized for the Adaptation Fund (in case any cooperative approach decides to make this contribution);
- d) Account for voluntary cancellation of ITMOs for overall mitigation in global emissions;
- e) Use towards NDC account, for ITMOs acquired and authorized towards NDC use;
- f) Account for the cancellation of authorized ITMOs used for other international mitigation purpose account;
- g) Voluntary cancellation account.

d. what type of transactions are carried out in the registry?

- 27.** Transactions in the international registry are operations that should reflect the change of status of ITMOs, whether units or accounting amounts and correspond to internal transactions within the international registry or between registries connected to the international registry. The registry must track and record information on the ITMOs authorizations that later trigger a first transfer and, therefore, a corresponding adjustment.

e. How is the interoperability of the registry ensured?

- 28.** While general guidelines for the interoperability between registries and the international registry were set out in paragraphs 9 and 10, 23 and 24 of Annex I Guidance relating to decision 2/CMA.3, annex, chapter VI (Recording and tracking) of decision 6/CMA.4, it is of vital importance for AILAC to ensure the interoperability of the international registry with the 6.4 registry and national registries through an instrument such as an international transaction log.

- 29.** The international transaction log should facilitate transactions between Party-specific sections of the international registry, national registries connected to the international registry, and the connection and transactions between the registry of the Article 6.4 mechanism and the international registry. The relevance of using this system lies, above all, in the need to avoid double counting, in particular, the double use of ITMOs.

The common nomenclature referred to in annex I, chapter II.B, including for cooperative approaches reported by participating Parties, first transferring Party, sectors, activity types, non-greenhouse gas metrics and their units of measurement, registries that track internationally transferred mitigation outcome from cooperative approaches and action types; first transfer specifications; and purposes towards which use of internationally transferred mitigation outcomes is authorized;

- 30.** AILAC considers of utmost importance the definition of common nomenclature having into account that the approach defined can affect different processes such as reporting and the project activities; such is the case of cooperative approach, authorization and sectors.
- 31.** If it is not clear the interpretation level (project/ program/agreement) of the cooperative approach, it will affect the unique identifiers and sequencing. Furthermore, this will affect the consistency of the reporting from/between parties, and it could overburden the review process.
- 32.** The definition of sector can be an inflex point on consistency for methodologies as well as understanding of the impacts that the projects could have.