

Article 6 outcomes on market/non-market approaches

Penang, 22 Nov. (Meena Raman) – After almost six years of negotiations over Article 6 of the Paris Agreement (PA), decisions were reached at the Glasgow climate talks on the rules for its implementation. The talks took place from Oct 31 to Nov 13.

Article 6 of the PA is referred to as ‘cooperative approaches’ among Parties, involving the use of market and non-market mechanisms in the implementation of their nationally determined contributions (NDCs). For particularly the developed countries who are relying on the use of carbon markets for offsetting their emissions in part to achieve their NDCs (by paying developing countries to undertake the reductions), the Glasgow guidance on the operationalisation of the approaches were seen as a significant step.

For those Parties, especially from developing countries led by the Like-minded Developing countries (LMDC) who advanced the use of the non-market route in achieving their NDCs, a big victory was in the establishment of the ‘Glasgow Committee on Non-market Approaches’ under Article 6.8 of the PA. With developed countries initially resisting a formal institutional mechanism to advance the non-market approaches (NMAs), the final outcome in favour of the Glasgow Committee is viewed as a significant win.

A big loss for developing countries was in relation to the market-based approach under Article 6.2, where they could not get a decision for a

mandatory contribution to the Adaptation Fund (AF) from a share of proceeds from the cooperation among Parties in what is called the ‘international transfer of mitigation outcomes’ (IT-MOs). The final decision adopted only “strongly encourages” Parties and stakeholders involved in the transaction to make a contribution to the AF, to the utter frustration of developing countries, who witnessed very strong opposition from the United States (US) in this regard. The US would not budge despite the numerous pleas from developing countries.

According to sources, in the final hours of the negotiations in Glasgow on Saturday, 13 Nov, an intense discussion took place between the US, led by John Kerry, the minister from Gabon representing the Africa Group, and the Chair and Article 6 coordinator of the G77 and China from Guinea and Senegal respectively, on whether contributions from ITMOs to the AF under Article 6.2 through a 5% share of proceeds from ITMO transactions should be made mandatory, rather than it simply being voluntary.

Having Article 6.2’s share of proceeds from the transfers of ITMOs would have complemented the mandatory 5% share of proceeds for the AF under Article 6.4 mechanism, increasing the flow of funds from Article 6.2 and 6.4 transactions to the AF, thereby increasing adaptation funding for developing countries. The fear of developing countries was that with just having the proceeds to be mandatory from the Article 6.4 mechanism, Parties would prefer to use

the ITMOs approach under Article 6.2 since the requirement it is not mandatory, thus depriving the AF from having a predictable source of revenue from the transactions.

The US made clear that it would not agree to mandatory contributions for Article 6.2, with John Kerry stressing that the US had already pledged a lot of money on the table for the AF, and that such voluntary pledges were more reliable than having a mandatory share of proceeds under Article 6.2. Other members of the US delegation (who were also present at the meeting), cited difficulties in agreeing to institutional and administrative arrangements that would be needed to supervise any transfer of the share of proceeds to the AF if these were to be made mandatory. Kerry pointed out that the deal on the table with Article 6.2 contributions to the AF being voluntary was the most it could give, while the developing country representatives continued to press for mandatory contributions.

With no agreement in sight due to US opposition on the matter, ministers and heads of delegation from the G77 then met to discuss the way forward to deal with the US obstinacy. Sources said that the developing country ministers were divided on whether to block a deal in Glasgow over this, with some ministers expressing anger over the US stance, while others feared being blamed for the collapse of the talks. With no G77 consensus on the matter due to the divergence of views within the group, the US position prevailed.

(The PA provides for a share of proceeds from the Article 6.4 mechanism but does not provide for this under Article 6.2. Developing countries, led by the Africa Group in particular, had been insisting that despite the lack of mention in the PA in this regard, it was vital to have a similar provision for the ITMOs approach for the sake of having a predictable source of funding for the AF. The AF was set up under the Kyoto Protocol [KP], and received funding from a share of proceeds from the Clean Development Mechanism [CDM] under the KP. With the transition of the CDM to the Article 6.4 mechanism of the PA, the grave concern is whether the AF will continue to receive a predictable source of funds, instead

of just relying on the voluntary contributions from developed countries).

There were also other contentious issues where negotiators on Article 6 have been embroiled with over the years which included the following:

- accounting aspects relating to corresponding adjustments;
- issues relating to metrics, other than the metric tonnes of carbon dioxide equivalent (tCO₂eq) contained in NDCs;
- use of the approaches for other international mitigation purposes (apart from the purpose of achieving a Party's NDC);
- transition of activities under the KP (such as the emission reduction credits from the CDM);
- delivering on the overall mitigation in global emissions; and
- the governance of the framework for non-market approaches

Some key highlights of the Article 6 decisions adopted are provided below.

ARTICLE 6(2) DECISION

What are ITMOs

One issue at the last COP in Madrid (in 2019) was the definition of ITMOs and whether the mitigation outcomes to be transferred can be measured in other metrics other than the metric tCO₂eq, which are consistent with the NDCs of the participating Parties. Developed countries (but not including Japan) and the Alliance of Small Island States (AOSIS), were opposed to having any other metrics other than tCO₂eq, while some developing countries such as the LMDC, the Arab Group, India, and South Korea were in support for the use of other metrics as well, reflecting all NDC types.

The guidance adopted under Article 6.2 in Glasgow covers all types of NDCs, all metrics and be used to achieve the NDCs and also for other international mitigation purposes.

The guidance sets out what ITMOs are, that is:

- “(a) Real, verified, and additional;
- (b) Emission reductions and removals, including mitigation co-benefits resulting from adaptation

actions and/or economic diversification plans or the means to achieve them, when internationally transferred;

(c) Measured in metric tonnes of carbon dioxide equivalent (t CO₂ eq) in accordance with the methodologies and metrics assessed by the Intergovernmental Panel on Climate Change (IPCC) and adopted by the CMA or in other non-greenhouse gas (GHG) metrics determined by the participating Parties that are consistent with the NDCs of the participating Parties;

(d) From a cooperative approach referred to...in Article 6.2 (...referred to as a cooperative approach) that involves the ITMOs authorized for use towards an NDC....

(e) Generated in respect of or representing mitigation from 2021 onward;

(f) Mitigation outcomes authorized by a participating Party for use for international mitigation purposes other than achievement of an NDC (...referred to as international mitigation purposes) or authorized for other purposes as determined by the first transferring participating Party (hereinafter referred to as other purposes) (international mitigation purposes and other purposes are hereinafter referred to together as other international mitigation purposes);

(g) Article 6.4, emission reductions issued under the mechanism established by Article 6.4, when they are authorized for use towards achievement of NDCs and/or authorized for use for other international mitigation purposes;

Corresponding adjustments

In Paris in 2015, in decision1/CP.21, the Subsidiary Body for Scientific and Technological Advice (SBSTA) was tasked to develop the guidance for Article 6.2, “including guidance to ensure 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 NDCs.”

This means that when a Party transfers a mitigation outcome internationally to be counted towards another Party’s mitigation contribution, this mitigation outcome that is transferred cannot be counted by the Party that agreed to transfer it in the achievement of

its own NDC, and therefore, this requires a ‘corresponding adjustment’ to be made in the accounting of their emissions reductions.

The guidance adopted provides that “For all ITMOs (ITMOs in a non-GHG metric determined by the participating Parties and ITMOs measured in tCO₂eq), each participating Party shall apply corresponding adjustments, consistently with this guidance and relevant future decisions of the CMA”.

It further states that “Each participating Party shall apply corresponding adjustments in a manner that ensures transparency, accuracy, completeness, comparability and consistency; that participation in cooperative approaches does not lead to a net increase in emissions across participating Parties within and between NDC implementation periods; and that corresponding adjustments shall be representative and consistent with the participating Party’s NDC implementation and achievement”.

There are no limits to how much of ITMOs a Party uses to achieve its NDC, but the caveat is that “Each participating Party shall ensure that the use of cooperative approaches does not lead to a net increase in emissions of participating Parties within and between NDC implementation periods or across participating Parties...”.

The Glasgow decision has also requested the SBSTA to undertake further work to develop recommendations for the consideration and adoption by the CMA in Nov. 2022 for the “elaboration of further guidance in relation to corresponding adjustments for multi-year and single-year NDCs, in a manner that ensures the avoidance of double counting.”

Article 6(4) decision

The decision adopted the rules for the mechanism established by Article 6(4); designated a “Supervisory Body” for the mechanism, and invited “the nomination of members and alternate members for the Supervisory Body” to advance further work.

An “Article 6.4 emission reduction” (A6.4ER) is issued for mitigation achieved pursuant to Article 6, paragraphs 4–6, these rules, modalities and pro-

cedures, and any further relevant decisions of the CMA. It is measured in carbon dioxide equivalent and is equal to 1 tonne of carbon dioxide equivalent calculated in accordance with the methodologies and metrics assessed by the IPCC and adopted by the CMA or in other metrics adopted by the CMA...”

The CMA decided that “at least two meetings of the Supervisory Body shall be held in 2022”; and requested the following of the Supervisory Body:

(a) Develop provisions for the development and approval of methodologies, validation, registration, monitoring, verification and certification, issuance, renewal, first transfer from the mechanism registry, voluntary cancellation and other processes,(Delivering overall mitigation in global emissions);

(b) In the context of developing and approving new methodologies for the mechanism:

(i) Review the baseline and monitoring methodologies in use for the CDM under Article 12 of the KP with a view to applying them with revisions as appropriate ..., for the activities under the mechanism (referred to as Article 6.4 activities);

(ii) Consider the baseline and monitoring methodologies used in other market-based mechanisms as a complementary input to the development of baselines and monitoring methodologies pursuant to chapter V.B of the annex (Methodologies);

(c) Review the sustainable development tool in use for the CDM and other tools and safeguard systems in use in existing market-based mechanisms to promote sustainable development with a view to developing similar tools for the mechanism by the end of 2023;

(d) Review the accreditation standards and procedures of the CDM with a view to applying them with revisions as appropriate, for the mechanism by the end of 2023;

(e) Expeditiously accredit operational entities as designated operational entities; and other matters.

As regards the Article 6.4 activity design, the rules state that “The activity: Shall be designed to achieve mitigation of GHG emissions that is additional, in-

cluding reducing emissions, increasing removals and mitigation co-benefits of adaptation actions and/or economic diversification plans (collectively referred to as emission reductions), and not lead to an increase in global emissions” etc.

The activity “shall also: (i) deliver real, measurable and long-term benefits related to climate change...; (ii) minimize the risk of non-permanence of emission reductions over multiple NDC implementation periods, and, where reversals occur, ensure that these are addressed in full; (iii) minimize the risk of leakage and adjust for any remaining leakage in the calculation of emission reductions or removals; (iv) minimize and where possible, avoid negative environmental and social impacts; and “shall undergo local and, where appropriate, subnational stakeholder consultation consistent with applicable domestic arrangements in relation to public participation, local communities and indigenous peoples, as applicable”.

Share of proceeds

The decision adopted also provides for a levy of share of proceeds for the AF and to cover administrative expenses. The share of proceeds that is levied “shall be comprised of: (a) A levy of 5 per cent of A6.4ERs at issuance; (b) A monetary contribution related to the scale of the Article 6.4, activity or to the number of A 6.4ERs issued, to be set by the Supervisory Body; (c) After the mechanism becomes self-financing, a periodic contribution from the remaining funds received from administrative expenses...after setting aside the operating costs for the mechanism and an operating reserve, at a level, and with a frequency to be determined by the CMA. The share of proceeds to cover administrative expenses shall be set in monetary terms at a level and implemented in a manner to be determined by the CMA”.

Transition of CDM activities and use of certified emission reductions towards first NDCs

A big sticking point over the Article 6.4 mechanism was around transition of the CDM projects and the transition of the certified emission reduction units (CERs) under the KP to the Article 6(4) mechanism.

The adopted rules for the mechanism in relation to

transition of CDM projects state the following: “Project activities and programmes of activities registered under the CDM...may transition to the mechanism and be registered as Article 6.4 activities subject to all ...conditions”.

In relation to use of CERs, the rules state as follows: “CERs issued under the CDM may be used towards achievement of an NDC provided the following conditions are met:

- (a) The CDM project activity or CDM programme of activities was registered on or after 1 January 2013;
- (b) The CERs shall be transferred to and held in the mechanism registry and identified as pre-2021 emission reductions;
- (c) The CERs may be used towards achievement of the first NDC only;
- (d) The CDM host Party shall not be required to apply a corresponding adjustment ... and not be subject to the share of proceeds...”

An earlier version of the text was as follows: “CERs issued under the CDM may be used towards achievement of an NDC in accordance with the following conditions: (a) The CDM project activity or CDM programme of activities was registered on or after [1 January [2013][2016]”. Parties agreed to the 2013 option instead of the 2016 timeframe.

Article 6(8) decision

For Article 6(8) on NMAs, the problematic issue was around how to implement them. The CMA adopted “the work programme under the framework for NMA”.

The work programme adopted states that “Each NMA facilitated under the framework, in the context of Article 6.8 (a) Aims to: (i) Promote mitigation and adaptation ambition; (ii) Enhance participation of public and private sector and civil society organizations in the implementation of NDCs; and (iii) Enable opportunities for coordination across instruments and relevant institutional arrangements; (b) Assists participating Parties in implementing their NDCs in an integrated, holistic and balanced manner, including through, inter alia: (i) Mitigation, adaptation, finance, technology development and transfer, and capacity-building, as appropriate; (ii)

Contribution to sustainable development and poverty eradication.”

The work programme also provides that “each NMA facilitated under the framework: (a) Is identified by the participating Parties on a voluntary basis; (b) Involves more than one participating Party; (c) Does not involve the transfer of any mitigation outcomes; (d) Facilitates the implementation of NDCs of host Parties and contributes to achieving the long-term temperature goal of the PA; (e) Is conducted in a manner that respects, promotes and considers respective obligations of Parties on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity; (f) Minimizes and, where possible, avoids negative environmental, economic and social impacts.

On the governance of the NMA framework, the decision adopted states as follows:

“The Glasgow Committee on Non-market Approaches is hereby established to implement the framework and the work programme by providing Parties with opportunities for non-market-based cooperation to implement mitigation and adaptation actions in their NDCs”.

“The Glasgow Committee will be convened by the Chair of the SBSTA and operate in accordance with the procedures applicable to contact groups and under the guidance of the Chair. It will meet in conjunction with the first and second sessional period meeting of the SBSTA each year, with its 1st meeting to take place in conjunction with SBSTA 56 (June 2022).

The CMA also decided that the initial focus areas of the work programme activities include: “Adaptation, resilience and sustainability; Mitigation measures to address climate change and contribute to sustainable development; and development of clean energy sources”.

The CMA also requested the “Glasgow Committee on Non-market Approaches to develop and recom-

mend a schedule for implementing the work programme activities..., which may contain the timeline and expected outcomes for each activity, including specifications for the UNFCCC web-based platform...such as its functions, form, target users and information to be contained thereon, with a view to supporting the effective implementation of the work programme, for consideration and adoption by the CMA 4 (Nov. 2022)”.

Developing countries led by the LMDC wanted a dedicated institution to undertake the work programme, instead of just the SBSTA being tasked to do this, since the SBSTA has many matters on its agenda. The final outcome in establishing the Glasgow Committee is welcomed by developing countries.

Further work will continue in the coming years on taking the Glasgow Article 6 decisions forward.