

Draft elements for SBSTA agenda item 11 (b)**Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4 of the Paris Agreement****Informal note by the co-chairs**

Third iteration, 12 November 2017

These draft elements have been prepared by the co-chairs of the negotiations on this agenda item under their own responsibility, on the basis of the views that Parties have submitted, and the discussions in the round table and during this session. These elements are preliminary and should not be considered as final or exhaustive in any way; they are offered as a basis for work and do not prevent Parties from expressing their views at any time. For all draft elements, including headers, it is understood that there may be an alternative that there should be no such draft element. It is recognized that the outcome of deliberations on this item will form part of the overall outcome under the Paris Agreement work programme.

Elements of the rules, modalities and procedures

1. PREAMBLE

Potential element a: List of preambular paragraphs

Potential element b: No list of preambular paragraphs

2. PRINCIPLES

Potential element a: List of principles

Potential element b: List of preambular principles

Possible further elements

- (i) Promote the mitigation of greenhouse gas emissions
- (ii) Foster sustainable development
- (iii) Incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party
- (iv) Contribute to the reduction of emission levels in the host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfil its nationally determined contribution
- (v) Deliver an overall mitigation in global emissions
- (vi) Ensure environmental integrity
- (vii) Adaptation ambition
- (viii) Addressing negative social and economic impacts, Article 4.15
- (ix) Not adversely impact human rights
- (x) Enhance transparency
- (xi) Accommodate all types of NDCs
- (xii) Incorporate full spectrum of mitigation outcomes

- (xiii) Reference to Article 2 of the Paris Agreement
- (xiv) Avoid unilateral measures and discriminatory practices
- (xv) Need to maintain and enhance ambition
- (xvi) Need to secure incentives for progression
- (xvii) Need for comprehensive accounting between Article 6.2 and Article 6.4
- (xviii) Need to reflect mitigation objectives of participating Parties
- (xix) Ambition and environmental integrity guarantees arising from the multilateral rules-based system
- (xx) Prevent perverse incentives for Parties not to progress to NDCs that are economy-wide
- (xxi) Prevent perverse incentives for disengagement for Parties and non-Party stakeholders from multilateral rules-based system
- (xxii) Prevent perverse incentives for host Parties not to authorize mitigation activities that deliver real, measurable and additional emission reductions and that deliver long term benefits
- (xxiii) Prevent perverse incentives for not ensuring or not providing legal certainties to Parties because of contract breaches in relation to previous commitments

Potential element c: No principles

3. DEFINITIONS

A. Additionality

Possible further elements

- (i) On the basis of emission reductions that are additional to any that would otherwise occur in the absence of the mechanism established by Article 6.4

B. Emission reductions

Possible further elements

- (i) Includes tonne(s) of CO₂ eq reduced
- (ii) Including tonne(s) of CO₂ eq and other metrics
- (iii) Includes tonne(s) of CO₂ eq avoided or removed
- (iv) Includes mitigation co-benefits of adaptation action, including economic diversification
- (v) Includes units as determined by the CMA/supervisory body (e.g. transitioned Kyoto units)
- (vi) Includes units issued under Kyoto Protocol mechanisms prior to 2021
- (vii) Excludes units issued under Kyoto Protocol mechanisms prior to 2021
- (viii) Only for post 2020 emission reductions
- (ix) Full spectrum of mitigation outcomes

C. NDC quotient

D. Mitigation activities under Article 6.4 mechanism

E. Overall mitigation of global emissions*Possible further elements*

- (i) An overall mitigation in global emissions takes place when emission reductions are delivered at a level that goes beyond what would be achieved through the delivery of the host Party's NDC and the acquiring Party's NDCs in aggregate and beyond offsetting

F. Own benefit*Possible further elements*

- (i) Through additionality / baselines
- (ii) Through conservative baselines
- (iii) Through mitigation benefits beyond crediting period
- (iv) Through voluntary cancellation by Party and Non-Party Stakeholders

G. Stakeholders*Possible further elements*

- (i) Definition of local stakeholders
- (ii) Definition of global stakeholders

4. SCOPE AND PURPOSE OF RULES, MODALITIES AND PROCEDURES**5. ROLE OF CMA****A. Authority of the CMA over the Article 6.4 mechanism****B. Guidance of the CMA****C. Review of the rules, modalities and procedures***Possible further elements*

- (i) Timing of review
- (ii) Process for review

6. SUPERVISORY BODY**A. Membership of the supervisory body**

Potential element a: Similar to Executive Board of the Clean Development Mechanism

Potential element b: Similar to Joint Implementation Supervisory Committee

Potential element c: New body

Possible further elements

- (i) Acting in personal capacity
- (ii) Nomination by UN regional groups/also other groups

- (iii) Balanced representation of Parties to the Paris Agreement, including LDCs and SIDS
- (iv) Balanced representation of developing and developed country Parties, including LDCs and SIDS
- (v) Include members and/or observers from the private sector/non-governmental organizations
- (vi) Members need to have certain professional qualifications
- (vii) Gender-balanced representation of members
- (viii) Members of the body to be technical experts
- (ix) Coverage of cost for members

B. Rules of procedure of the supervisory body

Potential element a: Start with rules of procedure of the Executive Board of the Clean Development Mechanism

Potential element b: Start with rules of procedure of the Joint Implementation Supervisory Committee

Potential element c: New rules of procedure

Possible further elements

- (i) Conflict of interest policy
- (ii) Transparency
- (iii) Equal representation
- (iv) Code of conduct

C. Governance and functions of the supervisory body

Potential element a: Centralized system

Possible further elements

- (i) Operate at an executive level
- (ii) Developing methodologies, standards, procedures and guidance
- (iii) Accrediting and performance management of designated operational entities
- (iv) Registration/approval of mitigation activities
- (v) Issuance/creation of verified and certified emission reductions and avoidance
- (vi) Establishment and operation of a registry
- (vii) Develop governance rules for its panels/committees
- (viii) Recommendations to the CMA on changes to adopted rules, modalities and procedures
- (ix) Seeking guidance from the CMA
- (x) Draw on experience from the clean development mechanism
- (xi) Draw on experience from joint implementation
- (xii) Establishment of technical expert groups and coverage of cost for experts
- (xiii) Defining procedures to ensure all activities meet the rules, modalities and procedures (i.e. assessment of conformity)
- (xiv) Maintaining public registry on information related to proposed and registered activities
- (xv) Making information publicly available
- (xvi) Prioritizing methodology development that promotes mitigation at scale
- (xvii) Raising awareness of Article 6.4 mechanism
- (xviii) Reviewing the activities of the Article 6.4 mechanism

- (xix) Reporting the progress periodically
- (xx) Forwarding certified emissions reduction units from SDM registry to national registry
- (xxi) Forwarding emission reduction units from Article 6.4 registry to national registry
- (xxii) Reporting on overall mitigation in global emissions

Potential element b: Host Party-led (decentralized) system

Possible further elements

- (i) Developing international standards and international procedures
- (ii) Accrediting and performance management of designated operational entities
- (iii) Issuance/creation of verified and certified emission reductions and avoidance
- (iv) Periodic certification of standards/programmes
- (v) Reviewing the implementation of processes by host Parties and ensuring consistency with processes by host Parties
- (vi) Establishment of technical expert groups and coverage of cost for experts
- (vii) Defining procedures to ensure all activities meet the rules, modalities and procedures and assessment of conformity
- (viii) Maintaining public registry on information related to proposed and registered activities
- (ix) Making information publicly available
- (x) Periodic certification of non-UNFCCC standards/programmes or parts of them
- (xi) Reporting on overall mitigation in global emissions

Potential element c: Dual system (both centralized and host Party-led (decentralized) systems)

Possible further elements

- (i) Developing methodologies, standards, procedures and guidance
- (ii) Accrediting and performance management of designated operational entities
- (iii) Registration/approval of mitigation activities
- (iv) Issuance/creation of verified and certified emission reductions and avoidance
- (v) Establishment and operation of a registry
- (vi) Recommendations to the CMA on changes to adopted rules, modalities and procedures
- (vii) Seeking guidance from the CMA
- (viii) For host Party-led system, developing international standards and international procedures
- (ix) For host Party-led system, reviewing the implementation of processes by host Parties and ensuring consistency with processes by host Parties
- (x) For host Party-led system, periodic certification of standards/programmes
- (xi) Consistent application by a Party of centralized system or host Party-led system.
- (xii) Establishment of technical expert groups and coverage of cost for experts
- (xiii) Defining procedures to ensure all activities meet the rules, modalities and procedures and assessment of conformity
- (xiv) Maintaining public registry on information related to proposed and registered activities
- (xv) Making information publicly available
- (xvi) Forwarding certified emissions reductions units from SDM registry to national registry
- (xvii) Forwarding certified emission reductions units from Article 6.4 registry to national registry
- (xviii) Reporting on overall mitigation in global emissions
- (xix) Draw on experience from joint implementation
- (xx) Draw on experience from clean development mechanism

D. Role of secretariat*Possible further elements*

- (i) Collection of fees
- (ii) Report on share of proceeds collected
- (iii) Report on overall mitigation of global emissions delivered through cancellation / discounting

E. Additionality

- (i) Conservative baselines
- (ii) Mitigation benefits beyond crediting periods
- (iii) Voluntary cancellation by Parties and non-Party stakeholders

7. REGISTRY**8. PARTICIPATION, BENEFITS AND RESPONSIBILITIES OF HOSTING PARTIES****A. Participation requirements for hosting Parties**Potential element a: Participation requirements*Possible further elements*

- (i) Party to the Paris Agreement
- (ii) Has communicated and is currently maintaining an NDC
- (iii) Compliance with Article 6.4 provisions and those contained in decision 1/CP.21, paragraph 37
- (iv) Has designated a competent national authority
- (v) Has access to/has a system for holding emission reductions (registry)
- (vi) National inventory report
- (vii) If host Party-led system, has national standards and procedures for implementation of Article 6.4 activities
- (viii) Ensuring that the use of emission reductions is guided by domestic mitigation objectives

Potential element b: Application of Article 6.2 guidance on participation requirements**B. Responsibilities of hosting Parties**Potential element a: Responsibilities of hosting Parties*Possible further elements*

- (i) Statement of voluntary participation
- (ii) Authorization of potential mitigation activities
- (iii) Contribution to fostering sustainable development
- (iv) Explanation of how mitigation activity relates to the NDC (e.g. activity is inside/outside NDC)
- (v) Authorization of public/private entities participating in the mitigation activity
- (vi) Conformity with Sustainable Development Goals
- (vii) Conformity with human rights

- (viii) Conditions of withdrawal of authorization
- (ix) Conducting stakeholder consultation
- (x) Safeguards
- (xi) Reporting of Article 6, paragraph 4 activities as per Article 13.7
- (xii) If host Party-led functions, implementation of processes
- (xiii) If host Party-led functions, notification of authorization of activities and verification and certification/issuance of emission reductions and avoidance
- (xiv) If host Party-led functions, notification to the supervisory body of the mitigation activity cycle(s)
- (xv) Ensuring compliance with relevant standards and procedures

Potential element b: Application of Article 6.2 guidance on participation requirements

C. Benefits for hosting Parties

Possible further elements

- (i) Reduction of emission levels
- (ii) Promotion of sustainable development
- (iii) Permanent and long-term benefits beyond crediting periods
- (iv) Enhanced participation of public and private entities authorized by host Parties
- (v) Enhanced regional distribution
- (vi) Promotion of capacity-building

D. Addressing host Party benefits

Possible further elements

- (i) Relationship with host Party NDCs
- (ii) Relationship with the underlying and remaining emissions

9. PARTICIPATION AND RESPONSIBILITIES OF ACQUIRING/TRANSFERRING IN/USING PARTIES /ELIGIBILITY REQUIREMENTS FOR PARTICIPATION OF PARTIES

A. Participation requirements for using Parties

Potential element a: Participation requirements

Possible further elements

- (i) Party to the Paris Agreement
- (ii) Has communicated and is currently maintaining an NDC
- (iii) Has designated competent national authority
- (iv) Has access to a system for holding emissions reductions (registry)
- (v) National inventory report
- (vi) Reporting of Article 6.4 activities as per Article 13.7

Potential element b: Application of Article 6.2 guidance on participation requirements

B. Responsibilities of using Parties

Potential element a: Responsibilities of using Parties

Possible further elements

- (i) Statement of voluntary participation
- (ii) Authorization of public/private entities participating in the mitigation activity
- (iii) Contribution to fostering sustainable development
- (iv) Conformity with Sustainable Development Goals
- (v) Conformity with human rights
- (vi) Conditions of withdrawal of authorization
- (vii) Reporting of Article 6, paragraph 4 activities as per Article 13.7

Potential element b: Application of Article 6.2 guidance on participation requirements

10. PARTICIPATION BY OTHER ACTORS**A. Incentivizing and facilitating participation by public and private entities authorized by a Party**

Possible further elements

- (i) Use of emission reductions by non-State actors
- (ii) Use of emission reductions by non-State actors authorized by a Party
- (iii) Acquisition, transfer and use of emission reduction

B. Authorization of participation by public and private entities**11. DESIGNATED OPERATIONAL ENTITIES****A. Accreditation of designated operational entities**

Possible further elements

- (i) New accreditation
- (ii) Regional availability

B. Validation of mitigation activities**C. Verification and certification of emission reductions and/or emission avoidance****12. ELIGIBLE MITIGATION ACTIVITIES****A. Mitigation activities - context of the host Party NDC**

Potential element a: Mitigation activities can be outside or inside the host Party's NDC

Potential element b: Mitigation activities can only be inside the host Party's NDC

Potential element c: Mitigation activities can only be outside the host Party's NDC

Potential element d: Mitigation activities can only be inside the host Party's NDC, except for LDCs and SIDS

Potential element e: Not applicable

B. Mitigation activities – requirements/standards

Possible further elements

- (i) Deliver real, measurable, and long-term benefits
- (ii) Be additional
- (iii) Approved methodology and baseline determination
- (iv) Approved crediting periods
- (v) Permanence
- (vi) Avoiding technical lock-in
- (vii) Promotion of sustainable development
- (viii) Guidance for stakeholder consultation
- (ix) Refrain from activities that may cause environmentally negative impacts
- (x) Fostering transition to low carbon economy
- (xi) Approval by host Party

C. Mitigation activities - scope of activities

Possible further elements

- (i) Projects
- (ii) Programmes of activities
- (iii) Sectoral approaches
- (iv) Other approaches approved by the supervisory body
- (v) Certification of non-UN protocols

13. MITIGATION ACTIVITY CYCLE

A. Design and Validation

B. Registration

Possible further elements

- (i) Registration of registered CDM project activities

C. Baseline approach

Possible further elements

- (i) Shortening crediting periods
- (ii) Dynamic baselines
- (iii) Automatic updating of dynamic baselines
- (iv) Conservative baseline below business-as-usual/set at best available technology
- (v) Baselines that include all relevant policies
- (vi) Avoidance of any net leakage
- (vii) Discounting at verification or issuance or use
- (viii) Conservative default factors and higher default factors

- (ix) Baseline approach
- (x) Baseline methodologies
- (xi) Baselines
- (xii) Crediting period

D. Additionality**E. Monitoring****F. Verification and certification****G. Issuance**

Potential element a: Issuance into an international registry

Potential element b: Issuance into a national registry

H. Forwarding**I. Voluntary cancellation****J. Management of registry processes****K. Grievance processes/appeal rights****L. Protection of human rights****M. Referral of matters to Article 15 committee****N. Reporting through the Article 13 transparency framework****14. LEVY OF SHARE OF PROCEEDS TOWARDS ADMINISTRATION AND ADAPTATION**

Possible further elements

- (i) X per cent collected
- (ii) 5 per cent collected
- (iii) Share of proceeds for adaptation to go to Adaptation Fund
- (iv) Share of proceeds for adaptation to go to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change
- (v) Applied progressively with an increasing rate at each transfer
- (vi) Level of share of proceeds for administrative expenses
- (vii) Link with overall mitigation of global emissions

15. IMPLEMENTING OVERALL MITIGATION IN GLOBAL EMISSIONS

Potential element a: Full accounting of the emission reductions by host Party, with a percentage cancellation of units at issuance/transfer

Potential element b: Full accounting of the emission reductions by host Party, with a percentage cancellation at point of use

Potential element c: Full accounting of the emission reductions by host Party, with a percentage discount at point of transfer (e.g. tonnes)

Potential element d: Full accounting of the emission reductions by host Party, with a percentage discount at point of use

Potential element e: Conservative/higher default factors

Potential element f: Through additionality determination

Potential element g: Voluntary/aspirational

Potential element h: Conservative baselines

Potential element i: Mitigation benefits beyond crediting period

Potential element j: Voluntary cancellation by Parties and non-Party stakeholders

16. AVOIDING USE OF EMISSIONS REDUCTIONS RESULTING FROM MITIGATION ACTIVITIES BY MORE THAN ONE PARTY

Potential element a: All emission reductions, consistent with Article 6.2 guidance

Potential element b: Corresponding adjustment for emission reductions with transfer of national allowances for Parties with absolute national emission caps

Potential element c: Inside the host Party's NDC, consistent with Article 6.2 guidance, outside the host Party's NDC, no application of Article 6.2 guidance

Potential element d: Article 6.2 guidance does not apply to Article 6.4 initial transfer (forwarding) from the central registry to national registry. Article 6.2 guidance only applies to second and subsequent international transfers

Potential element e: Corresponding adjustment for all emission reductions, consistent with Article 6.2 guidance, at the point of international transfer.

Potential element f: Corresponding adjustment for emission reductions inside the host Party's NDC, consistent with Article 6.2 guidance at the point of international transfer, no corresponding adjustment for emission reductions outside the host Party's NDC

Potential element g: Article 6.2 guidance applies to units issued under the Kyoto Protocol after 2021

Potential element h: The potential elements above are not applicable to LDCs and SIDs

17. EMISSIONS REDUCTIONS APPLIED TO PURPOSES OTHER THAN TOWARDS ACHIEVEMENT OF NDCs

Possible further elements

- (i) Towards other international mitigation action
- (ii) Towards voluntary climate actions, climate finance

- (iii) May require accounting in accordance with Article 6.2 guidance if used for non-UNFCCC purposes if created/issued from within the scope of a host Party's NDC
- (iv) Require accounting in accordance with Article 6.2 guidance if used for non-UNFCCC purposes

18. LIMITS TO TRADING/USE OF EMISSION REDUCTIONS FROM MITIGATION ACTIVITIES TOWARDS NDC

Possible further elements

- (i) Issuance in a manner that avoids market fluctuations
- (ii) Use of emission reductions must be supplemental to domestic action
- (iii) No secondary trading
- (iv) No speculative trading
- (v) Quantitative restrictions on transfers, e.g. to address complementarity or overselling
- (vi) Restrictions on types of transfers
- (vii) Quantitative restrictions on carry-over
- (viii) Restrictions on use of vintages of emission reductions
- (ix) Restrictions in sectors with a high degree of uncertainty in emission estimates
- (x) No limits to trading
- (xi) No limits to use
- (xii) No use of pre-2020 units post-2020

19. TRANSITION FROM KYOTO PROTOCOL TO ARTICLE 6.4

A. Mitigation activities under the Kyoto Protocol

Potential element a: Existing CDM/JI activities may become Article 6.4 activities

Potential sub-element (a): JI activities

Potential sub-element (b): CDM activities

Potential sub-element (c): JI and CDM activities

Potential element b: Existing CDM/JI activities may become Article 6.4 activities if they meet certain conditions and categories

Potential element c: Existing CDM/JI activities may become Article 6.4 activities if the host Party so agrees

Potential element d: No existing CDM or JI projects may become Article 6.4 activities

B. Mitigation activities/units issued from CDM to Article 6.4

Potential element a: Transition

Possible further elements

- (i) Eligibility of CERs
- (ii) Continued validity of methodologies
- (iii) Issuance of Article 6.4 emission reductions for CDM
- (iv) Transposition of accreditation system

- (v) CERs issued from the CDM prior to 2021 to Article 6.4

Potential element b: No transition

C. Mitigation activities/units issued from JI to Article 6.4

Potential element a: Transition

- (i) Eligibility of ERUs
- (ii) Continued validity of methodologies
- (iii) Issuance of Article 6.4 emission reductions for JI
- (iv) Transposition of accreditation system.
- (v) ERUs issued from JI prior to 2021 to Article 6.4

Potential element b: No transition

20. ADAPTATION AMBITION

Potential element a: Mitigation co-benefits of adaptation action including economic diversification

21. ADDRESSING NEGATIVE SOCIAL AND ECONOMIC IMPACTS, Article 4.15

22. ADJUSTED TRANSFER OF PROJECT BASED EMISSION WITH TRANSFER OF EQUAL AMOUNTS OF NATIONAL ALLOWANCE TO THE PARTIES WITH ABSOLUTE NATIONAL EMISSION CAPS.