



# Carbon Market Watch views on guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement

FCCC/SBSTA/2016/2, para. 96

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The accredited organization Nature Code / Carbon Market Watch welcomes the opportunity to provide its views on matters relating to Article 6, paragraph 2, of the Paris Agreement.

Article 6, paragraph 2 of the Paris Agreement outlines how Parties must comply with guidance provided by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) when engaging in “cooperative approaches that involve the use of internationally transferred mitigation outcomes towards nationally determined contributions” (ITMOs).

Although not explicitly outlined as a ‘market’ or ‘flexibility’ mechanism, Article 6, paragraph 2 is broadly understood to mean that a country can use emission reductions from another country towards its own target under the Paris Agreement. This follows the precedent of previous carbon markets, notably the international emissions trading (IET) under the Kyoto Protocol. However, under the new terminology, the carbon market units are called ITMOs instead of Assigned Amount Units (AAUs).

In contrast to the Kyoto Protocol, trading of ITMOs would take place in a radically changed world where Parties have committed to a new 1.5 C degree target, longer term deep de-carbonization, and a new climate regime in which all Parties make a variety of contributions.

However, without limits, rules, robust accounting and oversight, international transfers of mitigation outcomes potentially pose a risk of contaminating ambitious NDCs with hot air carbon units, subsequently undermining environmental integrity and ambition.

At the same time, the window of opportunity to prevent catastrophic climate change is rapidly closing. The remaining carbon budget to limit average temperature increase to well below 2°C and pursue best efforts to limit the temperature increase to 1.5°C in the second half of this century leaves calls for urgent action in all sectors: “and-and” strategies.



With this in mind, Carbon Market Watch makes the following recommendations to the development of guidance for Article 6, paragraph 2.

## KEY RECOMMENDATIONS

### To ensure environmental integrity

- *Require multiyear emission budgets based on common metrics for Parties to be able to use transfers under cooperative approaches.*
- *Establish a UNFCCC body to oversee international unit transfer and accounting.*
- *Account for transfers with a rigorous, robust, and transparent common accounting framework.*

### To foster higher ambition for climate action

- *Use cooperative approaches for trading mitigation outcomes covered by NDCs, not crediting.*
- *Coordinate use of transfers under Article 6.2 with the 5-year stocktaking cycle described in Article 14.*
- *Follow the precedent of the Doha Amendment to derive a reference level to limit the trading of hot air between NDCs.*

## **RELEVANT PROVISIONS OF THE PARIS AGREEMENT**

When providing views on Article 6, paragraph 2, it is insufficient to consider the paragraph in isolation. Article 6, paragraphs 1 and 3 have direct bearing, as well as COP decision paragraph 37.

Further, for an accurate and holistic understanding of the guidance that cooperative approaches must adhere to, multiple other Articles and COP decisions have a direct and indirect bearing and should be taken into consideration when elaborating rules, modalities and procedures for Article 6, paragraph 2. Though non exhaustive, these include: the preamble, notably regarding human rights, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities, and people in vulnerable situations and the right to development; Article 2 on the long term 1.5 C goal; Article 3 on NDCS and ratcheting up through progression over time; Article 4 on de-carbonization; Article 13 on transparency; Article 14 on stocktaking; and Article 15 on implementation and compliance.

Article 6 paragraph 1 recognizes *“that some parties choose to pursue voluntary cooperation in the implementation of their NDCs to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity”*.

In Article 6, paragraph 2 of the Paris Agreement, *“Parties recognize that some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contributions.”* So-called cooperative approaches provide a basis for parties to use and transfer *“international mitigation outcomes towards nationally determined contributions”* in order to increase ambition. The paragraph further specifies that these cooperative approaches shall *“promote sustainable development and ensure environmental integrity and transparency, including governance, and shall apply robust accounting to ensure, inter alia, the avoidance of double counting.”*

Article 6, paragraph 3 stipulates that use of internationally transferred mitigation outcomes to achieve NDCs *“shall be voluntary and authorized by participating Parties”*.

In decision paragraph 37, SBSTA is requested *“to develop and recommend”* guidance for such cooperative approaches, *“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”*.

## VIEWS AND RECOMMENDATIONS

### Ensure Environmental Integrity

There is no universal definition of environmental integrity. However, within carbon markets it is widely understood as a guarantee that one carbon unit represents one ton of CO<sub>2</sub>e. In other words, it means that a unit bought to allow the emissions of a ton of CO<sub>2</sub> reduces at least one tone of emissions elsewhere. Accordingly, a market lacks environmental integrity if a unit represents less than a ton of emission reduction. Moreover, such reductions must only be counted once towards a commitment. If a unit is counted by multiple parties, or by one party multiple times, each party emits more and the market lacks environmental integrity as a consequence. Ultimately, the lack of environmental integrity leads to



an overall increase in greenhouse gas emissions defeating the purpose of the market.

Double counting under the Paris Agreement is a particular challenge. Under the Kyoto Protocol, the mitigation commitments that developed countries had, were expressed in multi-year budgets, based on common comparable metrics. This facilitated accounting and namely helped prevent double counting under the protocol.

The Paris Agreement represents a significant departure from the Kyoto Protocol in that the nationally determined contributions that different Parties have pledged differ significantly from one another in form, ambition and substance. Some NDCs could be converted into a multi-year budget (or are already expressed as one), some provide a range target, some a deviation from a business as usual scenario that may or may be well defined and set ex-ante, while still others only cite a peaking year or only include policies and measures with no quantifiable mitigation outcome whatsoever. In many cases, Parties have opted to use different base year and target year levels, or a range mitigation in a given year. This approach fosters increased participation because it allows each party to define what and how it itself wants to achieve. However, it also poses great challenges to comparability and accounting, especially when transfers between two different formats and metrics are used. This undermines environmental integrity, stocktaking, transparency, tracking progress and maintaining accuracy of effort given the various kinds of NDCs.

To the extent that international transfers pose a risk to accounting (namely “double counting”) and thereby transparency and accurate stocktaking efforts, a careful, precautionary approach should be pursued. Such an approach should limit eligibility for such transfers limited to NDCs expressed as absolute multi-year emission budgets using common metrics (inventory methodologies and GWPs) that cover their economy wide emissions after 2020. Without such a basis for comparability, given the diversity of contributions put forward, robust accounting for transfers while guaranteeing environmental integrity would be impossible. Therefore, the international transfer of mitigation outcomes must be limited to Parties with comparable NDC formats and metrics.

In this new world, ensuring “environmental integrity and transparency including in governance” (as called for by Article 6, paragraph 1) requires international oversight and governance. Issuing, transferring, and use of mitigation outcomes should be reported to and tracked by a central UNFCCC body and clearly and accurately detailed according to coherent principles for Parties’ to demonstrate



achievement of their NDCs as per Articles 13 on transparency and 15 on compliance.

Recommendations:

- *Require multiyear emission budgets based on common metrics for Parties to be able to use transfers under cooperative approaches.*
- *Establish a UNFCCC body to oversee international unit transfer, accounting, and NDC compliance in coordination with the mechanism established by Article 15.*
- *Account for transfers with a rigorous, robust, and transparent common accounting framework.*

Foster higher ambition for climate action

In Article 6 paragraph 1, the kinds of voluntary cooperation outlined in the rest of the article, including Article 6 paragraph 2 are all to be pursued in order to “allow for higher ambition”. All rules, oversight and guidance developed by SBSTA must follow the leitmotif of higher ambition and be careful to prevent perverse incentives that undermine ambitious climate action. If and when markets are used according to Article 6, paragraph 2, they must be used to significantly increase ambition. As offsetting only displaces where emissions occur, it does not lead to higher ambition. Rather, in that trading can lead to a robust carbon price in emitting countries trading under an absolute cap and a real incentive to mitigate, this should be allowed between Parties with an ambitious NDC.

Recommendation:

- *Use cooperative approaches for trading mitigation outcomes covered by NDCs, not offsetting/crediting.*

What is an ambitious NDC? Given the nationally determinative basis of the Paris Agreement and NDCs, Parties should constructively and critically review each other’s NDCs and cooperate to prevent unambitious target setting at or above business as usual which would create “hot air”. Use of transfers under Article 6.2 should therefore be closely reviewed in coordination with the 5-year stocktaking cycle described in Article 14. Trading eligibility should be restricted to countries with NDCs well below a conservatively projected business-as-usual scenario, in line with the 2C target and that ultimately lead to deep de-carbonization.

Recommendation:

- *Coordinate use of transfers under Article 6.2 with the 5-year stocktaking cycle described in Article 14.*



History has further taught us that it is not always easy to predict the future and what may have seemed like an ambitious mitigation target in the past may quickly become business as usual creating many tons of hot air due to economic cycles, technological change, demographics, weather, or a number of other factors.

The ability to transfer emissions units from an NDC however poses a potential danger of a perverse incentive to formulate an especially unambitious NDC with the intention to sell excess hot air units to other Parties. In Durban, the African Group, AOSIS and Brazil made proposals to restrict the carry-over of hot air from the first to the second Kyoto Commitment period. In subsequent negotiations, other proposals followed from the G77 and China as well as Switzerland. The Doha Amendment<sup>1</sup> provided a basis to limit trading of hot air based on a reference level derived from recent inventories. Such a reference level should be adopted as a 'hot air' test to limit trading between NDCs.

**Recommendation:**

→ *Follow the precedent of the Doha Amendment to derive a reference level to limit the trading of hot air between NDCs.*

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<sup>1</sup> For more information on the Doha Amendment, see the Carbon Market Watch Policy Brief on the „Doha Decisions on the Kyoto Surplus Explained“: [http://carbonmarketwatch.org/wp-content/uploads/2013/03/CarbonMarketWatch-CO18-Surplus\\_decisions\\_explained\\_4March20131.pdf](http://carbonmarketwatch.org/wp-content/uploads/2013/03/CarbonMarketWatch-CO18-Surplus_decisions_explained_4March20131.pdf)