



United Nations
Framework Convention on
Climate Change

Latin-American non-State actor dialogue on Article 6 of the Paris Agreement

Summary Report

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Background

The “Latin-American non-State actor dialogue on Article 6 of the Paris Agreement” organized by the regional collaboration centre (RCC), Bogota was held in Bogotá city, Colombia on July 14 2016. The objective of the event was to kick-start an active dialogue among regional experts on options for interpreting and operationalizing elements contained in Article 6 of the Paris Agreement.

A total of 19 regional experts participated in the dialogue, representing regional bodies, consultants, academics, project developers and representatives of non-governmental organizations, whose knowledge as users of existing mechanisms allows them to analyse Article 6 in depth.

Report from the dialogue

Regional circumstances and trends

The clean development mechanism (CDM) under the Kyoto Protocol is widely represented in Latin America. This region had the first CDM registered project worldwide and to date has more than 1,200 registered projects. At present, projects are suffering from the low prices at which certified emission reductions (CERs) are sold. Nevertheless, the CDM infrastructure for registering activities and for tracking and issuing CERs is still recognized as robust. From the financial point of view, the transparency system that has been created with the CDM is remarkable.

The region is being transformed: countries have made progress on a voluntary basis in implementing different actions against climate change – for example, with platforms for exchanging carbon credits and national emissions registries (Mexico) or carbon tax (Chile, Mexico). The implementation of compatible emissions trading systems at the national level (Chile, Colombia, Mexico, Peru) that can be linked in the future at the regional level is also being studied. The experience of the region in terms of methodological background and human capacities may be useful for developing instruments mentioned in Article 6 of the Paris Agreement.

Important questions are arising in Latin America: How will CDM projects, which are still registered and operational, be taken into account? What will Article 6 look like? How will the accounting of Nationally Determined Contributions (NDCs) be done?

In-depth discussion on Article 6

Article 6.2 – Internationally transferred mitigation outcomes

Participants concurred that it is necessary to define what will be considered as Internationally Transferred Mitigation Outcomes (ITMOs). It was noted that it could be certified emission reductions, emission permits and/or certificates of clean energy, which could be measured in tonnes of CO₂ equivalent (tCO₂e) since it is the only unit used so far, and a change would require a reconsideration of the whole methodological structure. In addition, it was noted that the quantitative NDCs use the tCO₂ as the metric unit to submit their contributions.

It was also pointed out that other types of ITMOs could be, among others, technology, finance, or education, according to what has been proposed in the NDCs. Participants reflected on the need to include mitigation efforts that are not measurable in tCO₂e and on the need that any mitigation measure has to be measurable, transparent, verifiable, consistent and that does not involve double-counting.

According to the participants, it is necessary to define the conditions for participating in mechanisms and, once the units and the regulatory framework are defined, countries should be free to carry out international transfers.

To avoid double-counting, the participants discussed whether there should be a common global registry to report NDCs and a registry of ITMO transfers which should include monitoring, reporting and verification (MRV).

Regarding the nature of the NDCs that influence what mitigation outcomes can be transferred, participants reflected on the national scope of NDCs by mentioning that Article 6 shall provide similar framework "game rules" for everyone, regardless of whether there are quantitative or qualitative NDCs. They also discussed whether only the NDCs with quantifiable reduction targets should be involved in transfer mechanisms.

Participants also discussed the term "Environmental Integrity" and its scope in relation to Articles 6.2 and 6.4.

It is noteworthy that some participants pointed out that a common regulatory framework governed by a single international entity would be a setback. In this context, participants noted that ITMOs will not be under the supervision of the Conference of the Parties and that they will be defined by parties.

Article 6.4 – Mechanism

Participants considered that the nature of the mechanism in Article 6.4 should be defined since it has only four characteristics. They approached the analysis of Article 6.4 by differentiating it from the provisions of Article 6.2. However, they noted that Articles 6.2 and 6.4 have similar aspects, such as the transfer of outcomes. According to some participants, Article 6.2 has a higher level of manoeuvre in comparison with the mechanism of Article 6.4, which is regulated by a supervisory body.

Entering in the discussion of Article 6.4 elements, participants indicated that this article will form a global market that will require an international regulatory body. The structure and functions of the body shall be defined. It was suggested that a fully centralized body should not necessarily exist, but that there might be one that can adopt the rules and delegate activities to the designated national authorities. Other participants argued that it would result in having more than 190 regulatory agencies and would be difficult to control; moreover, it could lead to conflicting definitions of additionality and environmental integrity.

Regarding the lessons learned from the CDM, it was considered that the work done in the programmes of activities should be taken into account. Areas of improvement were identified, such as the need to make the project approval process faster and less expensive.

It was suggested that the new mechanism could use standardized baselines (to avoid the baseline scenario demonstration for each project) and indicated that the baseline scenarios of the NDCs shall be supported in a way that they can justify that emission reductions are measurable, verifiable and real.

Participants also discussed the concept of additionality and its relationship with the NDCs, noting that all mitigation actions that are aligned and comply with the NDCs should already be considered as additional. It was recognized that the NDCs are not clear and do not help investors to identify

investment areas. According to participants, there should be consistency between the mechanism and NDCs, which also should be designed to be adapted to an international registry.

It was also mentioned that the rules, modalities and procedures for the mechanism will need to take into account Article 13, which refers to transparency.

Finally, with respect to the concept of sustainable development, participants agreed that this is a sovereign issue of each country.

Article 6.8 – The Framework for non-market approaches

The participants considered that the instruments of Article 6.2 and Article 6.8 are exclusive. In their view, Article 6.8 is unclear and requires further development.

It was noted that the relationship between the mechanisms of technology and financing and approaches under Article 6.8 shall be examined. It was also noted that Article 6.8 has a more economic approach. This article would refer to non-market measures, which may be taxes, minimum performance standards, regulations, control measures, labelling of vehicles (mitigation only), poverty eradication measures or imposed measures related to redistribution of income. It can also refer to legislation programmes and policies that require effective implementation in relation to NDC compliance.

One aspect that was analysed is whether the actions taken under one of the components of Article 6 could "migrate" and rely on other components. Some participants expressed that if this kind migration occurs, it should avoid double recognition of the action under two different instruments.

Finally, it was noted that the "non-market approach" does not mean that it is not subject to verification. While it was noted that the system for the non-market approach does not need such extensive regulation, it does need a minimum of harmonization. Participants stressed the need for a clear and predictable regulatory framework for the private sector to enable the sector to identify market opportunities.

The road ahead – key messages from the private sector participants/experts to policy-makers for the future global carbon market and non-market instruments

Inclusive involvement in the implementation of the Paris Agreement. Participants agreed that the Paris Agreement will be inclusive and its implementation requires the cooperation of the private sector, which moves faster with incentives than with regulations. Climate change is present in the private sector decisions on issues such as social responsibility, access to new markets and in relation to the survival of its own business. In the limited time of the discussion it was recognized that non-state actors and non-Parties of the process constitute a very large group: non-governmental organizations, cities, regions, the

private sector and academia. Participants believe that dialogue should be part of a roadmap on Article 6 to build a horizon of action with respect to the regulation.

Capacity building to implement Article 6. The new instruments will require a behavioural change and a new institutional development, for which there are limited resources. It is necessary to emphasize capacity building. Experiences related to actions that generated a change of vision of the government should be analysed. New contributions from the private sector (e.g. CO₂ tax) should be explored while considering their impact on climate. For the proper functioning of market and non-market instruments, a robust institutionalization in terms of MRV is required.

Decisions on existing projects. Participants stressed the need to take decisions on the already implemented projects to which resources were dedicated with expectations based on existing regulations.

Clarity in regulations and appropriate incentives. One idea that was reflected in the dialogue is the need to create adequate incentives (or penalties) to involve the private sector. To be efficient, such systems need to provide legal certainty, operate quickly and be trusted. According to participants, UNFCCC could intervene to provide more transparency. Methodologies to effectively account for reductions and transactions are required.

Common rules to avoid losing competitiveness. There is consensus that certain common and stable rules are necessary to prevent sectors among countries from losing their competitiveness. Some rules shall be sectoral and must be analysed to determine how to combine them with aviation and maritime sectors.

Use of existing networks of non-State actors. Participants reflected on the use of existing networks. They mentioned that in Latin America there are companies participating in organizations where discussions on climate change take place (for example, Global Compact and Accion RSE). UNFCCC was invited to mobilize these companies and organizations, inform them on what the secretariat is doing and actively engage them more.

Comprehensive approach capable of integrating mechanisms outside the discussion of Article 6. Participants recognized that there are other mechanisms that are not in parallel with the discussion but that should also be considered, in particular to achieve common rules that would avoid double-counting.