



*Inputs from Conservation International, Environmental Defense Fund, Forest Trends, International Emissions Trading Association and The Nature Conservancy regarding views on the guidance referred to in Article 6, paragraph 2 of the Paris Agreement*

## **Introduction**

Article 6 of the Paris Agreement establishes a broad framework for voluntary cooperation among Parties in the implementation of their nationally determined contributions (NDCs). The Article sets out three approaches through which Parties may voluntarily interact—“bottom up” bilateral or regional cooperative approaches via internationally transferred mitigation outcomes (ITMOs), a centrally-governed UNFCCC mechanism to contribute to mitigation and support sustainable development, and non-market approaches (these are outlined in Article 6.2, 6.4 and 6.8, respectively). In line with the principles of the Convention, every Party can determine its preferred approach in this new architecture and choose whether or not to participate. As its capabilities and national circumstances evolve, a country may choose to move from one approach to another.

Approximately half of all current NDCs demonstrate interest in fulfilling a portion of their emission reduction targets (unconditional or conditional) through the use of international market-based approaches,<sup>1</sup> which may take the form of a carbon market or similar mechanisms. The flexibility afforded by cooperative market-based approaches enables and accelerates the achievement of ambitious reductions in global emissions at lower cost, through investment in cost-effective mitigation activities abroad. Encouraging the transfer of high-quality emission reductions generated in all sectors, including the land sector, can drive needed flows of finance to mitigation actions addressing both sources and sinks, particularly in developing countries.

This paper, which build upon a non-Party stakeholder [submission](#) from this group of organizations in advance of COP 22 in Marrakech, address key questions and issues in the implementation of Article 6.2, with a focus on the guidance needed to appropriately account for ITMOs.

## **Context of market approaches for delivering climate mitigation**

The Paris Agreement does not offer detailed guidance on the structure, accounting provisions or general governance of cooperative approaches under Article 6.2, except for the broad condition of avoiding double counting, leaving many choices up to Parties. The Agreement also requires the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) to develop and adopt guidance on the implementation of Article 6.2, which is expected to be finalized by COP 24 in 2018.

As Parties continue to discuss the optimal arrangements for cooperative approaches under Article 6, they must recognize the evolving global policy context in which policymakers are already exploring options to collaborate across borders when addressing climate change. In some cases, certain jurisdictions and

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<sup>1</sup> See the [IETA INDC Tracker](#).

sectors have already moved ahead with cooperative market-based approaches. For example, in October 2016, the 191 member states of the International Civil Aviation Organization (ICAO) finalized and adopted a global market-based measure to assist the global aviation industry in achieving carbon neutral growth starting in 2020. The criteria and rules related to offset types and accounting in ICAO's Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) will be developed starting this year, which will require coordinated greenhouse gas accounting beyond the international aviation sector, including substantial future policy linkages on accounting and unit tracking between ICAO and UNFCCC. Meanwhile, national and sub-national emission trading efforts are also underway across the globe — from the linked emission trading systems in California and Quebec (and soon Ontario) to Japan's Joint Crediting Mechanism, engaging over 17 countries in future emission reduction transfers with Japan.

### **Scope and application of guidance under Article 6.2**

The effective implementation of Article 6.2 can stimulate efficient, bottom-up voluntary cooperation between Parties to implement existing NDCs and strengthen the ambition of mitigation actions over time. The development and application of guidance on cooperative approaches to be completed by 2018 will enable countries to consistently use robust accounting rules and reporting systems which, in turn, help ensure high environmental integrity and facilitate increased clarity and understanding of progress toward meeting the Paris Agreement's objectives.

Notably, to satisfy Article 6.2's requirements, which apply to NDCs upon entry into force of the Paris Agreement, any guidance agreed by Parties under Article 6.2 must apply to the first NDC period of any Party that engages in ITMO transfers.<sup>2</sup>

Parties should focus their Article 6.2 work plan on developing robust accounting guidance necessary to instill confidence in countries, investors and the public that the mitigation outcomes claimed represent high-quality emission reductions that have only been counted once toward a mitigation commitment. Parties should also consider the necessary reporting and review requirements needed to ensure Parties fulfill all the requirements of Article 6.2. In the preparation of this guidance, it will be important for Parties to consider what steps will best support—and not impede—existing and future high-integrity cooperative approaches.

Clear and robust accounting guidance accompanied by transparency of actions instills confidence in a host of key actors. First, the public (including both domestic and international audiences) is reassured that emissions are being reduced and that political leaders can be held accountable to their promises. Second, in the context of Article 6.2 approaches, public and private investors can be more confident in the intrinsic value of ITMOs,<sup>3</sup> including ITMO integrity and suitability to satisfy domestic or international compliance obligations. Finally, other Parties can feel reassured in raising their own ambition, as they can clearly assess the progress of their peers in meeting their targets.

### **Key considerations in the preparation of Article 6.2 accounting guidance**

Parties should consider several key questions when developing accounting guidance on Article 6.2:

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<sup>2</sup> For example, the requirement to avoid double counting applies to the first and subsequent NDC periods, via application of Article 6 and Article 13 upon entry into force of the Paris Agreement. By contrast, Art 4.13 accounting guidance is optional for the 1st NDC period, under para 32, CP.21.

<sup>3</sup> This assumes a clear role for the private sector under Article 6.2.

**1. How should “mitigation outcomes” be measured for use in international transfers?**

Parties should prioritize clear guidance on robust accounting for international transfers in tons of CO<sub>2</sub>e. While some types of commodity trading utilize alternative metrics to measure outcomes (for example, Renewable Energy Certificates), these alternative metrics provide no assurance of actual environmental result in terms of reductions in atmospheric emissions. The most direct and relevant “mitigation outcomes” for purposes of achieving the mitigation goal of the Paris Agreement should be measured in tons of CO<sub>2</sub>e. A common metric measured in tons of CO<sub>2</sub>e will facilitate transparent and comparable accounting frameworks for transferred mitigation outcomes.

**2. When should a transfer be reported? When should a corresponding adjustment be made? Must they happen at the same time?**

Reporting of transfers, and entry of “corresponding adjustments” in respective emissions accounts, could be made at various points in time, including:

- a) At transfer;
- b) At use toward NDC fulfillment; and/or
- c) At time of authorization, under Article 6.3.

Parties should explore the optimal timing for reporting transfers and adjusting emissions levels, keeping in mind that they need not be done at the same time, and considering each option’s impact on transparency and finality, as well as the consistency of each option with existing trading arrangements. For transparency purposes, Parties should report at least every two years all information needed to allow calculation of net transfers.

Since some ITMO transfers may not end up being used toward fulfillment of the receiving Party’s NDC (i.e. in the case of some sub-national trading, such as between California and Québec), Parties should explore an option to perform a “corresponding adjustment” when use toward NDCs is authorized by the participating Parties under Article 6.3.

In the case of ITMOs used toward other mitigation obligations, such as under ICAO’s CORSIA, the timing of the adjustment to the host country’s emission accounts may be different: for example, any units used toward CORSIA compliance should be reported at time of surrender. In any case, double-counting must be prevented whether ITMOs are used toward NDCs or toward other compliance obligations like CORSIA.

Authorization may also be an appropriate trigger for demonstration by participating Parties of how the cooperative approach meets the relevant requirements of Article 6.2, e.g., how the approach ensures environmental integrity and transparency, including in governance, and promotes sustainable development. Authorization could, for example, take the form of two Parties concluding an agreement for an ITMO with a clear, publicly-available description of how the relevant requirements of Article 6.2 will be met.

**3. How should Party guidance under Article 6.2 treat efforts from various sectors?**

Any guidance Parties may provide under Article 6.2 should facilitate the generation and robust accounting of ITMOs across all sectors, including sectors with high emissions and taking advantage

of the potential for removals from sinks. Accounting guidance applicable to all sectors will accomplish two important goals:

- 1) enable the voluntary participation of the largest number of Parties, including those in which the land sector is a significant source of emissions;
- 2) maximize the mitigation potential of cooperative approaches. (See Question #4, below, for a discussion of additional considerations in accounting for ITMO transfers from non-NDC sectors under Article 6.2.)

### **Opportunity for emission reductions from the land sector**

Emissions reductions and removals associated with carbon sinks such as forests and other terrestrial systems pose perhaps the greatest untapped opportunity for Parties. As emissions from land use and land use change (LULUCF) contribute approximately 25% of global anthropogenic emissions,<sup>4</sup> serious attempts to limit global temperature increases to well below 2°C must include significant efforts to reduce emissions from these sectors. In addition, the potential for these sectors to act as sinks is significant: halting tropical deforestation and allowing forests and other carbon rich ecosystems to regrow can provide 30% or more of the emissions reductions and sequestration needed to meet global mitigation goals.<sup>5</sup>

Parties' NDCs suggest a widespread interest to engage in this sector: a recent paper in *Nature Climate Change*<sup>6</sup> found that approximately 25% of Parties' planned emissions reductions for 2030 came from the forest sector alone. In other words, a full one-fourth of hypothetical market potential between 2020 and 2030 comes from the global LULUCF sector.

Given the dynamic role that the land sector can play in the coming years, many Parties are increasingly interested in ways to integrate this sector—proportionate to its mitigation potential—into cooperative approaches that can enhance ambition. Airlines that will be operating under ICAO's CORSIA have expressed interest in using REDD+ credits to help them offset their post-2020 emissions growth. This, in turn, could in time send a clear market demand signal to REDD+ programs, thus creating a potentially virtuous cycle of market efficiency gains, finance streams to REDD+ countries, and increased ambition amongst all participants.

Between 2006 and 2014, around US\$10 billion were committed to finance REDD+ activities in developing countries.<sup>7</sup> Despite the significant increase in public financial pledges and the high

<sup>4</sup> Smith, P. et al., 2014. Agriculture, Forestry and Other Land Use (AFOLU). In: Climate Change 2014: Mitigation of Climate Change. Contribution of Working Group III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change. p. 816.

<sup>5</sup> (a) McKinsey & Company. 2009. Pathways to a low-carbon economy. McKinsey & Company;  
(b) Le Quere, C., et al. 2013. Global Carbon Budget 2013. *Earth Syst. Sci. Data Discuss.*, 6, 689–760 (averaged for 2003–2012);  
(c) Grace, J., et al. 2014. Perturbations in the carbon budget of the tropics. *Global Change Biology* (data from 2005–2010);  
(d) Houghton, R.A. 2013. The emissions of carbon from deforestation and degradation in the tropics: past trends and future potential (data from 2000–2005). *Carbon Management*.

<sup>6</sup> European Commission. 2017. Key role of forests in meeting climate targets. <<https://ec.europa.eu/jrc/en/news/key-role-forests-meeting-climate-targets>>.

<sup>7</sup> Norman, M. and S. Nakhooda. 2014. "The State of REDD+ Finance." CGD Working Paper 378. Washington, DC: Center for Global Development. Updated May 2015. 2. <http://www.cgdev.org/publication/state-redd-finance-working-paper-378>

expectations around REDD+, it remains uncertain which arrangements and financial mechanisms will predominate in the coming years. As more countries implement their national- and jurisdictional-level REDD+ programs and start to generate reductions in deforestation, both public and private sources of finance will need to scale up to compensate countries for their reductions. The approaches to be developed under Article 6 will be crucial to create the right rules and incentives for such large-scale investments.

Advances in the land sector can also inform cooperative approaches more broadly. Recent progress in the land sector (e.g. on REDD+ reference levels and accounting under the Warsaw Framework and experience in voluntary partnerships such as the Forest Carbon Partnership Facility) can provide useful lessons for the development of accounting guidance under Article 6.2, suggesting that existing rules for REDD+ could be mainstreamed into COP guidance for Article 6.2.

Given the potential of the land use sector to deliver mitigation results in the near-term, future COP guidance regarding cooperative approaches for fulfilling NDCs should emphasize strong fundamentals for transparency and accounting that ensure environmental integrity, thus enabling markets to facilitate the transfer of high-quality emission reductions generated in all sectors, including the land sector.

**4. Must a “corresponding adjustment” be made for transfers from non-NDC sectors, and if so, what should be adjusted?**

Transferring a mitigation outcome from outside of the current scope of the host country's NDC requires specific consideration and accounting provisions, including transparent reporting and accounting via national inventories. For example, how should a country that uses domestic carbon offsets from the land or transportation sector to meet its energy sector-specific NDC account for non-NDC mitigation outcomes transferred to another Party? Can both the host Party and another Party use the carbon offset from the non-NDC sector towards their respective NDCs and still be considered to avoid “double counting”?

**5. What are the implications of Article 6.2’s requirement for “robust” accounting on pre-NDC year ITMO trading?**

Various options exist to account for pre-NDC year transfers, including a variety of default “budget” assumptions that could be used, or the application of averaging formulas. In any event, Parties will need to develop accounting guidance agreed under Article 6.2 and Article 4.13 that does not prejudice or penalize Parties who wish to account towards their emissions target via, for example, an emissions budget.

Accounting for pre-NDC year ITMOs would be helpful to provide the public with confidence in the credibility of the Paris Agreement and Parties’ emission reduction efforts, since it would allow Parties to understand and identify progress toward NDC achievement, as required under Article 13.7(b) of the Paris Agreement. The achievement of NDCs should represent real progress towards the Paris Agreement’s mitigation goals, not a single-year “snapshot” of emissions that is unrepresentative of actual trends in a Party’s emissions.

**6. How can double counting be avoided between the Paris Agreement and other market-based measures, including those outside the scope of the Convention?**

Article 6.2 guidance must state clearly that emissions units must only be counted once towards any mitigation target/obligation, and require participating Parties to certify that an ITMO used toward a Party's NDC has not and will not be offered to or claimed by any other system (for example, CORSIA), with a continuing duty to publicly notify if changes occur.

Any UNFCCC-related GHG registries or accounting systems must be linked or aligned in a formal way with those utilized in CORSIA so as to ensure no double counting between the two systems, to avoid double claiming by Parties or airlines, and to make transparent to the public that no type of double counting has occurred.

### **The role of the transparency framework in ensuring environmental integrity and promoting sustainable development**

Article 13 of the Paris Agreement laid out what is commonly referred to as the 'transparency framework,' a central component to ensuring that Parties can be held accountable to their NDC commitments. This transparency framework will also play a key role in facilitating successful efforts under Article 6. Article 6.2, for example, stipulates that Parties engaging in cooperative approaches involving the use of ITMOs are responsible for ensuring environmental integrity and transparency (including in governance) and promoting sustainable development. The effective reporting, review, and multilateral assessment of ITMOs under Article 13 will be essential to providing Parties and other key actors engaged in ITMOs with the confidence that these requirements are being met.

#### **7. How will the integrity of a "mitigation outcome" be assessed?**

To promote high standards for the environmental integrity of emission reductions claimed, Parties to the Paris Agreement should adopt guidance that ensures adequate information is available to fully assess the integrity of a "mitigation outcome" used toward a Party's nationally determined contribution, including how this is verified based on national emissions inventories or other emissions reporting systems. For all sectors, Parties should report how ITMOs are real, verifiable, and permanent (or, for the latter, with mechanisms to address reversals), and how the cooperating Parties will avoid all forms of double counting. Parties should also consider when it is most appropriate to report this information.

#### **8. What information should be submitted about domestic programs generating ITMOs (including, for example, forward-looking estimates of unit activity, existing procedures to avoid all forms double counting, projected future emissions levels, and the enforceability of program provisions)?**

It is important to note that addressing this question will be crucial for the success of cooperative approaches under Article 6.2. Detailed information about domestic programs will help provide more certainty to market participants and potential participants in Article 6.2 approaches. For example, as the enforceability of a domestic emission limit ensures scarcity and thus the value of units, buyers will likely gravitate to programs with an enforceable, quantified emissions limit and a transparent governance structure. Some countries may be hesitant to submit information on their domestic program to the UNFCCC because they might feel that the UNFCCC has no role in the governance, design, and implementation of their domestic program. It should be stressed, however,

that submitting information on domestic programs generating ITMOs does not imply central UNFCCC governance or oversight of domestic programs, but will instead enhance the transparency of ITMO transfers to other Parties, investors, and the public, and facilitate more countries to engage in cooperative mitigation action over time.

Guidance under Article 6.2 should require countries to report under Article 13 how their domestic systems avoid all forms of double counting. An international accounting framework to avoid double counting will not be sufficient without well-designed domestic mechanisms with transparent procedures in place to prevent domestic double use, double issuance, and double claiming of emissions units.

Just as many observers see the transparency framework established by the Paris Agreement as a cornerstone for assessing Parties' progress on fulfilling NDC commitments, this framework can also provide key functions that one might frame as a transparency "hub," providing information that allows an assessment of the integrity of cooperative approaches under Article 6.2. In this way, the UNFCCC can facilitate the high integrity bilateral and plurilateral cooperation among Parties that will assist in the achievement of the Paris Agreement's goals. This additional function—providing robust MRV and accounting provisions for cooperative approaches under Article 6.2—will be essential to a successful, high-integrity Article 6 architecture. This architecture will be important to secure if nations are to mobilize the significant private and public finance needed to achieve the objective of the Convention and its Paris Agreement.

## **Conclusion**

Emission trading programs will have a crucial role to play in meeting Parties near-term emissions targets and enabling greater ambition over time. Article 6.2 provides flexibility and cost-efficiency for countries as they fulfil their NDCs through a variety of cooperative approaches. Recognizing that countries are at different levels and capabilities to implement high-integrity programs, support should be made available to assist countries to improve their capacity should they choose to engage in cooperative approaches.

The development and application of accounting guidance under 6.2 will enable countries to consistently use robust accounting and reporting systems when transferring mitigation outcomes internationally. This will, in turn, help ensure the environmental integrity of ITMOs and facilitate increased transparency when tracking progress toward meeting the objectives of the Paris Agreement.

With over 50 jurisdictions already implementing carbon markets, and with the urgency of climate action becoming more and more evident, quick action to agree robust accounting guidance under Article 6.2 can help deliver the credible, ambitious greenhouse gas emission reductions that climate science demands.