

## **Rules, modalities and procedures for the mechanism referred to in Article 6, paragraph 4, of the Paris Agreement**

### **Round-table discussion among Parties held on 4 November 2017**

#### **SBSTA 47, agenda item 11(b)**

##### **Informal document by co-facilitators of the round-table**

###### **Mandate and background**

Pursuant to paragraph 115 of document FCCC/SBSTA/2017/4,<sup>1</sup> a round-table discussion among Parties was held in conjunction with the forty-seventh session of the Subsidiary Body for Scientific and Technological Advice (SBSTA) in relation to the rules, modalities and procedures for the mechanism referred to in Article 6, paragraph 4, of the Paris Agreement. The round table was held on 4 November 2017 in Bonn, Germany.

Pursuant to paragraph 116 of the same document, this informal document has been prepared by the co-facilitators of the round table, having consulted with Parties during the round-table discussions, in order to factually reflect the views expressed by Parties during the round table.

To help guide discussions, the SBSTA Chair and the co-facilitators together developed guiding questions and invited Parties to consider those questions in their discussions. The questions were published in the “Information note for participants at the round-table discussions among Parties for Article 6 of the Paris Agreement SBSTA items 11 a to c”.<sup>2</sup> Several other issues and discussion points were identified by Parties as relevant to the discussions and raised by them during the round table.

A number of groups and Parties made presentations at the round-table discussion.<sup>3</sup> Some of the Parties providing presentations offered their flexibility before the round table by providing presentations but not presenting them during the round table in order to maximize time for discussion among Parties. Other Parties intervened and explained their views during the round table, without making presentations. Parties engaged in asking clarifying questions of each other, regarding the presentations and views expressed. The views expressed by groups and Parties covered a broad range of relevant issues, including but not limited to the guiding questions suggested by the SBSTA Chair and the co-facilitators.

###### **Issues presented and discussion topics**

The views expressed by Parties are clustered below around the topics discussed at the round-table. Owing to limited time, not all topics that are relevant to the development of rules, modalities and procedures for the mechanism were discussed, and some were covered only briefly; thus this informal note is not exhaustive of all issues.

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<sup>1</sup> Available at <http://unfccc.int/resource/docs/2017/sbsta/eng/04.pdf>.

<sup>2</sup> Available at [http://unfccc.int/files/na/application/pdf/information\\_note\\_2\\_-\\_questions\\_to\\_be\\_addressed\\_in\\_presentations.pdf](http://unfccc.int/files/na/application/pdf/information_note_2_-_questions_to_be_addressed_in_presentations.pdf).

<sup>3</sup> See [http://unfccc.int/paris\\_agreement/items/10143.php](http://unfccc.int/paris_agreement/items/10143.php) (note: not all groups and Parties presenting used visual aids such as PowerPoint presentations).

**a. *The relevance of NDCs, progression and ambition***

Some Parties underlined the importance of the bottom-up approach in order to respect the diversity of nationally determined contributions (NDCs) and sustainable development, while explaining that a bottom-up approach does not mean a ‘free for all’. Some Parties considered that the principle of Article 6 is inclusive participation on a voluntary basis by all Parties to the Paris Agreement and for all types of NDCs, without discrimination of activities, while maintaining national prerogatives such as NDCs and sustainable development in line with the Paris Agreement.

Some Parties explained that the use of the mechanism is already integral to meeting some Parties’ NDCs and so supports ambition. Further, eligible activities under Article 6.4 are mitigation activities that must result in real, measurable and long-term benefits that are additional. These Parties noted that as the activities are additional, they allow for ambition. Some Parties took the view that domestic efforts are the basic tool to achieve NDCs, while Article 6 is supplementary.

Some Parties said that activities under Article 6.4 should be limited to crediting activities inside the scope of the host Party’s NDC to create appropriate incentives for progression to an economy-wide NDC. Some Parties expressed the view that exposing non-NDC sectors to crediting helps to build experience and data to enable inventory reporting and future inclusion in the NDC. Some Parties said that alignment of crediting periods with the NDC period will enable progression.

**b. *Additionality and baselines***

A number of Parties expressed views on additionality and/or baselines. Some Parties took the view that it is not possible to consider any direct relationship between a Party’s NDC and the setting of a crediting baseline, as NDCs are not standardized and vary by shape, indicators, form and level of granularity. Further, some Parties noted that the NDC may represent aspirational goals rather than a ‘business as usual’ scenario. In relation to NDCs generally, some Parties noted that non-ambitious NDCs might result in non-additional emission reductions.

In relation to how policies could be considered when setting baselines for mitigation activities under the mechanism, some Parties indicated that not all policy enacted in a country would constitute a baseline, and only some policies would need to be considered in the establishment of that baseline. Some Parties expressed the view that all enacted policies should be included in the baseline establishment.

Round-table participants considered some specific types of baseline-setting and some Parties held the view that any standardized baseline would implicitly consider the context of the NDC in setting the baseline and assessing additionality. These Parties also thought that this type of baseline should be supported through readiness activities for Parties that lack capacity. They also thought that project-specific additionality should continue as an exception.

Several Parties said that, to protect additionality and manage potential for ‘hot air’, conservative and ambitious baselines are needed (e.g. setting baselines below ‘business as usual’, using best available technologies, dynamic baselines). A point was also made that the assessment of additionality would change over time.

In relation to incentives for participating in the mechanism, there was some concern that a baseline that is considerably lower than ‘business as usual’ could deter participation in the mechanism because such a

baseline would not provide a sufficient economic incentive. Some Parties referred to clean development mechanism (CDM) based additionality as over and above the established baseline and so took the view that the NDC is irrelevant to baseline setting, regardless of whether emission reductions are achieved inside or outside the scope of the NDC.

Some Parties defined additionality at the mechanism level, such that emission reductions credited and/or transferred through the mechanism would not have occurred in the absence of the mechanism.

Finally, some Parties thought that the supervisory body should be tasked to establish the guidelines for assessing baseline/additionality.

***c. Overall mitigation of global emissions***

Some Parties expressed the view that the existence of the mechanism would allow for higher ambition in NDCs and, therefore, help drive overall mitigation of global emissions. Some Parties said that ensuring the additionality of projects will deliver an overall mitigation of global emissions. Some other Parties considered that avoiding double counting of emission reductions was key to ensuring overall mitigation of global emissions.

Some Parties supported setting conservative baselines or reference levels or assuming higher project emissions in order to deliver overall mitigation of global emissions. Those Parties considered that such approaches also lead to the host Party, as well as the acquiring Party, benefiting from mitigation activities. Some Parties also said that such approaches could be combined with short crediting periods. Some Parties noted that discounting the emission reductions would also deliver overall mitigation of global emissions.

Some Parties said that overall mitigation of global emissions would be achieved only when part of the emission reductions achieved are not used by either the host or the acquiring Party towards their NDC. Some Parties proposed the automatic cancellation of a portion of the generated emission reductions after issuance and accounting for the full amount of the issuance by the host Party.

Some Parties said that the requirements for the mechanism to deliver an overall mitigation of global emissions should not overburden the use of the mechanism or lead to disincentivizing participation in the mechanism. Some other Parties thought that achieving overall mitigation of global emissions would increase the reputation and willingness to acquire from the mechanism.

Some Parties said that delivering an overall mitigation of global emissions should be considered aspirational and not mandatory.

***d. Avoiding use of emission reductions by more than one Party***

Some presentations and views of Parties considered how the rules, modalities and procedures could ensure that the use of emission reductions from Article 6.4 activities by more than one Party to demonstrate achievement of its NDC be avoided.

In relation to this point, some Parties said that emission reductions under Article 6.4 should not be used by more than one Party and are internationally transferred mitigation outcomes that are subject to the accounting guidance in Article 6.2 when they are internationally transferred. This means both Parties need to make a corresponding adjustment. Some Parties indicated that the requirements of Article 6.2 apply

to Parties' use of the mechanism, just as to any other cooperative approach involving internationally transferred mitigation outcomes.

Some Parties said that a corresponding adjustment under Article 6.2 should be made for all reductions coming from both inside and outside the scope of the host Party's NDC. Some Parties said that only emission reductions that are generated inside the scope of the host Party's mitigation component of its NDC that are internationally transferred require a corresponding adjustment under Article 6.2. Some Parties said that emission reductions generated outside the scope of the host Party's NDC must always be reported. Some Parties said that limiting generation of Article 6.4 emission reductions to only inside NDCs and having a corresponding adjustment thereafter would avoid an overall increase in emissions.

Other views expressed were that a corresponding adjustment is not required for the generation of an emission reduction, its issuance into a central registry or the forwarding of it to a national registry. Double use of an emission reduction is avoided if the certified emission reduction is not used by more than one Party. A corresponding adjustment would only apply to subsequent transfers between national registries. Some Parties noted that credits generated within the host Party that do not involve international transfer can be used by the host Party.

Some Parties said that transparent monitoring, reporting and verification of emission reductions, the use of serial numbers, and robust tracking through registries would contribute to avoiding use of emission reductions from Article 6.4 activities by more than one Party.

***e. CDM and JI and transition***

During the round table, some Parties addressed issues around the transition of CDM and joint implementation (JI). As to whether the context of NDCs is relevant to the question of transition, some took the view that the new context of the NDCs does not apply to transition questions as the additionality of mitigation activities under Article 6, paragraph 4, is not considered in relation to NDCs but rather in relation to the mechanism itself. Some Parties said that activities inconsistent with NDCs should not continue to be credited as there is a need to avoid lock-in.

Some Parties supported a rapid decision on transition of activities on the basis that this would immediately give a price signal and boost the CDM. Some Parties said that a transition path is needed for projects and programmes due to the need to build credibility and attract project developers, and others noted the need for clarity for project participants of CDM projects. Some noted that registered CDM projects may generate certified emission reductions (CERs) for many years after 2020. Some Parties took the view that the Article 6, paragraph 4, mechanism needs to be elaborated before transition can be considered.

Participants expressed views on which existing CDM and JI activities could be transitioned. Some suggested that all existing CDM and JI activities may become 6.4 activities. Other Parties supported existing CDM and JI activities becoming 6.4 activities depending on whether they meet certain conditions. Among those Parties, some supported the reassessment of additionality and baselines in the context of the NDC in accordance with the agreed rules, modalities and procedures. Other Parties supported a simple eligibility check without revalidation, based on criteria defined by negotiation among Parties.

Some Parties said that any criteria for an eligibility check for transition should reflect the specific circumstances of developing countries that have benefited less from carbon markets and have a large pipeline of programmes of activities with high sustainable development benefits.

Some Parties said that host Parties should decide if CDM project activities that they have approved can transition or not as the host Party may consider the activities are no longer additional and/or may need the emission reductions to achieve their NDC.

The view was expressed that all CDM CERs can be converted to Article 6.4 credits and some Parties supported transition of as many units as possible. Alternative views said that transition of already issued CERs under the CDM is a challenge. Avoiding double counting was raised in the context of credits issued before 2020 being used under the Paris Agreement and use by a Party of credits issued in its own country for its own NDC.

In relation to rules, standards and methodologies under the CDM, some Parties highlighted the need for a smooth transition of modalities and procedures, standards and methodologies. Some said that the existing rules need to be reviewed to see if they can meet the requirements of the Paris Agreement context. The important lessons learned from the CDM were noted by some Parties and were said to be useful for developing rules, modalities and procedures.

Some Parties said that the avoidance of double counting of the same emission reductions by multiple Parties toward pledges is mandatory and so it is relevant to transition. Some Parties also said that as overall mitigation of global emissions is required, it would be relevant to the transition of any CDM/JI activities. A number of Parties highlighted that the CDM and JI were established under a separate treaty (the Kyoto Protocol) while this mechanism was established under the Paris Agreement and this has implications for transition.

***f. The functions of the supervisory body/roles of the mechanism***

Some Parties said that the supervisory body should approve the generation of mitigation outcomes under the Paris Agreement by other mechanisms and voluntary standards once they have gone through a process of certification. Those Parties highlighted that the rationale is to quickly and effectively scale up the capacity of the mechanism. Other Parties focused on the centralized nature of the mechanism. Some Parties considered that the role of national authorities should be enhanced.

Some Parties support an approach where the mechanism can provide non-Party stakeholders with broad access to United Nations credits for various purposes, including results-based finance, other international commitments and voluntary purposes.

Some expressed the view that the mechanism is the only instrument that can issue globally recognized units of emission reductions, whereby units generated can be used in a variety of ways including: by a Party to fulfill its NDC; by private sector actors to meet targets under compliance schemes; by other stakeholders for voluntary purposes; and for results-based finance, in conjunction with the cancellation of units.

***g. Share of proceeds***

Some Parties noted that the share of proceeds generated would support developing countries particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation. Some Parties considered that the share of proceeds should go to the Adaptation Fund.