

Submission to the UNFCCC Subsidiary Body for Scientific and Technological Advice (SBSTA) from the Private Sector Roundtable (PSR) of the Asia Pacific Rainforest Partnership (APRP)¹

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Matters relating to Article 6 of the Paris Agreement:

- Guidance on cooperative approaches referred to in Article 6, paragraph 2
- Rules, modalities and procedures for the mechanism established by Article 6

This submission is in response to the invitation by the Subsidiary Body for Scientific and Technologic Advice (SBSTA) at its forty-fourth session, to Parties and observer organizations to submit their views on matters relating to Article 6 of the Paris Agreement.

The Private Sector Roundtable of the Asia Pacific Rainforest Partnership welcomes the process under SBSTA to ‘develop a common understanding’ at SBSTA 45 (November 2016) on the matters related to Article 6 of the Paris Agreement, and welcomes the opportunity to make a submission of views in this regard.

Article 6 of the Paris Agreement provides the framework for the creation of a global carbon market and the opportunity to considerably scale-up emissions reductions. Under Article 6 of the Paris Agreement, there are three elements introduced to assist countries with achieving their mitigation objectives under their respective NDCs - i) cooperative approaches, including the use of internationally transferred mitigation outcomes; ii) a mechanism for mitigation and sustainable development; and iii) a non-market approach. **The PSR’s submission is structured around i) and ii) of the three areas for requested input.** Overall, the PSR comments included focus on recommendations on how to incentivize further engagement by the private sector, as outlined in Article 6.4.

Guidance on cooperative approaches referred to in Article 6, paragraph 2

- i. While recognizing that an international carbon market with broad participation and common standards may still be many years away, there is considerable experience to draw from regional/domestic initiatives and from lessons from the Kyoto Protocol and Clean Development Mechanism in defining the basis for ‘cooperative approaches’ that could eventually lead to an international carbon market. As the APRP PSR, we strongly support **the interpretation of this paragraph as acknowledging the possibility for**

¹The Asia Pacific Rainforest Partnership (APRP) was formed as a result of the inaugural Asia Pacific Rainforest Summit held in November 2014 in Sydney, Australia. Partners developed an Asia Pacific Rainforest Recovery Plan which included regional goals associated with reducing forest loss while recognising the development aspirations of rainforest communities. The Private Sector Roundtable (PSR) was originally formed in 2015 to support delivery and implementation of the Plan. Following the Paris Agreement at COP21 and the adoption of the United Nations Sustainable Development Goals, the APRP evolved to support delivery of national commitments and leverage these commitments to deliver practical forest protection. Members of the PSR include Asia Pulp & Paper Group, Baker & McKenzie, New Forests, New Britain Palm Oil, Credit Suisse, KPMG, EY, PT RimbaMakmurUtama, Wilmar, The Forest Trust, Simmonds Lumber, Double Helix, among others. *The views included herein represent the views of the Private Sector Roundtable and not the individual views of the parties under the partnership.*

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countries to meet their mitigation obligations through carbon markets and/or 'internationally transferred mitigation outcomes' (ITMO).

- ii. A key element of paragraph 2 concerns the **need to provide guidance on how sustainable development and environmental integrity are to be interpreted**. As it stands now, these terms are left for interpretation, which would likely result in a broad spectrum of results. It is important to develop eligibility criteria and define clearly what is required in order to ensure a level playing field. There is also a risk that if these terms remain undefined that the resulting effect could be that certain approaches which go forward now are 'disqualified' in the future because of an evolving understanding of what sustainable development and environmental integrity should entail. This uncertainty is a deterrent to businesses taking action. It's important to develop a shared understanding of key terms at the outset, to reduce the risk of considerable resources becoming stranded in the future and to provide greater certainty which will help to ensure that companies will engage. Adoption of existing credible standards and methodology related to specific sectors is preferred, for example using methodologies developed for identifying High Conservation Values (HCV) and High Carbon Stock Approach (HCSA) for land use and forestry related initiatives.
- iii. The **definition of sustainable development** should be based on and closely tied with the Sustainable Development Goals and associated indicators, instead of coming up with any new definition or conflicting messaging. Similarly, **environmental integrity** should be clearly defined with metrics that can illustrate real, additional, verifiable permanent emissions reductions, but also safeguard against other types of environmental damage (e.g. pollution, biodiversity loss, nutrient run-off, etc.).
- iv. **Internationally transferred mitigation outcomes** as referred to in Article 6.2 should refer to both transfers and the generation of units, particularly under national approaches or bilateral mechanisms. All ITMOs should be traceable to specific activities. At this stage, while a truly global international system for transfers is not yet on the table, transfers and associated MRV should primarily be undertaken in agreement among specific countries/regions, with global oversight on tracking of transfers and calculating total global reductions, to reduce any double counting. It is particularly important that private sector actors are able to participate in transfers at both the national and international level, with reporting into the national MRV frameworks where the project and the associated transfer are taking place. The allocation of a serial number for each ITMO could help to track ITMOs and avoid the possibility of double counting. ITMO tracking and transparency could be additionally supported through a publicly accessible, global registry or tracking system. Such a registry system would enable traceability, by serial number, of where the ITMOs are being used for NDCs. This would also address the question around sub-national systems which may want to engage in transfers, in that it would be possible to still tie sub-national transfer schemes to NDCs.
- v. The issue of **robust accounting** is also raised in Article 2, with a reference to consistency with guidance developed by the CMA. Guidance should remain strictly guidance and the CMA should not begin to take on any regulatory role in terms of ensuring compliance with guidance, or there is a risk to cripple the system before it begins with lengthy negotiations and considerable resources to establish and create this new role. Transparency mechanisms should support accountability by ensuring MRV documentation is made publically available and accessible.

Rules, modalities and procedures for the mechanism established by Article 6

- vi. The **mechanism** referred to under Article 6.4, as a starting point, should be much **broader** than the Clean Development Mechanism, and **accommodate all sectors**, and various types of activities including REDD+, NAMAs, and other related activities.
- vii. The primary **objective or purpose of the mechanism** or mechanisms established should be to incentivize large-scale and wider actor engagement on emissions mitigation and the transfer of increased finance for implementing NDCs in developing countries. The mechanism can serve as an interim solution to a global carbon price, by providing a way to incentivize economy-wide changes that may not be possible in developing countries without financial assistance.
- viii. The mechanism or mechanisms could be established to serve as a flexible clearing house for emissions mitigation projects/investments by:
 - a. Defining quality criteria
 - b. Registering sector/geographical baselines and quantify emissions reductions
 - c. Issuing credits for performance that are transferrable (e.g. ITMOs)
 - d. Selling credits to climate funds

In this regard the mechanism could provide a **'proxy' carbon price** where it is needed/helpful in the interim before parties are ready to agree to this at the global level.

Overall

- **Private sector participation** should be incentivized and facilitated as outlined in Article 6.4, and not just in the ability to participate in proposing projects or activities but in designing how the mechanism will function. In this sense, there should be further and broader inclusion of the private sector directly in the working meetings to define the scope of the mechanism.
- **Transition from the Kyoto Protocol and CDM to the mechanisms and approaches** under Article 6 should be as clear as possible, with a full understanding of the significant resources that many actors have invested in line with this previous architecture. Investor confidence and demand for emissions mitigation projects are already extremely low and all efforts should be made through the transition to boost confidence and restore demand by not stranding or completely abandoning projects developed previously. There needs to be clear criteria for how to transition these under Article 6.
- **Coordinate Article 6 discussions and development mechanisms with climate financing architecture development** in order to align objectives and efforts and expedite the release of funding that supports mitigation efforts across all sectors.
- **Build on and learn from the extensive work undertaken in other fora** including the market based mechanism developed as part of the International Civil Aviation Organization's (ICAO) GHG emissions reduction measures, and the California and Quebec market based mechanisms for regional compliance.