Asia-Pacific non-State actor dialogue on Article 6 of the Paris Agreement

Summary Report

Organized by:

Regional Collaboration Centre (RCC), Bangkok

09 June 2016

Supported by:

Background

The "Asia-Pacific non-State actor dialogue on Article 6 of the Paris Agreement" organized by the regional collaboration centre (RCC) for Asia-Pacific took place in Bangkok on 09 June 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 15 regional experts participated in this event, representing regional organizations, consultants, academics and project developers, who are users of market and cooperative instruments.

Report from the dialogue

Regional circumstances and trends

Depressed prices for certified emission reductions (CERs) decreased enthusiasm for the clean development mechanism (CDM) in the Asia-Pacific region (hereinafter referred to as the “region”). Despite the state of the market, a large number of CDM projects continue to operate and request CER issuance in the region. However, carbon credit demand from the private sector has been growing lately, with international companies and the aviation industry increasingly showing interest in buying carbon credits to offset their emissions.

The region is leaning towards country-driven market-based approaches that have drawn on international approaches, in particular the CDM. Thailand initiated the Thailand voluntary emission reduction programme in 2010. India began operating a trading scheme for energy efficiency certificates in 2012. The joint crediting mechanism (JCM) is an active bilateral mechanism established in the region by Japan in 2013. In 2014, Australia established a domestic emissions reduction fund as the centrepiece of its climate policy. Korea launched the Korean emission trading scheme in January 2015. . China’s national emission trading scheme (ETS), set to start in 2017, would be the world’s largest, and Malaysia has developed a voluntary accounting scheme.

While domestic approaches for carbon markets will continue, it is expected that under the Paris Agreement, more coordinated or more connected efforts will take place. For this reason, it is important to have discussions on the role of these approaches for implementing nationally determined contributions (NDCs). Gradually there will be talks about the global market; therefore, in the next five to ten years there may be efforts to link different instruments, although the central part may be country-driven.

Many lessons can be learned from existing mechanisms, in particular the CDM. One of the main lessons is that if there is any demand, price or incentive, action on the ground can be deployed rapidly.

In-depth discussion on Article 6

Article 6.2 – Internationally transferred mitigation outcomes

In terms of the nature and scope of the internationally transferred mitigation outcomes (ITMOs), the experts suggested that the outcomes should be effort-based/quantifiable (i.e. to avoid “hot air”) and should have clear geographical guidance (bilateral, regional or global). It was agreed that the JCM can be an example of ITMOs currently designed as a bilateral mechanism. The monitoring, reporting and verification (MRV) and governance of the ITMOs should be standardized, but implementation should offer two tracks (e.g. two-track approaches in the joint implementation). In order for the ITMOs have comparability, discounting should be used (e.g. when trading units from a number of ETS) and should include exchange rate/price. The ITMOs should be market-driven and there should be price control, including regional price derivatives.

There is a need to focus on how business-as-usual (BAU) is set up, especially so that it does not dampen the baseline. There was agreement that credibility of mitigation action or BAU should be an important issue, and therefore the ITMOs should be easily verifiable.

There needs to be clear understanding and messaging about what the incentive is to transfer the outcome from one country to another. Currently, it is considered that the main driving factor for ITMOs is that countries will want to increase their ambition. In order for the mechanism to work, there should be demand for ITMOs, followed by incentive, and the ITMOs need to have value. There is a possibility that countries will come together to form a regional cooperation and share the ITMOs. Approaches for ITMOs may be country-driven and therefore may vary from one country to another.

One of the main challenges is how to count the ITMOs in the NDC for each country. Another challenge is how the sharing of the outcomes would take place between/among countries. There was consensus that all outcomes are to be accounted for. Participants mentioned the possibility of linking more than two countries in a chain through one country. The experts agreed that article 6.2 of the Paris Agreement is more related to double-counting, whereas accounting will be covered by article 4.13 of the Paris Agreement.

The experts highlighted the challenge of transferring the mitigation outcomes due to the diversity of NDCs and the challenge of harmonizing them. There was a discussion, that depending on the mitigation outcome, it may be useful to see how NDCs need to be structured to ensure harmonization across jurisdictions, e.g. to be specific on modalities, allow the use of international units, and set types of mitigation outcomes allowed.

The experts highlighted the need for an oversight/convening organization for the region to harmonize cooperative approaches and suggested that it may consist of a public-private body with sector-based working groups or task forces. The main decision about the approaches should remain with the countries, but there is a need for central oversight. There was agreement about the need for third-party validation/verification. International companies should be responsible for MRV/verification of ITMOs in any scheme where there are ITMOs. MRV by only national bodies may not have environmental integrity. The group discussed that since in many cases the BAU used in the NDC is a negotiated value, there may be a need to review the BAU. How to define environmental integrity remains an important question. Such decisions could be left to a central oversight body.

Article 6.4 – Mechanism

The experts discussed the role and nature of the body that supervises the mechanism established under Article 6.4 and agreed that it should follow two tiers. The role of the first tier, a centralized body, should be supervisory to provide a centralized authority in order to ensure transparency, sharing of data, and best practice guidelines. The second tier should be the main implementation body at national/regional/sub-regional level, which can be hosted by regional offices that have regional expertise. This second-tier body should include national teams/task forces to avoid too many focal points. There is merit in the third-party certification; therefore it is recommended that it be retained. The group believed that it is possible that some national authorities may prefer a centralized single body due to lack of capacity.

The participants agreed that activities undertaken under the mechanism may be used to achieve targets in the NDCs, whereas some activities may be additional to the targets outlined in the NDC – for example, JCM activities are emission reduction activities above the target in the NDC. There is no need for additionality screening, as the emission reductions are linked to NDC targets.

The participants discussed experiences and lessons learned from the existing mechanisms. They agreed that the new mechanism should move away from the project-based approach and, in case of additionality, should be based on positive lists and may be demonstrated at the sectoral level. Based on these, programmes of activities with small-scale methodologies (with positive lists) are good elements to take forward. The group also agreed that the joint implementation track 2 approach is a good example to learn from. The new mechanism needs to ensure that double-counting is avoided. There should be one price per tonne of CO_2. In order to increase participation, there should be provisions that facilitate/reduce upfront transaction costs, such as a CDM loan scheme. The new mechanism should recognize the host country's laws and provide a clear role for them.

Article 6.8 – The framework for non-market approaches

The experts discussed non-market approaches and agreed that the following should be included in the framework:

- Climate finance, technology transfer, and capacity building as means of implementation
- Implementation of Sustainable Development Goals
- Quantification of outcomes for transparency
- Recognition of methodological challenges of quantification

However, there were diverging views on whether activities can be counted as non-market approaches if they are to support countries to establish a market. Some experts argued that the idea of non-market approaches stems from the Parties that do not believe markets can function well and noted that the Intergovernmental Panel on Climate Change concluded that markets do not work well. However, other experts cautioned that there is no time to make such a distinction between market and non-market. They argued that any non-results-based approaches should be considered as non-market approaches.

With regard to additionality as a criterion for non-market approaches, some experts mentioned that environmental additionality is required to avoid double-counting, whereas others argued that financial additionality is not needed.

The group also discussed what constitutes a market. In this case, the market contains demand-and-supply dynamics as a traditional market, but in this context, goods exchanged consist in greenhouse gases units (emission allowances or emission credits).

The group also discussed issues such as whether outcomes of non-market approaches can be used for another country's NDC and, if so, how.

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

Key messages: Article 6.2 – Internationally transferred mitigation outcomes

- Non-State actors want carbon pricing, and the best way is to have clear ambition. Non-State actors want parties to make sure everyone comes with clear ambition and that it is in line with global ambition. How to achieve the ambition can be left to the country, with minimum global level guidance.
- Non-State actors want to see a clear trajectory of emissions ambition evolving.
- Non-State actors recommend establishing a body that provides overarching governance and accounting of ITMOs. At the same time, it was suggested that each country be allowed to have its own price signal and mechanism.

Key messages: Article 6.4 – Mechanism

- Non-State actors demand urgent clarity on the transition between CDM and the new mechanism.
- With regard to governance of the mechanism, the central body should only have a supervisory role (e.g. establish rules similar to the International Organization for Standardization), but the local/regional/sub-regional body should manage the operation.
- Non-State actors want the non-market mechanisms to be included in the mechanisms.

Key messages: Article 6.8 – The framework for non-market approaches

- Non-State actors need robust modalities that ensure regional, bilateral and global collaboration by defining thresholds based on sustainable development criteria.
- Non-State actors need a global database of best practices in climate finance, technology transfer, and capacity building that allows universal access.
- Non-State actors need to align their strategies with NDCs by engaging with national entities early.