11 May 2021

Subsidiary Body for Scientific and Technological Advice

Chair's summary, informal technical expert dialogue on Article 6 of the Paris Agreement

Financing for adaptation/Share of Proceeds (Article 6.2 and 6.4)

Background

In relation to Article 6 of the Paris Agreement[1], The SBSTA Chair, Mr Tosi Mpanu Mpanu organized an informal technical expert dialogue on the issue of financing for adaptation/share of proceeds (Article 6.2 and 6.4) on 19 April 2021. The SBSTA Chair facilitated the dialogue and this summary is produced under his authority.

This summary aims to capture possible options for further consideration by Parties and Heads of Delegation. It is informal in nature, has no status and does not provide negotiation text. It does not attempt to provide a record of all views expressed during the dialogue and in submissions, nor indicate the weight of support each of the options appeared to have.

In relation to the topic of the dialogue, as at 7 May 2021, 10 Parties and groups, and 2 observers had made informal submissions[2]. This summary includes content from Party and group submissions that is related to possible options.

The informal technical expert dialogue

Parties indicated commitment to making progress on this matter and to adopt decisions on Article 6 at COP26 this year.

Interventions made generally responded to guiding questions provided by the SBSTA Chair:

- For delivery of a share of proceeds for adaptation to the Adaptation Fund from the mechanism, should we refine the approach used for the CDM per the third Presidency text at COP25, and if so, how, or are there other approaches that may work more effectively?
- In relation to cooperative approaches, what could be the design that could recognize that cooperative approaches will not necessarily lead to transferable units? What degree of encouragement/requirement and transparency?

Possible options for further consideration

Interventions focused on a number of possible options, that are set out below. In each case, the option has been introduced by at least one Party/group, but this summary does not seek to indicate how much support there is among Parties for each option, as Parties are familiar with the views expressed in submissions and interventions. Argumentation provided in the submissions or interventions to support the various options are set out italics and in abbreviated and consolidated form below the relevant option.

[1] Documents relating to Article 6 negotiations since 2016 can be accessed here: https://unfccc.int/process/the-paris-agreement/cooperative-implementation

[2] https://unfccc.int/process-and-meetings/the-paris-agreement/cooperative-implementation/submissions-informal-technical-expert-dialogues-on-article-6-of-the-paris-agreement#eq-1

6.4 mechanism

Interventions generally identified options for operationalization of share of proceeds in the mechanism aiming to optimize delivery of financing to the Adaptation Fund. Interventions noted that the CDM offered lessons about implementing the share of proceeds for adaptation, in particular in comparison to implementation of the share of proceeds for administration and that as a result, more sophisticated approaches might be beneficial as compared to the CDM. In this regard, the approaches proposed in the Madrid Presidency texts could be improved upon. Provisions on review of the rules, modalities and procedures could incorporate a review of the rate and implementation of the share of proceeds for adaptation to consider how to optimize flow of funds to the Adaptation Fund.

Interventions addressed these main options:

- **Levy at issuance of a percentage of 6.4 units, at a rate of 2 per cent, 5 per cent or higher, or at a progressive rate.**

  Argumentation: The levy at issuance, in the same manner as the CDM, allows the Adaptation Fund to benefit from market prices at the time of monetization. In this regard, the rate of 2 per cent, and 5 per cent or another higher amount or progressive rate could be set.

- **A mix of a monetary levy (e.g. X cents per volume measured in tonnes Co2e) and a levy at issuance of a percentage of 6.4 units.**

  Argumentation: This would enable a balance between a predictable income per unit (through the monetary levy) (in terms of amount but not timing as timing depends on issuance) and the possibility to benefit from higher market prices (through the unit levy, at the rates noted in the option above).

In addition to the options above (combinable with either of them), further ways of increasing funds for the Adaptation Fund were identified.

- **Allocation by CMP Parties of some funds from the CDM to the Adaptation Fund, through a CMP decision.**

  Argumentation: The CMP Parties could decide that a certain amount of funds held in the CDM could be allocated to the Adaptation Fund. This option seeks to recognize that there has been an accumulation of unused share of proceeds for administration of the CDM that could now be used instead for adaptation.[3]

- **Allocation of any excess or surplus administrative fees for the 6.4 mechanism (i.e. that are not needed for the operations of the 6.4 mechanism), at the end of a given period.**

  Argumentation: Surplus share of proceeds for administration of the 6.4 mechanism would be transferred to the Adaptation Fund at the end of a certain period (two years, five years).

[3] CDM figures (28 April 2021): Share of proceeds for adaptation (to Adaptation Fund) to date: 208.38 million USD. Achieved through levy of 2 per cent of CERs issued and on-sold/monetized by the Adaptation Fund Trustee. Share of proceeds for administration to date: 445.87 million USD. Paid through fees at registration and issuance of CERs.

6.2 cooperative approaches

Interventions addressed these main options:

- **Contribution to adaptation finance/Adaptation Fund is on a voluntary basis and is in monetary form.**

  Argumentation: The wording in Article 6 does not provide a legal basis for a mandatory levy or for unitization of ITMOs. A mandatory share of proceeds would disincentivize mitigation and impede voluntary cooperation, hindering implementation of NDCs.

  Argumentation: A levy of ITMOs to the Adaptation Fund may not be effective for financing for adaptation. ITMOs may not have a value other than to the participating Parties, as a result of the authorization (which could be limited to those Parties) and the nature of the cooperative approach (lack of tradability of the ITMOs). In such a case, the Adaptation Fund may not be able to sell them. Experience of Kyoto Protocol share of proceeds and its extension to international emissions trading and joint implementation indicates that a levy on ITMOs may not bring significant revenue.

  Argumentation: Voluntary contributions, mainly from Annex I Parties to the Adaptation Fund have exceeded significantly the amount received from the share of proceeds for adaptation in the CDM.[4]

  Sub-options of the option were identified:

  - **Encouragement to Parties to make voluntary contributions.**
  - **Encouragement to Parties to commit to making voluntary contributions.**

  A sub-element of the option was identified:

  - **Parties report the contributions through Article 6 annual reporting and the contributions are recorded in the centralized accounting and reporting platform.**

- **Contribution to the Adaptation Fund is mandatory**

  Argumentation: It follows from Article 6, paragraph 1 that a share of proceeds for adaptation is required from Article 6, paragraph 2 cooperative approaches. The requirement is necessary to ensure a balanced treatment between 6.2 cooperative approaches and the 6.4 mechanism and avoid a disincentive for use of the 6.4 mechanism.

  Argumentation: The requirement is necessary to ensure that Parties that are not able to participate in Article 6 are nonetheless able to benefit from adaptation finance from Article 6.

  Argumentation: There is past experience under the Kyoto Protocol with extending the share of the proceeds to international emissions trading and joint implementation.

  Sub-options were identified:

  - **The share of proceeds is a monetary fee applied to a volume of annually transferred net amounts of ITMOs and charged to the acquiring Party. It is applied to all types of cooperative approaches and would accommodate the use of non-GHG metrics when reporting ITMOs.**

[4] Voluntary contributions amounted to 889.91 million USD over the past years, compared to 208.38 million USD in share of proceeds for adaptation from CERs under the CDM. Source (28 April 2021): website of the Adaptation Fund trustee: https://fiftrustee.worldbank.org/en/about/unit/dfi/fiftrustee/fund-detail/adapt#2

- **The share of proceeds is a levy of units (ITMOs) collected through the registry systems. The amount of contribution is equivalent to a percentage of the annual volume of ITMOs used towards an NDC (same percentage as for 6.4).**
- **Parties using ITMOs towards their NDC are required to acquire 6.4 units in an amount equal to the percentage for share of proceeds in the 6.4 mechanism, for the ITMOs used towards the NDC. Those acquired 6.4 units are transferred to the Adaptation Fund.**

Sub-elements of the option were identified:

- **Parties report the contributions through Article 6 annual reporting and the contributions are recorded in the centralized accounting and reporting platform.**
- **The review of the guidance (every 3/4/5 years) would review the approach to share of proceeds to ensure comparable distribution of funds and with the objective of enhancing ambition, ensuring environmental integrity and optimizing resources for the Adaptation Fund.**