

Subsidiary Body for Scientific and Technological Advice

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

Avoiding double use for outside the Nationally Determined Contributions for the 6.4 mechanism

Background

In relation to Article 6 of the Paris Agreement¹, The SBSTA Chair, Mr Tosi Mpanu Mpanu organized an informal technical expert dialogue on the issue of avoiding double use of emission reductions from outside the nationally determined contribution (NDC) in relation to the 6.4 mechanism on 20 April 2021. At the request of the SBSTA Chair, the dialogue was facilitated by Hugh Sealy of Barbados and Peer Stiansen of Norway. This summary is produced by the SBSTA Chair under his own 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 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 submissions². This summary includes content from Party and group submissions and interventions that relate to options.

The informal technical expert dialogue

Parties indicated a firm willingness to seek solutions to this issue and to adopt decisions on Article 6 at COP26 this year. Interventions made, and some submissions, responded to guiding questions provided by the SBSTA Chair:

- If first transfers of 6.4 units from outside the NDC were not required to be subject to corresponding adjustment, how could Parties ensure double use is avoided? What information would host Parties need to provide and when?
- Should there be a transition period for first transfers of 6.4 units from outside the NDC during which a corresponding adjustment is not required and if so, how long would that period be?
- Could there be an approach to avoiding double use for first transfers of 6.4 units from the perspective of use-restrictions (e.g. no use towards an NDC)?

Core issue: inside/outside

A core issue identified is the meaning of "inside the NDC" and "outside the NDC". What is inside, and outside for Article 6 may not be clear from information in the NDC. Some consider that "inside/outside" relates to sectors and gases covered (or not) by the NDC. Others consider it includes policies and measures covered (or not) by the NDC, in addition to sectors and gases or alternatively to those. LDCs and SIDs were mentioned with the view that a corresponding adjustment is required even if the Party is not required to communicate an NDC. In addressing options below, some noted a need for equal treatment between 6.2 and 6.4; namely that emission reductions from outside the NDC should have the same accounting treatment in 6.2 guidance and in 6.4 rules, modalities and procedures.

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-2>

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.

- **Only 6.4 units from emission reductions achieved inside the NDC are allowed.**

Argumentation: This results from the wording in Article 6, paragraph 5.

- **A corresponding adjustment is required to be applied by the host Party to all 6.4 units representing emission reductions achieved outside the sectors and gases of the NDC, that are internationally transferred (as well as to those 6.4 units representing emission reductions achieved inside the NDC).**

Argumentation: If Parties were to agree that the mechanism can issue 6.4 units for emission reductions from outside the NDC, those 6.4 units would have to be subject to a corresponding adjustment by the host Party in order not to undermine incentives for progression to move towards economy-wide emission reduction or limitation targets in light of national circumstances.

Argumentation: The host Party applying an adjustment at the first transfer (as well as the using Party applying an adjustment) for such 6.4 units is how environmental integrity and the avoidance of double counting is ensured.

Argumentation: Applying a corresponding adjustment provides market confidence.

- **A corresponding adjustment is not required to/is not applied by the host Party to 6.4 units representing emission reductions achieved outside the NDC of the host Party, that are internationally transferred.**

Argumentation: The requirement to undertake a corresponding adjustment per Article 6, paragraph 2 relates to emission reductions inside the NDC only. 6.4 units from emission reductions outside the NDC do not have to be adjusted for by the host Party.

Argumentation: Requiring a corresponding adjustment would undermine the nationally determined nature of NDCs.

Argumentation: The 6.4 units will have a unique serial number and will be reported by the host Party, they are additional emission reductions as compared to what would have otherwise occurred in a baseline scenario and the acquiring Party will make an adjustment for them.

In relation to this option, interventions made a distinction between host Parties not being required to apply a corresponding adjustment and host Parties not applying a corresponding adjustment.

Argumentation: Not being required to apply a corresponding adjustment would recognize that a host Party, on a nationally determined basis, may choose to make an adjustment for emission

reductions from outside its NDC and announce it will do so. To prevent a Party from doing so would undermine the nationally determined nature of the NDC.

Argumentation: An alternative would be that no host Party applies a corresponding adjustment to any 6.4 units from outside the NDC -in order to avoid creating differences between 6.4 units. In this case, Parties wishing to choose to apply a corresponding adjustment would need to include the activity/sector/gas/etc. in their NDC.

In considering this option, some interventions noted that if this option were to be selected, safeguards or limitations would be needed.

Sub-options were identified for the above option:

- **A corresponding adjustment is required to be applied by the host Party to 6.4 units representing emission reductions achieved outside the NDC that are internationally transferred, after a certain date (a few years from 2020, 2030, from the start of the second NDC of the host Party).**

Argumentation: A transition period recognizes that Parties may need time to build capacity to understand how inclusion in the NDC would impact ability to meet the NDC. Support would be needed for that capacity building.

- **Information provided by the host Party at the start of participation in the 6.4 mechanism and through reporting would be required, to inform other Parties as to what is inside and what is outside the host Party NDC.**

Argumentation: Parties could provide, in a nationally determined manner, information to ensure it is clear that the 6.4 unit is from emission reductions achieved outside the NDC (here, outside the sectors, gases, policies and measures of the NDC).

Use – based options

Parties also discussed possible alternative options that are use-based, where double use of 6.4 units would be avoided without requiring adjustments. More discussion may be needed to understand whether the alternative options have merit. A core point identified was that domestic use of a 6.4 unit is separate from the discussions. The argumentation was that if a 6.4 unit is retained within the host Party, there is no need to consider whether a corresponding adjustment is required, as the 6.4 unit has not been internationally transferred and is not considered to be an ITMO per the Presidency texts from Madrid. In this regard, some considered that use- based aspects are already addressed in draft Presidency texts. In relation to use based options after the 6.4 unit has been internationally transferred, some considered restrictions would be inconsistent with Article 6, paragraph 4 (c), which provides that 6.4 units are for use towards NDCs. Others considered that this provision did not limit use of 6.4 units to only NDCs.

- **A 6.4 unit representing emission reductions from outside the NDC that is not correspondingly adjusted for by the host Party when internationally transferred cannot be used by another Party towards its NDC until the activity/sector/gas from or in which it is achieved is included in the next/updated NDC (locked credits).**

Argumentation: This could avoid a perverse incentive not to include the activity in the next or updated NDC.

- **For activities outside the NDC, a portion of the emission reductions achieved are retained by the host Party, the other portion may be internationally transferred and are subject to a corresponding adjustment.**

Argumentation: This would attribute achieved emission reductions between host Party and other Party and so support host Party NDC implementation. As an example, this approach attributes 50 per cent of achieved emission reductions to the host party and 50 per cent of achieved emission reductions to user/buyer party. In this example, the host Party would do an adjustment for the 50 per cent that are internationally transferred to the other Party. Note also that share of proceeds and overall mitigation in global emissions would need to be factored in.

- **Where the host Party does not want to make a corresponding adjustment for a 6.4 unit that is internationally transferred, the unit can be used for a purpose other than towards an NDC.**

Argumentation: The unit could be used for results-based finance; for voluntary cancellation; as evidence of a claim towards a finance contribution under the UNFCCC; or be considered under 6.8.