Functionalities that enhance registries for international transfers under Article 6.2

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NCCS | STRATEGY GROUP PRIME MINISTER'S OFFICE
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Given the decentralised nature of Article 6.2, registries should facilitate market participation and support environmental integrity

- Article 6.2 provides a <u>decentralised framework</u> for bilateral or plurilateral cooperation and Internationally Transferred Mitigation Outcomes (ITMOs).

- Paragraph 29 of Decision 2/CMA 3 states that "each participating Party shall have, or have access to, a registry for the purpose of tracking". **While parties need not have their own registries, registries are a key enabler for market participation**

- Given the decentralised nature of registries used for Article 6.2 and integral role of registries in tracking the flow of ITMOs, **functionalities that promote transparency of registries is key to ensure the environmental integrity of the Article 6.2 mechanism**

There are currently two main options for registry arrangements

These archetypes assume that participating Parties want to have full sight of their ITMOs as <u>units of account</u>, through their own national Article 6 registries or international registry

Model 1: Leverage national carbon offset programme to issue MOs
(*assuming same registry is used by the national programme and the host Party*)

    A: For use towards NDC

    B: For use towards other international purposes or other purposes
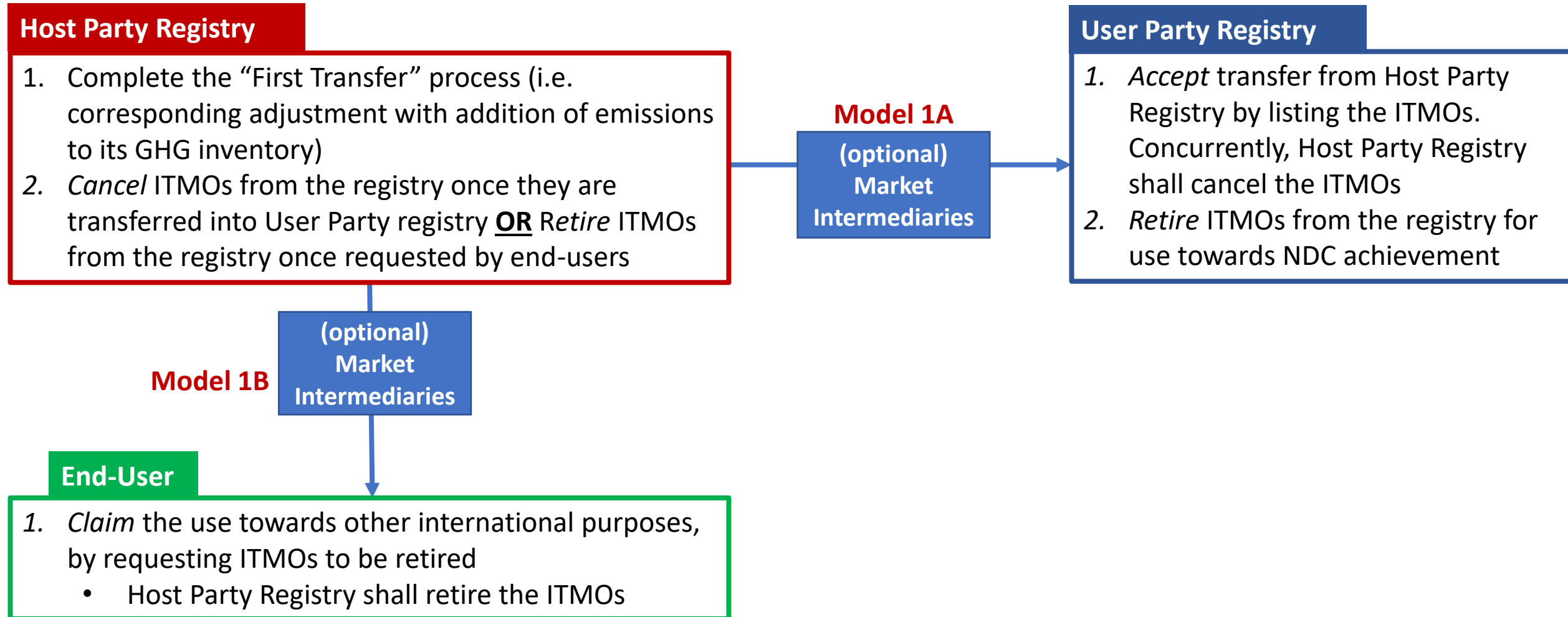
Model 2: Leverage voluntary carbon offset programmes to issue MOs
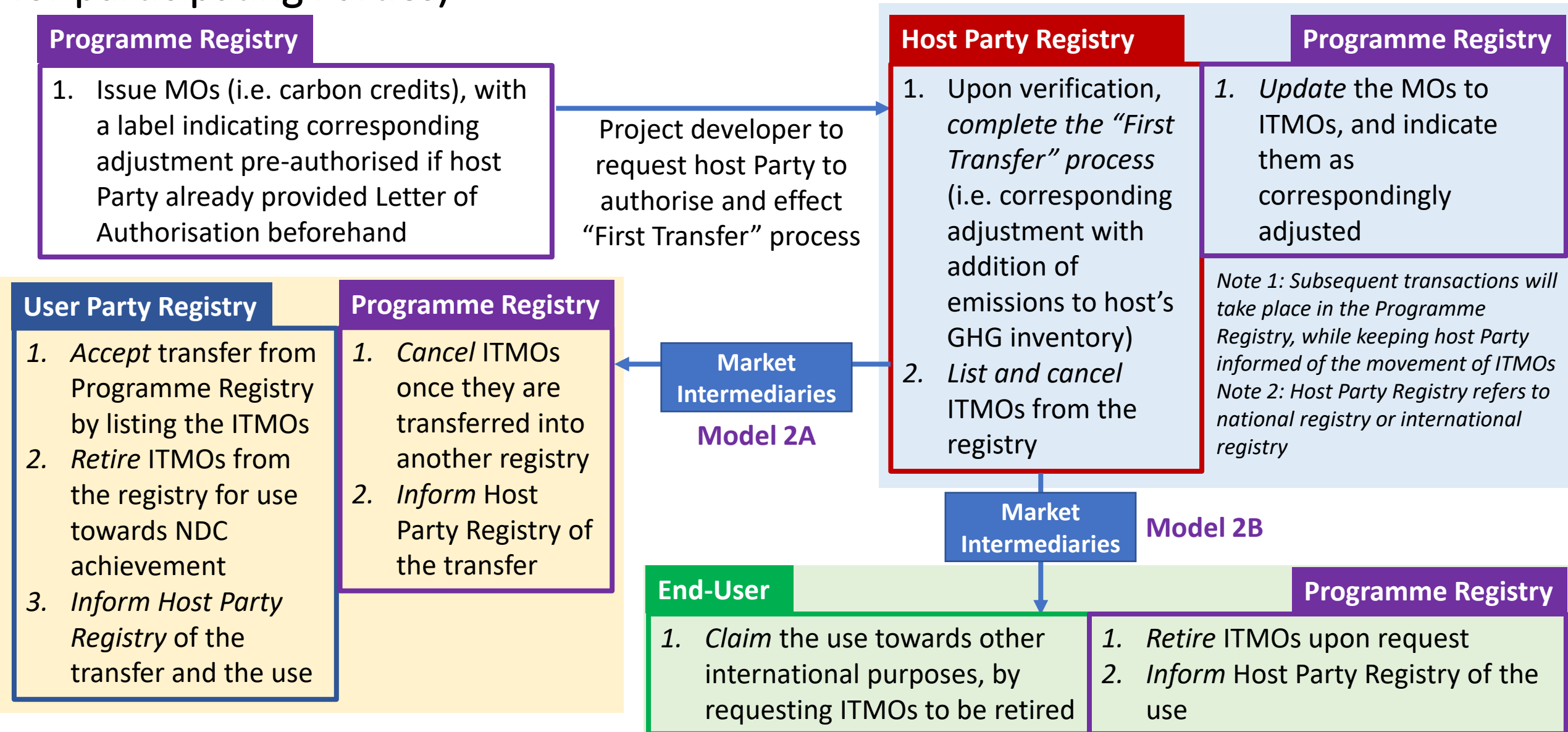
    A: For use towards NDC

    B: For use towards other international purposes or other purposes

Note: Transactions between participating Parties can happen with or without market intermediaries (e.g. brokers, marketplaces, exchanges); **No new asset classes are generated in either Models**

Model 1 is streamlined, but tends to require a national programme / joint committee (e.g. methodology development, governance structure etc.)

Host Party Registry

1. Complete the "First Transfer" process (i.e. corresponding adjustment with addition of emissions to its GHG inventory)
2. *Cancel* ITMOs from the registry once they are transferred into User Party registry **OR** R*etire* ITMOs from the registry once requested by end-users

Model 1A

(optional) Market Intermediaries

User Party Registry

1. *Accept* transfer from Host Party Registry by listing the ITMOs. Concurrently, Host Party Registry shall cancel the ITMOs
2. *Retire* ITMOs from the registry for use towards NDC achievement

Model 1B

(optional) Market Intermediaries

End-User

1. *Claim* the use towards other international purposes, by requesting ITMOs to be retired
   • Host Party Registry shall retire the ITMOs

Model 2 leverages existing mechanisms and infrastructure of voluntary programmes, which minimise costs and maximise access (e.g. by reducing barriers for participating Parties)

Programme Registry

1. Issue MOs (i.e. carbon credits), with a label indicating corresponding adjustment pre-authorised if host Party already provided Letter of Authorisation beforehand

Project developer to request host Party to authorise and effect "First Transfer" process

Host Party Registry

1. Upon verification, *complete the "First Transfer" process* (i.e. corresponding adjustment with addition of emissions to host's GHG inventory)
2. *List and cancel* ITMOs from the registry

Programme Registry

1. *Update* the MOs to ITMOs, and indicate them as correspondingly adjusted

Note 1: Subsequent transactions will take place in the Programme Registry, while keeping host Party informed of the movement of ITMOs
Note 2: Host Party Registry refers to national registry or international registry

User Party Registry

1. *Accept* transfer from Programme Registry by listing the ITMOs
2. *Retire* ITMOs from the registry for use towards NDC achievement
3. *Inform Host Party Registry* of the transfer and the use

Programme Registry

1. *Cancel* ITMOs once they are transferred into another registry
2. *Inform* Host Party Registry of the transfer

Market Intermediaries
Model 2A

Market Intermediaries
Model 2B

End-User

1. *Claim* the use towards other international purposes, by requesting ITMOs to be retired

Programme Registry

1. *Retire* ITMOs upon request
2. *Inform* Host Party Registry of the use

Strengths and weakness of Model 1 and 2

Model 1	Model 2
Strengths: • Streamlined approach, and simplifies interactions between stakeholders, including registries • Able to adapt methodologies to a variety of national circumstances	Strengths: • Builds on existing standards, processes and methodologies, which reduces resources required and incorporates existing best practices to minimise costs and maximise access • Common methodologies promotes transparency and environmental integrity across projects and Parties • Market and stakeholders are familiar with methodologies, promotes project development and global climate action
Weakness: • Resource intensive to develop standards, processes and methodologies individually • Learning curve required for all stakeholders for different cooperative approaches	Weakness: • Require coordination and arrangements between stakeholders to reduce the risk of double issuance/counting

Coordination can further support transparency and reduce participation cost, while enabling both models to co-exist

- Given the numerous voluntary offset programmes and national programmes with different processes and practices that will interact with national registries, Parties should **converge on the optimal registry arrangement** (such as by broadly aligning reporting requirements, taxonomies and workflows).
  - Programmes can then align their registries to this arrangement
  - Leverage existing technological solutions that employ automation and technology to ensure that ITMO transactions are properly tracked and reduce double counting, while facilitate consistent reporting across Parties
    - World Bank-initiated Climate Warehouse initiative is a possible cost-effective solution to ensure ITMO transaction information is consistent across registries, even if ITMOs are used for Other international Mitigation Purposes

In addition to coordination, reporting and review processes can be a fail-safe

- Possible additional mechanisms for safeguards include:
  - Parties can put in place relevant safeguards during the review process and both the UNFCCC Secretariat and TERs to have complementary roles in the review process

  - Clear guidance on reporting requirements and syncing on host party and user party reporting (e.g. timing of initial reports), where possible

  - CARP and Article 6 database should be automated where possible, to reduce human error and increase efficiency, and allow for visibility of all ITMO transactions