



Regional Climate Week

Latin America and the Caribbean

Panama City, Panama – 23-27 October 2023



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Session 2: Accounting Implication on Article 6.4



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NDC accounting implications for engaging in Article 6

- Article 6 allows countries to use “internationally transferred mitigation outcomes” (ITMOs) to achieve their NDCs.
- Call for robust accounting to avoid ITMO double counting toward the NDCs of multiple countries. => “corresponding adjustments”
- ”accounting” : system that allows comparison of mitigation targets with the progress made
- Goal is to reflect real levels and changes to emissions as a result of mitigation actions by countries or other entities.



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NDC accounting implications for engaging in Article 6 (how)

- **Accounting for mitigation targets typically involves the following elements:**
 - Defining mitigation targets : quantifiable indicators GHG (tCO₂equivalent, scope, level, etc.)
 - Tracking progress towards NDC target(s) : methodologies and data sources
 - Accounting for international/domestic transfers : standards, procedures and rules to account (track and reconcile) transfers
 - International reporting, review and compliance: reporting and registries
- **Accounting for mitigation targets requires action and information at different points in time:**
 - Ex-ante information: defining the mitigation target and the methods
 - Regular information: progress made towards achievement of the mitigation target (incl. transfers)
 - Ex-post information: final accounting balance incl. corresponding adjustments



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Example of key elements of accounting for mitigation targets

Element	Timing	Key issues	Provisions in the Paris Agreement
Definition of mitigation targets, methods and accounting approaches	Ex-ante and regular	Clearly defined and quantitative mitigation targets Consistent and accurate methods to track progress (e.g., IPCC Guidelines) Transparent and robust accounting methods	Clarity, transparency and understanding of NDCs (Art. 4.8, para. 28) Common time frames for NDCs (Art. 4.10) Public registry of NDCs (Art. 4.12, para. 29) Accounting for NDCs, including promoting environmental integrity, transparency, accuracy, completeness, comparability and consistency, and ensuring the avoidance of double counting (Art. 4.13, para. 31)
Tracking progress	Regular and ex-post	Transparent, accurate, complete, comparable and consistent reporting on progress made	Reporting of national inventory report and information necessary to track progress (Art. 13.7, para. 91-98)
Accounting for international transfers	Regular or ex-post	Robust accounting rules to avoid double counting and to account for the vintage of mitigation outcomes and time frames of mitigation targets Tracking transfers Appropriate design of mechanisms to quantify mitigation outcomes	Robust accounting to ensure, inter alia, the avoidance of double counting on the basis of corresponding adjustments (Art. 6.2, para. 36) Emission reductions only used by one Party towards NDC achievement (Art. 6.5, para. 37-38)

Example of Accounting Applicable at Multiple Levels

	Accounting Adjustment Country A - Buyer	Accounting Adjustment Country B - Host
Accounting at national Level (emission based)	+100	-100
Accounting at International level (emission based)	+100	-100
Accounting at ETS level (target based)	-100	+100

Source: Analysis report: implications for NDC accounting and transparency update 2021 @South Pole Spain, info@southpole.com



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NDC accounting implications for engaging in Article 6 (solutions)

- **A variety of (accounting) approaches could be used to address these issues:**
 - **Eligibility requirements for the participation in international market mechanisms**, such as requirements to have quantitative NDCs and a system in place to track progress towards NDCs;
 - **Ensuring clarity of NDCs**, such as guidance on elements that countries could clarify when communicating their NDCs (e.g., the coverage of the NDC in terms of sectors, geographical area and GHGs);
 - **Ensuring that NDCs have common features**, such as agreements between countries or on international level to use common time frames, common Global Warming Potential (GWP) values or IPCC methodologies;
 - **Appropriate design of market mechanisms**, including standards and procedures to quantify mitigation outcomes or to avoid double issuance of units;
 - **Accounting rules for international transfers**, including rules such as “corresponding adjustments” referred to in paragraph 36 of decision 1/CP.21;
 - **Tracking the transfer and use of mitigation outcomes**, such as through registry systems
 - **Procedures for reporting and review of relevant information**, such as biennial reports by countries on progress towards NDCs and international expert reviews of the submitted information.



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Strategies for using international carbon markets



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Strategies for engaging in Article 6 to contribute towards achieving NDCs

- **Benefits of participating in cooperative approaches:**
 - NDC Implementation support *
 - Increase National budget revenues
 - Financing high-cost mitigation measures
 - Sustainable development co-benefits
- Article 6 => **voluntary cooperation among Parties to increase ambition and achieve NDCs.**
- Emissions reduction or removals programs or projects that may result in the transfer of mitigation outcomes from a transferring (or host) country to a receiving country.



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Choosing priority sectors, activities to authorize as ITMOs

- The prioritization of preferred Art 6.4 activities may conclude on a defined strategy for Art. 6.4 participation that ensures activities go beyond the NDC targets and may respond to:
 - Which sectors will be targeted?
 - Which types of activities are preferable in these sectors?
 - Evaluate the potential of quantification of the Mitigation measures => engage in easy measurable activities
 - Evaluate the cost/effort : High cost/effort => ITMOs / low cost/effort => NDC
- This strategy will also support:
 - Understanding the medium and long-term objectives => aligned with NDC (e.g., align crediting periods)
 - Establish overall objectives that will guide participation, such as the number of MOs that the government intends to transfer.
- A detailed and even public country-level strategy is likely to provide confidence to:
 - donor countries and institutions and
 - Sectoral ministries, government agencies and the private sector
- Once a strategy is in place, several implementation processes are closely related to this strategy - it is the Art 6 Framework.



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Choosing priority sectors, activities to authorize as ITMOs

- Countries seeking to participate in Art. 6.2 should strategize on what activities can be part of cooperative approaches and how to prioritize them.
- The process to identify those mitigation activities which go beyond the NDC and can be part of cooperative approaches agreement with other countries is complex and require a deep understanding of:
 - NDC activities that are committed to being implemented domestically and are needed to achieve the NDC commitments (call out: some countries refer to these activities in their NDCs as unconditional activities).
 - Criteria for not over-transferring MO that may be needed for NDC compliance.
 - Climate actions that are already supported by international climate finance (other bilateral agreements, MDBs financing, etc.) and hence, do not require Art. 6.2 support.
 - NDC implementation status. How well is the country on track to meet the combined (unconditional and conditional) NDC targets.
- **NB. Exported ITMO is not available for own NDC achievement => selling ITMOs compete with objectives of achieving an ambitious NDC.**



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Choosing priority sectors, activities to authorize as ITMOs

- **The strategy should provide orientation to choose between Article 6.2 approach and Article 6.4 mechanism according to country objectives, resources and experience:**
 - Article 6.4 is a centralized mechanism (UNFCCC secretariat) like the Clean Development Mechanism of the Kyoto Protocol => balance in bilateral negotiations
 - Emission reductions credits can be generated and purchased by public and private sector actors => allowed for international transfer
 - A6.4 provide already established infrastructure => registries, baselines, methodologies and procedures etc.
 - A6.4 provide multilateral standardized instruments that can be used for national crediting
 - A6.4 provide orientation on additionality .of the authorized activities.



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Choosing priority sectors, activities to authorize as ITMOs (identification of projects)

- Art.6 strategy => specific climate programs and projects identification.
- Not one specific approach for a country to identifying specific activities. *There are two main approaches that countries will have to decide:*

Top-down approach	Bottom-up approach
<ul style="list-style-type: none">• Based on the Art. 6 strategy, the country further specifies what type of activities, sectors, gases, and for which time frame it will authorize Art. 6.4 activities.• There are several options for the identification of preferred sectors and technologies, including the use of positive lists and negative lists.• This approach requires robust technical capabilities to specify the activity types, a thorough understanding of domestic and international market opportunities, and continuous stakeholder involvement.	<ul style="list-style-type: none">• Leaves to mitigation activities developers (government agencies, ministries, private sector) and interested acquiring countries to approach the Government, who will decide on authorizations as proposals come in.• This approach could mean engaging in cooperative approaches based on interest expressed by domestic actors or an international partner.• In the most extreme case, the host country can choose to do nothing more than wait for requests for authorization of Article 6.4 activities and, at the point of the request, assess if and how mitigation outcomes can be created and transferred to the applying entity.

Source reference. - Training on Article 6.2 of the Paris Agreement @UNDP - alexandra.soezer@undp.org



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Choosing priority sectors, activities to authorize as ITMOs (assessment of projects)

- How does a country identify specific activities under each approach?

Top-down approach	Bottom-up approach
<ul style="list-style-type: none">• Issues activities calls for proposals periodically with detailed requirements.• The call for proposals requirements may be elaborated in collaboration between the countries participating in the cooperative approach and include:<ul style="list-style-type: none">✓ Priority activity types for the transferring country.✓ Eligible activity types the receiving country is willing to support.	<ul style="list-style-type: none">• Long-standing call for proposals with minimum requirements.• Target any type of actor (mitigation activity proponent).

- **To identify mitigation activities that go beyond the NDC**, the host country needs to identify and assess the mitigation potential and mitigation plans until the NDC target end year, ideally disaggregated by sectors and technologies.
- **The assessment can include criteria such as:** domestic funding, conditional, International climate finance, NDC target & tracking.



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Managing risks on non-NDC achievement when engaging in Article 6

- Transparency – (ETF)*:
 - ✓ Miscalculation of mitigation targets and progress towards mitigation targets.
 - ✓ Miscalculation of mitigation outcomes.
 - ✓ Risk of double counting of emission reductions : robust registries required.
 - ✓ Miscalculation of the vintage of mitigation outcomes.
 - ✓ Addressing any non-permanence of mitigation outcomes.
- Price implications for corresponding adjustments:
 - ✓ Host countries may want to keep the cheapest, easiest mitigation and count it to meet their own NDC target. => not be traded (price would not cover the true cost of a corresponding adjustment – as the country would then need to resort to more expensive mitigation action).
 - ✓ Countries may either wish to trade “easy” mitigation activities at a higher price or prioritize or only trade “difficult” mitigation activities.
 - ✓ To limit the risk of overtrading => establish domestic criteria to limit the number of years, technology types, and/or sectors authorized for Article 6 trades (host country)**
- Activity selection
 - Attractiveness of sectors and activities authorized***



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30 min - Group Discussion:

1. Create Teams of 5 members.

2. Team Discussion (15 min):

✓ Guiding Questions:

- **What are the priorities in your NDC/LT-LEDS and how did you identify them? How did you align NDC and LT/LEDS?**
- **What factors did you consider to choose between Art 6.2 approach and Art.6.4 mechanism to achieve your NDC?**

3. **Reporting (3 min):** One reporter representing each group will present the outcomes.



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Thank you for your attention!



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