Date of publication: 6 November 2017

Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement

Round-table discussion among Parties held on 5 November 2017

SBSTA 47, agenda item 11(a)

Informal document by co-facilitators of the round-table

Mandate and background

Pursuant to paragraph 106 of document FCCC/SBSTA/2017/4 (the report of the SBSTA at its forty-sixth session),[1] a round-table discussion among Parties was held in conjunction with SBSTA 47 in relation to guidance on the cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement. The round table was held on 5 November 2017, in Bonn, Germany.

Pursuant to paragraph 107 of the same document, this informal document has been prepared by the co-facilitators of the round table, who consulted with Parties during the round-table discussion, in order to factually reflect the views expressed by Parties during the round-table.

To help guide discussions, the SBSTA Chair and the co-facilitators of the round-table together developed guiding questions and invited Parties to consider those questions in their discussions. These questions were published in the "Information note for participants at the round-table discussions among Parties for Article 6 of the Paris Agreement SBSTA items 11 a to c".[2] Several other issues and discussion points were identified by Parties as relevant to the discussions and were raised by them during the round table.

A number of groups and Parties made presentations at the round table.[3] Some of the Parties were flexible in that they provided the presentations before the round table but did not present them, allowing time for discussion among Parties to be maximized. Other Parties intervened and explained their views during the round table, without making presentations. Parties engaged in asking clarifying questions of each other, regarding the presentations and views expressed. The views expressed by groups and Parties covered a broad range of relevant issues, including but not limited to the guiding questions suggested by the SBSTA Chair and the co-facilitators.

Issues presented and discussion topics:

The views expressed by Parties are clustered below around topics discussed at the round-table. Owing to limited time, not all topics that are relevant to the guidance on cooperative approaches were discussed, and some were covered only briefly, thus this informal note is thus not exhaustive of all issues.

---

1 http://unfccc.int/resource/docs/2017/sbsta/eng/04.pdf.

2 http://unfccc.int/files/na/application/pdf/information_note_2_-_questions_to_be_addressed_in_presentations.pdf.

3 http://unfccc.int/paris_agreement/items/10143.php. Not all groups and Parties making presentations used visual aids.

a. Aspects of ensuring environmental integrity

Some Parties noted that requirements in relation to environmental integrity are needed so that the long-term rationale of the cooperation does not undermine the ambition of nationally determined contributions (NDCs). Some Parties said that the guidance should be guided by the bottom-up nature of the Paris Agreement and should not restrict the nature and scope of cooperation between Parties.

Some Parties said Parties must report on the scope and quantification of their NDCs and make a timely corresponding adjustment in their accounting balance" when internationally transferred mitigation outcomes (ITMOs) are transferred and used. Some Parties said regularity and comparability of reporting across cycles is needed.

Some Parties considered that environmental integrity would be ensured through the transparency framework in Article 13 of the Paris Agreement and robust accounting. Some Parties questioned how that would deal with oversupply, for example in an emissions trading system. Some Parties said that reviews will happen via the expert review process under the transparency framework in Article 13 and that any anomalies would be resolved through technical expert review, or by the Article 15 compliance committee process. Some Parties considered that the Article 15 compliance committee was not relevant to Article 6.

Some Parties said that ITMOs will not include allowances from cap-and-trade systems as they represent an allowance to emit and not an emission reduction. Some Parties said that cap-and-trade systems do deliver emission reductions where emission caps are set well below the 'business as usual' scenario, with stringent transparency principles, and robust compliance measures at the national level. In this context, some Parties expressed the view that while individual allowances would not be ITMOs, net transfers between linked cap-and-trade systems would be ITMOs.

Some Parties said that environmental integrity would be ensured through the establishment of a centralized oversight body. This body would ensure Parties act consistently with CMA guidance in order to comply with "shall requirements". The body would check the accounting of transfers by checking that the transferred mitigation outcomes are actual reductions, and by the operation of registries.

Some Parties considered third party technical review before issuance of ITMOs would be required to ensure environmental integrity of transfers and use of ITMOs under Article 6, paragraph 2. Some Parties considered that additions and subtractions should be recorded in a centralized database after being reviewed, and that compatible registry systems would be needed.

Some Parties said that environmental integrity requires avoiding an overall increase in emissions. Some Parties consider that is achieved by ensuring ITMOs represent emission reductions that are real and verifiable.

Some Parties raised the comparability of what is being transferred as an aspect of environmental integrity. Some Parties expressed the view that ensuring environmental integrity requires both avoiding double counting and full comparability of mitigation outcomes that are to be transferred, and that full comparability requires multilateral governance on the quantification and transfers. Some Parties said that comparability will be driven by the cooperating Parties who are both using the same metrics for that transfer (i.e. renewable energy or energy efficiency).

Some Parties expressed the view that the guidance applies to the life cycle of an ITMO from creation, and includes its transfer, surrender and retirement. Some Parties expressed the view that the guidance applies to the transfer of ITMOs only, while the generation of the mitigation outcome is addressed through Article 4 of the Paris Agreement.

Some Parties said that guidance is required so that the use of Article 6 does not erode NDCs – individually or as an aggregate. The guidance should ensure the quality of ITMOs and the quality of the systems through which they move and that they represent real, measurable, additional, verified, permanent emission reductions. Some Parties said that guidance will be needed to ensure "hot air" is not created and transferred. Some Parties expressed the view that common minimum standards are need to ensure ITMOs are comparable and meet environmental integrity requirements.

Some Parties said that the use of ITMOs should be supplemental to domestic action. Some Parties said that there should be quantitative restrictions on transfers, carryover and use towards NDCs, including restrictions on vintages. Other restrictions were also considered by participants.

b. Relevance of scope of NDCs

Some Parties said that mitigation outcomes must only come from within the scope of the NDC of the generating Party in order to incentivize progression in the scope of the NDC. Some Parties said that it was important to not create perverse incentives for Parties to maintain sectors outside the scope of their NDCs, where they can be used to generate offsets that do not require corresponding adjustments and deter Parties from moving to economy-wide emission reduction or limitation targets.

Some Parties said that ITMOs from non-NDC sectors are allowed, as this would maximize mitigation and sustainable development opportunities. Some Parties said that including ITMOs from non-NDC sectors would incentivize domestic mitigation by the host Party and lead to progression of mitigation efforts over time (by creating positive incentives to extend the scope of the NDC and increase ambition over time). Some Parties said that using ITMOs from non-NDC sectors could provide a transitional function for the host Party to discover further emission reduction potential, foster the inclusion of sectors /gases in future NDCs, and benefit from such long-term emission reductions for its future NDCs.

Some Parties expressed the view that mitigation outcomes can come from both inside and outside the NDC of the generating Party but must be fully accounted for by the generating Party through a corresponding adjustment. Some Parties said that where mitigation outcomes come from outside the scope of the generating Party's NDCs, no corresponding adjustment would be required as there would be no risk of double counting.

c. Aspects of accounting for internationally transferred mitigation outcomes

In relation to accounting approaches, some Parties supported a target-based approach or quantifying the NDC into a budget approach. Some Parties consider that a target-based, or similar, approach would be unsuitable as it may prejudge national prerogatives associated with NDCs. Some Parties added that to adjust figures based on budget would not work as not all Parties have budget-based targets.

Some Parties said that the use of an inventory for accounting was not suitable as it would affect the understanding of what the inventory represents.

Some Parties proposed an approach of using a buffer registry or separate account with additions and subtractions to it from a starting point of zero in the metrics of the relevant transfers.

Some Parties proposed using an "accounting balance"/ "national account" that is separate from both the inventory and the NDC, and that represents emissions and removals covered by the NDC, and which is adjusted to reflect the use and transfer of ITMOs.

In relation to single-year NDC targets, some Parties explored options for guidance on the creation and/or use of ITMOs by Parties that have single-year NDC targets. These include: placing restrictions on vintage of ITMOs used; averaging or linearizing the amount of ITMOs created/transferred over the NDC implementation period; cumulatively creating/transferring ITMOs over the NDC implementation period; and using a proposed "locked ITMO" approach.

Some Parties said that full quantification of an NDC into units is necessary for accounting and to ensure the avoiding of double counting. Some Parties said that the guidance should ensure all Parties to the Paris Agreement should be able to participate in Article 6, paragraph 2, regardless of the type of NDC. Some Parties considered double counting could be avoided through the establishment of an "accounting balance" representing emissions and removals covered by the NDC, against which transfers of mitigation outcomes would be adjusted.

Some Parties said that mitigation outcomes must be quantified or be quantifiable in tonnes of CO2 equivalent. Some Parties said that a full spectrum of possible mitigation outcomes is required, including emissions avoidance and co-benefits of adaptation, and including economic diversification and accommodation of various metrics.

In relation to infrastructure for accounting, some Parties drew an analogy to emissions trading under Article 17 of the Kyoto Protocol. Other Parties referred to national registries and/or standard reporting.

Some Parties said that a share of proceeds applies to Article 6, paragraph 2, activities, with some Parties addressing it to the Adaptation Fund, some mentioning the rationale of ensuring that Article 6, paragraph 4, activities are not unduly disadvantaged, and some saying the share of proceeds should not be levied on the first transfer between Parties but on subsequent transfers in increasing rates**.** Some Parties considered a share of proceeds should not be levied on Article 6, paragraph 2, transfers as this is not provided for in the Paris Agreement, under which transfer only applies to the Article 6, paragraph 4, mechanism.

d. Corresponding adjustment

Parties considered what a corresponding adjustment requires. Some Parties considered that "corresponding" means that additions and subtractions must correspond. Some Parties considered that a corresponding adjustment should provide flexibility and the accounting approach should be facilitative and non-restrictive, accommodating all NDC types and cooperative opportunities.

Parties addressed the issue of where a corresponding adjustment is required. Some Parties considered that corresponding adjustments are needed for mitigation inside the scope of NDCs. In relation to mitigation outside the NDC, Parties discussed a number of approaches.

Some Parties considered ITMOs had to come from inside the NDC, because the guidance must incentivize progression in scope and ambition.

Some Parties considered that if mitigation outcomes came from outside the NDC, they would need to be accounted for by a corresponding adjustment, as this would ensure avoidance of double claiming while also providing opportunities to implement emission reduction projects regardless of whether the sectors are covered under NDCs. This would thus provide incentives to cover more sectors in NDCs as stipulated in the Paris Agreement.

Some Parties considered a corresponding adjustment was not required in respect of Article 6.4 activities until the first transfer between national registries. Other Parties considered it applies from the issuance or first international transfer.

Some Parties considered how to do a corresponding adjustment, including through the additions and subtractions from an "accounting balance" or from a target that is adjusted to reflect the transfer and use of ITMOs.

In relation to reporting corresponding adjustments, some Parties consider ongoing reporting on ITMO transfer/acquisition captured in registries would be needed. Some Parties referred only to Article 13, paragraph 7. Some Parties consider that participating Parties should report "ITMO-adjusted emissions" and show corresponding adjustments in the "ITMO accounting tables" for the year of transfer and for all relevant years covered by the NDC period, concluding with a compilation table in accordance with guidance under Article 13. Some Parties said that tools such as the international transaction log would be useful in tracking transfers in real time to ensure lags in the reporting cycle/timing of reporting do not result in adjustments being lost, thus enhancing the transparency of the entire accounting system.

In relation to when a corresponding adjustment should be made, some Parties considered it had to be upon issuance of a mitigation outcome, others upon transfer, and some upon use of the ITMO. In relation to doing the corresponding adjustment at use of the ITMO, some Parties considered the corresponding adjustment should be on international transfer because if it were at use, a dependency between the transferring Party and the using Party would be created. Some Parties noted this would mean the transferring Party would not be able to correspondingly adjust until the using Party used the ITMO towards the NDC, which is outside the control of the transferring Party.

a. Aspects of promoting sustainable development

Some Parties said that the principles in Article 6 relating to NDCs and sustainable development should not be limited by the facilitative nature of guidance on environmental integrity, transparency and accounting.

Some Parties said that sustainable development should be promoted through active and protective means such as the authorization by the cooperating Parties and prevention of negative socio-economic impacts, and ensuring a manageable sustainable development transition.

Some Parties said that cooperating Parties could enhance the promotion of sustainable development by adopting a comparable reporting format, while retaining the national prerogative to define sustainable development.