

Draft elements for SBSTA agenda item 11 (a)

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

Informal note by the co-chairs

Second iteration, 10 November 2017

These draft elements have been prepared by the co-chairs of the negotiations on this agenda item under their own responsibility, on the basis of the views that Parties have submitted, discussions in the round table and during this session. These elements are preliminary and should not be considered as final in any way; they are offered as a basis for work and do not prevent Parties from expressing their views at any time. For all draft elements, it is understood that there may be an alternative that there should be no such draft element. It is recognized that the outcome of deliberations on this item will form part of the overall outcome under the Paris Agreement work programme.

Elements of the guidance

1. PREAMBLE
2. PRINCIPLES

Potential element a: List of principles

Potential element b: Preambular paragraphs

Potential element c: No principles

Possible further elements

- (i) Voluntary participation
- (ii) Environmental integrity (i.e. not increase global emissions)
- (iii) Sustainable development
- (iv) Adaptation ambition
- (v) Maintaining national prerogative through bottom-up approaches
- (vi) Addressing negative social and economic impacts, Article 4.7 and 4.15
- (vii) Prioritize NDC implementation, while avoiding extraneous influences
- (viii) Non-restrictive trade barriers
- (ix) Accommodation of all NDC types

3. SCOPE AND PURPOSE

Possible further elements

- (i) Article 2
- (ii) Article 6.1
- (iii) Scope of Article 6.2
- (iv) Coverage of Article 6.4
- (v) Coverage in terms of gases
- (vi) Corresponding adjustment and the point of corresponding adjustment

#### 4. DEFINITIONS

- (a) Acquiring Party
- (b) Cooperative approaches
- (c) Corresponding adjustment
- (d) Creating/ issuing Party
- (e) Double counting

Possible further elements

- (i) Double claiming
  - (ii) Double issuance
  - (iii) Double registration
  - (iv) Double use
- (f) Environmental integrity
  - (g) Internationally transferred mitigation outcome

Potential element a: Defined by the CMA

Potential sub-element (a): Measured in tonnes of CO<sub>2</sub> eq

Potential sub-element (b): Net flows between Parties measured in tonnes of CO<sub>2</sub> eq

Potential sub-element (c): Open definition including tonnes of CO<sub>2</sub> eq and other

Potential sub-element (d): Full spectrum of mitigation outcomes tonnes of CO<sub>2</sub> eq and other metrics

Potential element b: Defined by Parties implementing a cooperative approach

Possible further elements (as applicable, depending on above)

- (i) That is real, permanent, additional and verifiable
  - (ii) That is identified by a unique serial number
  - (iii) Measured in GHG or non-GHG terms
  - (iv) Does not create a freely tradeable unit
  - (v) Emission reductions under Article 6.4 mechanism when internationally transferred
  - (vi) Others as determined by the CMA
  - (vii) Others as determined by Parties implementing a cooperative approach
  - (viii) Net absolute national reductions by the issuing Party used by the using Party towards its NDC
  - (ix) Define ITMOs used towards NDC
  - (x) CER under the SDM, CER under the CDM, ERU under JI
  - (xi) Consistency between transferring and acquiring Parties
- (h) Transferring Party

(i) Using Party

5. GOVERNANCE

A. Role of CMA

Possible further elements

- (i) Periodic review of guidance
- (ii) Process for review of guidance
- (iii) Multilateral issuance of units

B. Oversight arrangements

Potential element a: Article 6.2 body

Possible further elements

- (i) Confirmation of Party preparedness to create/issue/transfer/acquire/use ITMO
- (ii) Checking conformity of Party implementation of Article 6.2 guidance
- (iii) Approving the methodologies and baseline approaches for crediting-type systems—no less rigorous than Article 6.4
- (iv) Third party technical review of the environmental integrity of ITMOs created/ approval of ITMOs
- (v) Correction of accounting errors
- (vi) Multilateral issuance of units

Potential element b: No Article 6.2 body

C. Role of other actors

D. Role of secretariat

Possible further elements

- (i) Checking submitted information on corresponding adjustment
- (ii) Compiling and cross-checking information
- (iii) Maintaining centralized accounting database
- (iv) Administer the international transaction log

6. GUIDANCE FOR A PARTY USING ITMOs TOWARDS ITS NDC

A. Participation requirements

Possible further elements

- (i) Be a Party to the Paris Agreement
- (ii) Have communicated and be currently maintaining an NDC
- (iii) Have declared that use of ITMOs is voluntary
- (iv) Have a designated national authority/ focal point
- (v) Have authorized the use of ITMOs from the cooperative approach towards own NDC through Article 6.3 and have made that authorization public

- (vi) Have submitted a national inventory report, including a time series of emissions, at least biennially/ annually
- (vii) Have quantified its NDC and identified the relevant sectors and gases covered
- (viii) Have a system for identifying the origin of ITMOs/tracking the acquisition of ITMOs/tracking the international transfer
- (ix) Have a system for recording the use of ITMOs
- (x) Have a system for establishing a balance of ITMOs/ accounting balance
- (xi) Special circumstances of LDCs and SIDs.
- (xii) ITMOs that have been generated post 2020 and do not result in environmental harm or adversely affect human rights
- (xiii) National prerogative
- (xiv) Check that the Party has achieved the relevant requirements

B. Accounting by a Party using ITMOs towards its NDC

(a) Basis for accounting

Potential element a: Target/ budget-based accounting approach (i.e. calculation of and adjustment to a budget of NDC-allowed emissions over the NDC period)

Potential element b: Emission-based accounting approach (i.e. calculation of and adjustment to emissions totals emissions and removals covered by the NDC over the NDC period e.g. “accounting balance”)

Potential element c: Buffer registry approach (i.e. add/ subtract transfers and acquisitions from an established balance separate from emissions or NDC, starting balance of zero)

Potential element d: Parties choose from above potential elements and apply consistently

(b) Method of the corresponding adjustment

Potential element a: In a target/ budget-based approach, effecting an addition

Potential element b: In an emissions-based approach, effecting a subtraction

Potential element c: In a buffer registry approach, effecting an addition and/ or subtraction

(c) Timing of the corresponding adjustment

Potential element a: At acquisition of the ITMO

Potential element b: At use of the ITMO towards NDC

Potential element c: At time of submitting information per Article 13.7

Potential element d: All/ some of above

(d) Limits on use towards NDC

Potential element a: Limits

Possible further elements

- (i) Use by a Party towards NDC must be supplemental to domestic action
- (ii) Limits on banking/ carrying-over
- (iii) Limits on use of vintages
- (iv) Have economy wide target, absolute emissions, multi-year
- (v) Have economy wide long term low emissions strategy
- (vi) Have consistent inventories

Potential element b: No limits

- (e) ITMOs used for other purposes

Possible further elements

- (i) Not to be used for NDC if used for non-UNFCCC purposes (e.g. ICAO)
- (ii) Corresponding adjustment where required

- C. Reporting by a Party using ITMOs towards its NDC

- (a) Infrastructure for tracking acquisition and use of ITMOs towards NDC

Potential element a: National/ central registry plus a connection to an international transaction log

Potential element b: A standard reporting table/ format plus central database where additions and subtractions are recorded after review

Potential element c: National registry plus a standard reporting table/ format

Potential element d: National buffer registry

Potential element e: Standard reporting table/ format

- (b) Timing of reporting

Potential element a: At the time of submitting each report under Article 13.7

Potential element b: At the time of transfer

Potential element c: At the time of final NDC accounting

Potential element d: All/ some of above

- D. Demonstrating role of ITMOs in achieving NDC (final accounting)

- (a) Provision of evidence of cancellation (other than voluntary)/ retirement/ use towards NDC

- (b) Reporting of the achievement of NDC through use of ITMOs

Possible further elements

- (i) Cumulative emissions throughout the NDC implementation period
- (ii) Cumulative use of ITMOs throughout the NDC implementation period
- (iii) Adjusted emissions-balance/ budget throughout the NDC implementation period

- (iv) Corresponding adjustment by the transferring Party
  - (v) Environmental integrity of the ITMOs used towards the NDC (i.e. does not increase global emissions)
  - (vi) Evidence that ITMO is real, permanent, additional and verified
  - (vii) How the use of ITMOs towards the NDC has environmental integrity
  - (viii) How the cooperative approach is consistent with the Party's long-term strategy
  - (ix) How the use of ITMOs is consistent with progression over time
  - (x) How the use of ITMOs towards the NDC promotes sustainable development
    - In the context of the Party's national prerogative
    - In the context of the Party's implementation of the Sustainable Development Goals
  - (xi) Forward to Article 4.13
- (c) Specific guidance for single year NDCs
- Potential element a: Use of ITMOs limited to those with same vintage as the NDC target year
- Potential element b: Use of the cumulative ITMOs throughout the NDC implementation period towards the single-year NDC
- Potential element c: Use of ITMOs compared to an emissions trajectory throughout the NDC implementation period (e.g. ITMO use is distributed throughout the NDC implementation period based on an emissions trajectory consistent with NDC achievement)
- Potential element d: Use of average ITMO acquisitions/ average ITMO use over the NDC implementation period in the NDC target year (e.g. ITMO use in target year equals ITMO use over period divided by number of years in period)
- Potential element e: Use of ITMOs in each period reflected in the biennial reports under Article 13.7
- Potential element f: No specific guidance for single year targets

- (d) Specific guidance for multi-year NDCs
7. GUIDANCE FOR A PARTY TRANSFERRING IN ITMOs
  8. GUIDANCE FOR A PARTY TRANSFERRING OUT ITMOs
  9. GUIDANCE FOR A PARTY CREATING/ ISSUING ITMOs

Potential element a: Include the sections A to E below

Potential element b: No need for sections A to E below

A. Participation requirements

Possible further elements

- (i) Be a Party to the Paris Agreement
- (ii) Have submitted and be currently maintaining an NDC
- (iii) Have a designated national authority/focal point

- (iv) Have authorized the international transfer of mitigation outcomes from the cooperative approach under Article 6.3 and have made that authorization public
- (v) Have submitted a national inventory report, including a time series of emissions, at least biennially/ annually
- (vi) Have quantified its NDC and identified the relevant sectors and gases covered
- (vii) Have quantified its NDC in absolute emissions
- (viii) Have economy wide target, absolute emissions, multi-year
- (ix) Have economy wide long term low emissions strategy
- (x) Biennial inventories consistent with long term trajectories
- (xi) Have a system for setting a baseline in respect of the activity from which the mitigation outcome is issued/ created
- (xii) Have a system for verifying that mitigation outcomes (that may be transferred) have been achieved
- (xiii) Have a system for identifying the origin of ITMOs/ tracking the creation/ issuance of ITMOs/ tracking the international transfer
- (xiv) Have a system for establishing a balance of ITMOs transferred
- (xv) Special circumstances of LDCs and SIDs
- (xvi) ITMOs that have been only generated post 2020
- (xvii) ITMOs do not result in environmental harm or adversely affect human rights
- (xviii) Has quantified its NDC in absolute emission caps
- (xix) Have requirements to mitigate leakage risk
- (xx) Have systems to ensure permanence, including systems to address reversal
- (xxi) Check that the Party has achieved the relevant requirements
- (xxii) System for determining sustainable development in accordance with national prerogative

B. Source of ITMOs that may be internationally transferred, and used towards a NDC

(a) Sector

Potential element a: Only from a sector inside the NDC

Possible further element

- (i) Except for LDCs

Potential element b: From any sector, inside or outside the NDC

(b) GHG gas

Potential element a: Only from a GHG gas inside the NDC

Potential element b: From any GHG gas, inside or outside the NDC

C. Accounting by a Party transferring ITMOs

(a) Basis for accounting

Potential element a: Target/ budget-based accounting approach (i.e. calculation of and adjustment to a budget of NDC-allowed emissions over the NDC period)

Potential element b: Emission-based accounting approach (i.e. calculation of and adjustment to emissions totals emissions and removals covered by the NDC over the NDC period e.g. “accounting balance”)

Potential element c: Buffer registry approach (i.e. add/ subtract transfers and acquisitions from an established balance separate from emissions or NDC, starting balance of zero)

Potential element d: Parties choose from above potential elements and apply consistently

(b) Method of the corresponding adjustment

Potential element a: In a target-based approach, effecting a subtraction

Potential element b: In an emissions-based approach, effecting an addition

Potential element c: In a buffer registry approach, effecting an addition and/ or subtraction

(c) Application of the corresponding adjustment

Potential element a: If mitigation outcomes can be issued/ created from outside the NDC, corresponding adjustment upon international transfer/ issuance

Potential sub-element (a): for ITMOs issued/ created from inside the NDC only

Potential sub-element (b): for all ITMOs created/ issued inside and outside the NDC

Potential element b: If mitigation outcomes can only be issued/ created from inside the NDC, corresponding adjustment upon international transfer for all ITMOs

(d) Corresponding adjustment to implement overall mitigation of global emissions

Potential element a: Applicable to Article 6.2, full accounting of the emission reductions by host Party, plus cancellation of units at issuance/ transfer plus discount at point of use towards NDC by using Party

Potential element b: Not applicable to Article 6.2

(e) Limits on issuance/ creation/ transfer

Potential element a: Limits on issuance/ creation/ transfer

Possible further elements

- (i) Limit on the creation of tradable units based on a calculation: NDC target multiplied by the NDC period (e.g. 5 or 10 years), with downward adjustment based on the previous actual emissions trend
- (ii) Limits on transfers/ overselling (e.g. may only transfer ITMOs up to a limit, calculated as a percentage of annual emissions or percentage of quantified NDC)
- (iii) Restrictions on types of transfers
- (iv) Quantitative restrictions on carry-over
- (v) Restrictions in sectors with high degree of uncertainty in emission reductions
- (vi) No use of pre-2020 units post 2020

Potential element b: No limits on issuance/ creation/ transfer

D. Reporting by a Party issuing/ creating mitigation outcomes

(a) Infrastructure for tracking issuance/ creation of ITMOs

Potential element a: National/ central registry plus a connection to an international transaction log

Potential element b: A standard reporting table/format plus central database where additions and subtractions are recorded after review

Potential element c: National registry plus a standard reporting table/format

Potential element d: National buffer registry

Potential element e: Standard reporting table/format

(b) Timing of reporting

Potential element a: At issuance/ creation of the mitigation outcome

Potential element b: At transfer of the mitigation outcome

Potential element c: At time of submitting information per Article 13.7

Potential element d: For units under the Kyoto mechanisms prior to 2021, at the time of NDC accounting

E. Demonstrating role of ITMOs in achieving NDC (final accounting)

(a) Reporting of the achievement of NDC with the use of ITMOs

Possible further elements

- (i) Actual cumulative emissions over the NDC implementation period
- (ii) Cumulative creation/ transfer of ITMOs throughout the NDC implementation period
- (iii) Adjusted emissions-balance/ budget over the NDC implementation period
- (iv) Demonstration of the environmental integrity of the ITMOs transferred (i.e. does not increase global emissions)
- (v) Evidence that ITMO is real, permanent, additional and verified
- (vi) How the transfer of ITMOs has environmental integrity
- (vii) How the cooperative approach is consistent with the Party's long-term strategy
- (viii) How the transfer of ITMOs is consistent with progression over time
- (ix) Demonstration of how the use of ITMOs towards the NDC promotes sustainable development
  - In the context of the Party's national prerogative
  - In the context of the Party's implementation of the Sustainable Development Goals

(b) Specific guidance single year NDCs

Potential element a: International transfer of ITMOs limited to mitigation in the NDC target year (i.e. vintage limit)

Potential element b: International transfer of ITMOs outside the NDC target year, with no corresponding adjustment

Potential element c: International transfer of ITMOs compared to an emissions trajectory throughout the NDC implementation period (e.g. ITMO transfers distributed throughout the NDC implementation period based on an emissions trajectory consistent with NDC achievement)

Potential element d: Average international transfer of ITMOs over the NDC implementation period applied in the NDC target year (e.g. ITMOs accounted in target year equal ITMOs transferred over the NDC implementation period divided by number of years in the period)

Potential element e: ITMOs internationally transferred in each period are reflected in the biennial reports under Article 13.7

Potential element f: No specific guidance for single year targets

(c) Specific guidance for multi-year NDCs

## 10. INFRASTRUCTURE

Potential element a: National registry connection to an international transaction log

Potential element b: A standard reporting table/format plus central database where additions and subtractions are recorded after review

Potential element c: National registry plus standard reporting table

Potential element d: National buffer registry

Potential element e: Standard reporting table

Potential element f: Some or all the above depending on nature of participation (e.g. only creation/issuance/transfer)

Possible further elements

(i) Blockchain

## 11. REPORTING

A. Reporting for all participating Parties

Possible further elements

(i) Initial calculation of emission allowance

(ii) Actual cumulative emissions over the NDC implementation period

(iii) Adjusted emissions-balance/budget over the NDC implementation period

(iv) Corresponding adjustments

- (v) Accounting report on expiration of NDC
- (vi) Demonstration of the environmental integrity of the ITMOs transferred (i.e. does not increase global emissions)
- (vii) Evidence that ITMO is real, permanent, additional and verified
- (viii) How the cooperative approach is consistent with the Party's long-term strategy
- (ix) How the creation/issuance/transfer/use of ITMOs is consistent with progression over time

B. Further reporting requirements for a creating/issuing/transferring Party

Possible further elements

- (i) Cumulative creation/issuance/transfer of ITMOs throughout the NDC implementation period
- (ii) How the creation/transfer of ITMOs towards the NDC promotes sustainable development
  - In the context of the Party's national prerogative
  - In the context of the Party's implementation of the Sustainable Development Goals

C. Further reporting requirements for a transferring Party

Possible further elements

- (i) How the transfer of ITMOs has environmental integrity

D. Further reporting requirements for a Party using ITMOs towards its NDC

Possible further elements

- (i) How the use of ITMOs is consistent with progression over time
- (ii) That use of ITMOs is authorised in accordance with Article 6.3
- (iii) Environmental integrity of the ITMO used towards the NDC
- (iv) How the use of ITMOs towards the NDC has environmental integrity
- (v) How the use of ITMOs towards the NDC promotes sustainable development
  - In the context of the Party's national prerogative
  - In the context of the Party's implementation of the Sustainable Development Goals

E. Timing of reporting

Potential element a: Upfront/ ex-ante

Potential element b: Periodically (i.e. for each biennial report)

Potential element a: At the time of submitting each report under Article 13.7

Potential element b: At the time of transfer

Potential element c: At the time of final NDC accounting

Potential element d: All/ some of above

12. REVIEW AND ASSURANCE OF CONSISTENCY WITH GUIDANCE ON THE CREATION AND USE OF ITMOs TOWARDS NDC

(a) Oversight arrangements

Potential element a: Article 6.2 body

Possible further elements

- (i) Confirmation of Parties preparedness to create/issue/transfer/acquire/use ITMO
- (ii) Checking conformity of Parties implementation of Article 6.2 guidance
- (iii) Approving the methodologies and baseline approaches for crediting-type systems – no less rigorous than Article 6.4
- (iv) Third party technical review of the environmental integrity of ITMOs created/ approval of ITMOs
- (v) Correction of accounting errors
- (vi) Multilateral issuance of units

Potential element b: No Article 6.2 body

Potential element c: Under other processes (e.g. Article 13, Article 4.13, Article 15)

Possible further elements

- (i) Confirmation of Parties preparedness to create/issue/transfer/acquire/use ITMO
- (ii) Checking that Parties creation/issuance/transfer/acquisition/use of ITMO conform with 6.2 guidance
- (iii) Checking conformity of Parties implementation of 6.2 guidance
- (iv) Checking submitted information on corresponding adjustment, compiling cross-checking information
- (v) Initial calculation of emission allowance/ quantification report
- (vi) Accounting report on expiration of NDC
- (vii) Approving the methodologies and baseline approaches for crediting-type systems – no less rigorous than Article 6.4
- (viii) Third party technical review of the environmental integrity of ITMOs created/ approval of ITMOs
- (ix) Correction of accounting errors

Potential element d: No review

(b) Timing of review

Potential element a: Upfront/ ex-ante

Potential element b: Periodically (i.e. for each biennial report)

Potential element c: At the time of final NDC accounting

13. APPLICATION OF SHARE OF PROCEEDS FOR ADAPTATION

Potential element a: Share of proceeds on Article 6.2

Possible further elements

- (i) X% collected
- (ii) Collected at first international transfer of mitigation outcomes
- (iii) Collected at a diminishing/increasing rate
- (iv) From crediting approaches implemented by Parties
- (v) Sent to Adaptation Fund
- (vi) Applied progressively with an increasing rate with each transfer

Potential element b: No share of proceeds on Article 6.2

14. ENVIRONMENTAL INTEGRITY

15. SUSTAINABLE DEVELOPMENT

16. ADAPTATION AMBITION

Possible further elements

- (i) Mitigation co-benefits of adaptation action, including economic diversification, 4.7 and 4.15

17. MULTILATERAL ISSUANCE OF UNITS

Possible further elements

- (i) National systems, registries, international transaction log, national accounts
- (ii) Quantification of NDC-permitted emissions, including common metrics, calculation report of permitted emissions, technical expert review of the calculation report
- (iii) Issuance of NDC-permitted emission units
- (iv) Compulsory limitation of tradeable units, within NDC timeframe reserve, permitted emission units to be exclusively used for retirement or cancellation purposes.
- (v) Separate section on international transfers between national accounts; additions and subtractions from NDC-permitted emissions, CERs under the KP CDM, CERs under the 6.4 mechanism
- (vi) Need for an accounting system; public information, progress made in implementing and achieving NDCs, compilation and accounting databases for progress made, compilation and accounting reports

Co-chairs' further considerations about potential next steps in relation to the structure of this informal note.

In relation to the first iteration of the informal note, discussions highlighted that the structure resulted in duplication. In order to reflect input from Parties to ensure that the structure from the first iteration remains visible in this second iteration, the co-chairs left duplication in the informal note. Should a third iteration be possible within the remaining time of this session, the co-chairs consider that the issue of duplication could be addressed while retaining necessary distinction. The issue of logical ordering could also be resolved.