

Draft elements for SBSTA agenda item 11 (b)

Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4 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, and the 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 rules, modalities and procedures

1. PREAMBLE

2. PRINCIPLES

Potential element a: List of principles

Potential element b: List of preambular principles

Possible further elements

- (i) Promote the mitigation of greenhouse gas emissions
- (ii) Foster sustainable development
- (iii) Incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party
- (iv) Contribute to the reduction of emission levels in the host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfil its nationally determined contribution
- (v) Deliver an overall mitigation in global emissions
- (vi) Ensure environmental integrity
- (vii) Adaptation ambition
- (viii) Address negative social and economic impacts, Article 4.7 and 4.15
- (ix) Not adversely impact human rights
- (x) Enhance transparency
- (xi) Accommodate all types of NDCs
- (xii) Incorporate full spectrum of mitigation outcomes
- (xiii) Reference to Article 2 of the Paris Agreement
- (xiv) Avoid unilateral trade measures and employ non-discriminatory trade practices

Potential element c: No principles

3. DEFINITIONS

A. Additionality

B. Emission reductions

Possible further elements

- (i) Includes tonne(s) of CO₂ eq reduced
- (ii) Including tonne(s) of CO₂ eq and other metrics
- (iii) Includes tonne(s) of CO₂ eq avoided or removed
- (iv) Includes mitigation co-benefits of adaptation action, including economic diversification
- (v) Includes units as determined by the CMA/supervisory body (e.g. transitioned Kyoto units)
- (vi) Includes units issued under Kyoto Protocol mechanisms prior to 2021
- (vii) Excludes units issued under Kyoto Protocol mechanisms prior to 2021
- (viii) Only for post 2020 emission reductions
- (ix) Full spectrum of mitigation outcomes

C. NDCquotient

D. Mitigation activities under Article 6.4 mechanism

E. Overall mitigation of global emissions

F. Own benefit

G. Stakeholders

Possible further elements

- (i) Definition of local stakeholders
- (ii) Definition of global stakeholders

4. SCOPE AND PURPOSE OF RULES, MODALITIES AND PROCEDURES

5. ROLE OF CMA

A. Authority of the CMA over the Article 6.4 mechanism

B. Guidance of the CMA

C. Review of the rules, modalities and procedures

Possible further elements

- (i) Timing of review
- (ii) Process for review

6. SUPERVISORY BODY

A. Membership of the supervisory body

Potential element a: Similar to Executive Board of the clean development mechanism

Potential element b: Similar to Joint Implementation Supervisory Committee

Potential element c: New body

Possible further elements

- (i) Acting in personal capacity
- (ii) Nomination by UN regional groups/also other groups
- (iii) Balanced representation of Parties to the Paris Agreement, including LDCs and SIDS
- (iv) Balanced representation of developing and developed country Parties, including LDCs and SIDS
- (v) Include members and/or observers from the private sector/ non-governmental organizations
- (vi) Members need to have certain professional qualifications
- (vii) Gender-balanced representation of members

B. Rules of procedure of the supervisory body

Potential element a: Start with rules of procedure of the Executive Board of the Clean Development Mechanism

Potential element b: Start with rules of procedure of the Joint Implementation Supervisory Committee

Potential element c: New rules of procedure

Possible further elements

- (i) Conflict of interest policy
- (ii) Transparency
- (iii) Equal representation
- (iv) Code of conduct

C. Governance and functions of the supervisory body

Potential element a: Centralized system

Possible further elements

- (i) Operate at an executive level
- (ii) Developing methodologies, standards, procedures and guidance
- (iii) Accrediting and performance management of designated operational entities
- (iv) Registration/ approval of mitigation activities
- (v) Issuance/ creation of verified and certified emission reductions and avoidance
- (vi) Establishment and operation of a registry
- (vii) Develop governance rules for its panels/ committees
- (viii) Recommendations to the CMA on changes to adopted rules, modalities and procedures
- (ix) Seeking guidance from the CMA
- (x) Draw on experience from the clean development mechanism
- (xi) Draw on experience from joint implementation
- (xii) Establishment of technical expert groups and coverage of cost for experts
- (xiii) Defining procedures to ensure all activities meet the rules, modalities and procedures (i.e. assessment of conformity)
- (xiv) Maintaining public registry on information related to proposed and registered activities

- (xv) Making information publicly available
- (xvi) Prioritizing methodology development that promotes mitigation at scale
- (xvii) Raising awareness of Article 6.4 mechanism
- (xviii) Reviewing the activities of the Article 6.4 mechanism
- (xix) Reporting the progress periodically
- (xx) Forwarding certified emissions reduction units from SDM registry to national registry

Potential element b: Host Party-led (decentralized) system.

Possible further elements

- (i) Developing international standards and international procedures
- (ii) Accrediting and performance management of designated operational entities
- (iii) Issuance/creation of verified and certified emission reductions
- (iv) Periodic certification of standards/programmes
- (v) Reviewing the implementation of processes by host Parties and ensuring consistency with processes by host Parties
- (vi) Establishment of technical expert groups and coverage of cost for experts
- (vii) Defining procedures to ensure all activities meet the rules, modalities and procedures and assessment of conformity
- (viii) Maintaining public registry on information related to proposed and registered activities
- (ix) Making information publicly available

Potential element c: Dual system (both centralized and host Party-led (decentralized) systems)

Possible further elements

- (i) Developing methodologies, standards, procedures and guidance
- (ii) Accrediting and performance management of designated operational entities
- (iii) Registration/approval of mitigation activities
- (iv) Issuance/creation of verified and certified emission reductions and avoidance
- (v) Establishment and operation of a registry
- (vi) Recommendations to the CMA on changes to adopted rules, modalities and procedures
- (vii) Seeking guidance from the CMA
- (viii) For host Party-led system, developing international standards and international procedures
- (ix) For host Party-led system, reviewing the implementation of processes by host Parties and ensuring consistency with processes by host Parties
- (x) For host Party-led system, periodic certification of standards/programmes
- (xi) Consistent application by a Party of centralized system or host Party-led system.
- (xii) Draw on experience from joint implementation
- (xiii) Establishment of technical expert groups and coverage of cost for experts
- (xiv) Defining procedures to ensure all activities meet the rules, modalities and procedures and assessment of conformity
- (xv) Maintaining public registry on information related to proposed and registered activities
- (xvi) Making information publicly available
- (xvii) Forwarding certified emissions reduction units from SDM registry to national registry

7. PARTICIPATION, BENEFITS AND RESPONSIBILITIES OF HOSTING PARTIES

A. Participation requirements for hosting Parties

Possible further elements

- (i) Party to the Paris Agreement
- (ii) Has communicated and is currently maintaining an NDC
- (iii) Compliance with Article 6.4 provisions and those contained in decision 1/CP.21, paragraph 37
- (iv) Has designated a competent national authority
- (v) Has access to/has a system for holding emission reductions (registry)
- (vi) National inventory report
- (vii) If host Party-led system, has national standards and procedures for implementation of Article 6.4 activities
- (viii) Ensuring that the use of emission reductions is guided by domestic mitigation objectives

B. Responsibilities of hosting Parties

Possible further elements

- (i) Statement of voluntary participation
- (ii) Authorization of potential mitigation activities
- (iii) Contribution to fostering sustainable development
- (iv) Explanation of how mitigation activity relates to the NDC (e.g. activity is inside/outside NDC)
- (v) Authorization of public/private entities participating in the mitigation activity
- (vi) Conformity with Sustainable Development Goals
- (vii) Conformity with human rights
- (viii) Conditions of withdrawal of authorization
- (ix) Conducting stakeholder consultation
- (x) Safeguards
- (xi) Reporting of Article 6, paragraph 4 activities as per Article 13.7
- (xii) If host Party-led functions, implementation of processes
- (xiii) If host Party-led functions, notification of authorization of activities and verification and certification/issuance of emission reductions
- (xiv) If host Party-led functions, notification to the supervisory body of the mitigation activity cycle(s)
- (xv) Ensuring compliance with relevant standards and procedures

C. Benefits for hosting Parties

Possible further elements

- (i) Reduction of emission levels
- (ii) Promotion of sustainable development
- (iii) Permanent and long-term benefits beyond crediting periods
- (iv) Enhanced participation of public and private entities authorized by host Parties
- (v) Enhanced regional distribution
- (vi) Promotion of capacity-building

D. Addressing host Party benefits

Possible further elements

- (i) Relationship with host Party NDCs
- (ii) Relationship with the underlying and remaining emissions

8. PARTICIPATION AND RESPONSIBILITIES OF ACQUIRING/TRANSFERRING IN/USING PARTIES

A. Participation requirements for using Parties

Possible further elements

- (i) Party to the Paris Agreement
- (ii) Has communicated and is currently maintaining an NDC
- (iii) Has designated competent national authority
- (iv) Has access to a system for holding emissions reductions (registry)
- (v) National inventory report

B. Responsibilities of using Parties

Possible further elements

- (i) Statement of voluntary participation
- (ii) Authorization of public/private entities participating in the mitigation activity
- (iii) Contribution to fostering sustainable development
- (iv) Conformity with Sustainable Development Goals
- (v) Conformity with human rights
- (vi) Conditions of withdrawal of authorization

9. PARTICIPATION BY OTHER ACTORS

A. Incentivizing and facilitating participation by public and private entities

Possible further elements

- (i) Use of emission reductions by non-State actors

10. DESIGNATED OPERATIONAL ENTITIES

A. Accreditation of designated operational entities

Possible further elements

- (i) New accreditation
- (ii) Regional availability

B. Validation of mitigation activities

C. Verification and certification of emission reductions and/or emission avoidance

11. ELIGIBLE MITIGATION ACTIVITIES

A. Mitigation activities - context of the host Party NDC

Potential element a: Mitigation activities can be outside or inside the host Party's NDC

Potential element b: Mitigation activities can only be inside the host Party's NDC

Potential element c: Mitigation activities can only be outside the host Party's NDC

Potential element d: Potential elements a - c above are not applicable to LDCs and SIDs

Potential element e: Potential elements a - c above are not applicable

B. Mitigation activities – requirements/ standards

Possible further elements

- (i) Deliver real, measurable, and long-term benefits
- (ii) Be additional
- (iii) Approved methodology and baseline determination
- (iv) Approved crediting periods
- (v) Permanence
- (vi) Avoiding technical lock-in
- (vii) Promotion of sustainable development
- (viii) Guidance for stakeholder consultation
- (ix) Refrain from activities that may cause environmentally negative impacts

C. Mitigation activities - scope of activities

Possible further elements

- (i) Projects
- (ii) Programmes of activities
- (iii) Sectoral approaches
- (iv) Other approaches approved by the supervisory body
- (v) Certification of non-UN protocols

12. MITIGATION ACTIVITY CYCLE

A. Design and Validation

B. Registration

Possible further elements

- (i) Registration of registered CDM project activities

C. Baseline approach

Possible further elements

- (i) Shortening crediting periods
- (ii) Dynamic baselines with automatic updating
- (iii) Conservative baseline below business-as-usual/ set at best available technology
- (iv) Baselines that includes all relevant policies
- (v) Avoidance of any net leakage
- (vi) Discounting at verification or issuance or use
- (vii) Conservative default factors and higher default factors

D. Additionality

E. Monitoring

F. Verification and certification

G. Issuance

Potential element a: Issuance into an international registry

Potential element b: Issuance into a national registry

H. Forwarding

I. Voluntary cancellation

J. Management of registry processes

K. Grievance processes/ appeal rights

L. Protection of human rights

M. Referral of matters to Article 15 compliance committee

N. Reporting through the Article 13 transparency framework

13. LEVY OF SHARE OF PROCEEDS TOWARDS ADMINISTRATION AND ADAPTATION

Possible further elements

- (i) Share of proceeds for adaptation to go to Adaptation Fund
- (ii) Share of proceeds for adaptation to go to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change
- (iii) Applied progressively with an increasing rate at each transfer
- (iv) Level of share of proceeds for administrative expenses
- (v) Link with overall mitigation of global emissions

14. IMPLEMENTING OVERALL MITIGATION IN GLOBAL EMISSIONS

Potential element a: Full accounting of the emission reductions by host Party, plus cancellation of units at issuance/transfer plus discount at point of use towards achievement of its NDC by using Party

Potential element c: Conservative/higher default factors

Potential element d: Through additionality determination

Potential element e: Voluntary/aspirational

15. AVOIDING USE OF EMISSIONS REDUCTIONS RESULTING FROM MITIGATION ACTIVITIES BY MORE THAN ONE PARTY

Potential element a: All emission reductions, consistent with Article 6.2 guidance.

Potential element b: Corresponding adjustment for emission reductions with transfer of national allowances for Parties with absolute national emission caps

Potential element c: Inside the host Party's NDC, consistent with Article 6.2 guidance, outside the host Party's NDC, no application of Article 6.2 guidance

Potential element d: Article 6.2 guidance does not apply to Article 6.4 initial transfer (forwarding) from the central registry to national registry. Article 6.2 guidance only applies to second and subsequent international transfers.

Potential element e: Corresponding adjustment for all emission reductions, consistent with Article 6.2 guidance, at the point of international transfer.

Potential element f: Corresponding adjustment for emission reductions inside the host Party's NDC, consistent with Article 6.2 guidance at the point of international transfer, no corresponding adjustment for emission reductions outside the host Party's NDC.

Potential element g: Article 6.2 guidance applies to units issued under the Kyoto Protocol after 2021

Potential element f: The potential elements above are not applicable to LDCs and SDs

16. EMISSIONS REDUCTIONS APPLIED TO PURPOSES OTHER THAN TOWARDS ACHIEVEMENT OF NDCs

Possible further elements

- (i) Towards other international mitigation action
- (ii) Towards voluntary climate actions, climate finance
- (iii) May require accounting in accordance with Article 6.2 guidance if used for non-UNFCCC purposes if created/issued from within the scope of a host Party's NDC

17. LIMITS TO TRADING/ USE OF EMISSION REDUCTIONS FROM MITIGATION ACTIVITIES TOWARDS NDC

Possible further elements

- (i) Issuance in a manner that avoids market fluctuations
- (ii) Use of emission reductions must be supplemental to domestic action
- (iii) No secondary trading
- (iv) No speculative trading
- (v) Quantitative restrictions on transfers, e.g. to address complementarity or overselling
- (vi) Restrictions on types of transfers
- (vii) Quantitative restrictions on carry-over
- (viii) Restrictions on use of vintages of emission reductions
- (ix) Restrictions in sectors with a high degree of uncertainty in emission estimates
- (x) No limits to trading
- (xi) No limits to use
- (xii) No use of pre-2020 units post-2020

18. TRANSITION FROM KYOTO PROTOCOL TO ARTICLE 6.4

A. Mitigation activities under the Kyoto Protocol

Potential element a: Existing CDM/JI activities may become Article 6.4 activities

Potential sub-element (a): JI activities

Potential sub-element (b): CDM activities

Potential sub-element (c): J and CDM activities

Potential element b: Existing CDM/J activities may become Article 6.4 activities if they meet certain conditions and categories

Potential element c: Existing CDM/J activities may become Article 6.4 activities if the host Party so agrees

Potential element d: No existing CDM or J projects may become Article 6.4 activities

B. Mitigation activities from CDM to Article 6.4

Potential element a: Transition

Possible further elements

- (i) Eligibility of CERs
- (ii) Continued validity of methodologies
- (iii) Issuance of Article 6.4 emission reductions for CDM
- (iv) Transposition of accreditation system

Potential element b: No transition

C. Mitigation activities from J to Article 6.4

Potential element a: Transition

- (i) Eligibility of ERUs
- (ii) Continued validity of methodologies
- (iii) Issuance of Article 6.4 emission reductions for J
- (iv) Transposition of accreditation system.

Potential element b: No transition

19. ADAPTATION AMBITION

20. AVOIDING NEGATIVE AND SOCIAL AND ECONOMIC IMPACTS 4.7 AND 4.15