Recommendations for SBSTA49 agenda item 11(a) as it relates to the guidance for cooperative approaches referred to in article 6.2 of the Paris Agreement

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As part of the Paris Rulebook discussions at COP24, further elaborations are needed on the rules for article 6. Guidance for cooperative approaches under article 6.2 is an important element of these rules, and will need to be determined in a way that avoids opening doors to lower climate ambition.

Currently, there is a risk that engaging in cooperative approaches under article 6.2 will be governed by much weaker rules than the Sustainable Development Mechanism under article 6.4, which would divert most of the trading activity away from the SDM, and could water down the Paris Agreement's ambition.

Article 6.2 should therefore be designed as a set of rules applying to all transfers of credits. It should ensure the avoidance of double counting through the application of corresponding adjustments to all transfers of credits. Further, it should define the nature and scope of ITMOs to ensure that these represent real, permanent, additional and verifiable emission reductions, and are issued from mitigation projects, rather than from sector-based crediting approaches or the linkage of Emissions Trading Systems.

This document first outlines the relationship between articles 6.2 and 6.4, and then proposes ways to avoid double counting through article 6.2.

KEY RECOMMENDATIONS

→ Only allow the transfer of ITMOs with high environmental integrity by ensuring that they represent real, permanent, additional, and verifiable emission reductions, and ensure ITMOs can only be generated for emission *reductions*.

→ Do not issue carbon credits on a sector-based approach, nor from ETS allowances or their net flows between linked ETSs. Only allow ITMOs to take the form of a unit with a unique serial number.

→ Apply corresponding adjustments for all offset credits at the point of first transfer.

→ Prevent the use of ITMOs towards simultaneous achievement of multiple types of objectives, e.g. finance and mitigation objectives.

→ Set up a publicly accessible international transaction log connected to national registries covering UNFCCC and non-UNFCCC mechanisms and which record information on the issuance, transfer(s), use, and cancelation of each unit.

Creating a strong set of rules for the transfer of international credits

Setting a framework for the transfer of credits under the Sustainable Development Mechanism

Article 6 of the Paris Agreement sets up, under its paragraph 4, a new mechanism for the issuance and transfer of carbon credits, with several objectives related to the overall mitigation of greenhouse gases and the promotion of sustainable development (see our recommendations on this “Sustainable Development Mechanism” (SDM) here).

Article 6.2 should determine a set of guidance and rules to govern cooperative approaches by Parties when transferring ITMOs. These rules should apply to all credits generated under the SDM.

In the context of aggregate climate ambition which falls short of the Paris Agreement’s objective of keeping global warming below 1.5C°, and several NDCs even setting national targets above business-as-usual reference levels, issuing units on a sector-based approach carries a significant risk of injecting hot air in the post-2020 carbon markets. Therefore, article 6.2 should not be set up as a sector-based crediting mechanisms, and ITMO’s should only come from project based mitigation activities.

Furthermore, linkages of emissions trading systems should not result in the issuance of ITMOs under article 6.2. Emissions trading systems function on a fundamentally different basis from offsetting mechanisms. While the former involves the exchange of *allowances*, which represent a “right to emit” below a certain cap, the latter involves trades of credits, which represent achieved emission reductions and are issued ex-post. Whether or not cancelling an ETS allowance has an impact on GHG concentrations in the atmosphere therefore depends on the stringency of the cap, and the potential accumulated oversupply in the market. Exchanging an ETS allowance for a carbon credit implies that the ETS cap is sufficiently stringent and that there is no oversupply, so that every allowance would have been used, and therefore the cancelation of the allowance avoids the future emission. However, in ETSs with significant oversupply, and where measures have been adopted to retire and cancel allowances from the market, such as through the Market Stability Reserve in the European Emissions Trading System, allowances do not necessarily translate into real future emissions, and therefore convertingn allowances into carbon credits can lead to an increase in emissions. In addition, in linked ETSs with high caps and oversupply, the net flow of allowances is not necessarily representative of any extra abatement efforts in a country or the other. Therefore, neither net flows of allowances from linked ETSs, nor the allowances themselves should be recognized as, or exchangeable for, ITMOs.

→ Design article 6.2 as a set of complementary and mandatory rules to govern the trade of ITMOs, including those units generated under the Sustainable Development Mechanism, including by amending **Section IV, subsection C., item (a) of paragraph 13 by deleting the word “*internationally*”.** This is necessary to also cover those units which are transferred inside the host country, from a national registry to an airline. Also, **select option A1 in Section IX , paragraph 85,**

and amend it to delete "when transferred internationally and used towards the achievement of an NDC", to ensure units used for purposes other than NDC achievement are also subject to corresponding adjustments.

→ Only allow the transfer of ITMOs with high environmental integrity by ensuring that they represent real, permanent, additional, and verifiable emission reductions, **as listed in Section IV, subsection B, option A of paragraph 12**. Also ensure ITMOs can only be generated for emission reductions by **selecting option A1 of Section IV, subsection A., item 4, and amending it to read "Emission reductions"**.

→ Do not issue carbon credits on a sector-based approach, nor from ETS allowances or their net flows between linked ETSs. Only allow ITMOs to take the form of a unit with a unique serial number (**Section IV, subsection A., item 3, option A1 of paragraph 10).**

→ Limit international transfers to ITMOs which were generated inside the scope of an NDC, as laid out in **option A of Section VIII, subsection F, item 1, paragraph 76**).

Avoiding double counting in Article 6

A major objective for the rules developed under article 6.2 is to apply robust accounting to ensure the avoidance of double counting. This requires at least two essential and basic elements: the application of corresponding adjustments for all transfers of credits, and the establishment and maintenance of a publicly accessible international transaction log tracking all issuance, transfer, use, and cancelation of credits.

The application of corresponding adjustments following the first transfer of any offset credit is an essential prerequisite for accurate accounting of emission reductions. This should apply to all transferred units, including those transferred outside of UNFCCC-mechanisms (e.g. to be used by airlines for compliance under CORSIA) or transferred domestically (for example to an airline based in the country hosting the mitigation activity). Corresponding adjustments should be emissions based, applied to an account based on the emissions inventory of the host Party.

In addition, a transparent, complete, and publicly accessible international transaction log should be set up to allow public scrutiny over the transfers of units. It should be connected to national registries covering all units issued and traded under UNFCCC and non-UNFCCC programs, including the voluntary market. National registries should allow to identify each unit separately as well as provide aggregated data, and should document all stages of a unit's "life", including issuance, transfer(s), use, and cancelation.

→ Apply corresponding adjustments for all offset credits at the point of first transfer (**Option A of Section VIII, subsection D, paragraph 63 and Option B of Section VIII, subsection E, paragraphs 68-71**).

→ Apply corresponding adjustments on an emissions base, to the host Party's account based on its emissions inventory (**option B of Section VIII, subsection C, item 2**), and apply this method consistently (**Option A of Section VIII, subsection C, item 1**).

→ Prevent the use of ITMOs towards simultaneous achievement of multiple types of objectives by **adopting all items in the potential list under paragraph 83 (Section VIII, subsection I.**).

→ Set up a publicly accessible international transaction log covering UNFCCC and non-UNFCCC mechanisms (**option A of Section X, subsection B, paragraphs 100 and 101**), connected to national registries which record information on the issuance, transfer(s), use, and cancelation of each unit (**option A3 of Section X, subsection A, paragraph 96**).

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