



Carbon Market Watch's briefing note for SBSTA 50

Prepared for Bonn Climate Change Conference, June 2019

As article 6 negotiations re-start in Bonn at SBSTA 50, Carbon Market Watch urges Parties to focus on substantive discussions, and avoid procedural delays by quickly agreeing on a new text to serve as a basis for negotiations.

Many topics remain open for consideration, and a few still require further technical analysis and improved clarity.

Accurate accounting to promote environmental integrity

Accounting for units in a manner that truly reflects the transfers of *emission reductions* is paramount. While resolving all the existing uncertainties is necessary, finding the solutions to avoid double counting is of the highest importance.

This will require 1) transparent tracking of all credits through an international transaction log and national registries, 2) the application of corresponding adjustments at the point of first transfer/transfer for every carbon credit, and 3) the integration of international accounting rules to ensure that double counting is avoided across Article 6.2, Article 6.4, and CORSIA, as well as with any other mechanism and the voluntary carbon market.

In addition to these crucial elements, Carbon Market Watch encourages Parties to further discuss the implications and risks of:

1. Recognising allowances transferred through linked emissions trading systems (ETSs) as international transfers of mitigation outcomes (ITMOs) and counting such transfers under Article 6.2. The various ways of accounting for the transfer of allowances raise significant concerns about the environmental integrity of such accounting because allowances do not necessarily represent emissions when an ETS is oversupplied, or when banking and borrowing are allowed.
2. Accounting for the trade of ITMOs for Parties which have adopted single year targets. While there are several ways of accounting for transfers under such a scenario, many have significant shortcomings and are subject to gaming, in particular when they require the calculation of an emissions trajectory without specifying the shape of such trajectory (e.g. the trajectory should imply a rapid increase in emission reductions today, rather than allowing a slow transition and betting on rapid reductions in the future).

Using markets to promote ambition and go beyond zero-sum offsetting

Parties should adopt rules which deliver on the promise of the Paris Agreement to progressively increase ambition and to deliver an overall mitigation in global emissions through Article 6. The latter requires the application of a partial cancellation rate for every credit issued under Article 6.

In the spirit of the Paris Agreement, any form of perverse incentive against progress in the nationally determined contributions (NDCs) should be avoided, which will require that Article 6 credits/units can only be generated from sectors and gases covered by the host country's NDC.

Promoting ambition in the carbon market also requires the identification of adequate baselines which should not be set at a business-as-usual level. Baselines should be set at a conservative level and promote ambition. Setting baselines at the level of the host country's NDC is a minimum for some countries, but still insufficient for those countries whose NDC is unambitious and includes hot air.

Correct mistakes from the past

Carbon Market Watch urges Parties to heed the wide call from various stakeholders for preventing a full transition of Kyoto Protocol units and projects into the Paris Agreement markets. No Kyoto Protocol units should be eligible post-2020, all projects should be re-assessed against stringent quality criteria, and existing methodologies should also be re-evaluated.

Last but not least, Parties must recognize the dramatic impacts which Kyoto Protocol mechanisms, including the CDM, have had on local communities and the environment. In order to improve social and environmental safeguards, and protect and promote human rights, all mitigation projects must be required to consult local stakeholders before and during their implementation. Furthermore, a grievance mechanism must be established that is governed by an independent body which operates in a manner that is independent, rights-based, accessible, equitable, transparent, legitimate, and efficient. The work programme under Article 6 should include clear items to further define local stakeholder consultation rules as well as rules for the functioning of the grievance mechanism.

Key recommendations:

- Avoid double counting by requiring the application of corresponding adjustments for the transfer of every credit/unit under Article 6, and by establishing comprehensive transparency rules to connect Article 6 with the Transparency Framework.
- Do not allow any pre-2020 units for use towards NDCs, and re-assess all pre-2020 projects against stringent quality criteria.
- Establish a grievance mechanism governed by an independent body and require that stakeholders be consulted before and during the implementation of any Article 6 project.
- Adopt a partial cancellation rate for application to each Article 6 credit/unit.
- Adopt conservative baselines, at a minimum in line with a host country's NDC, and which prevent the issuance of any hot air credit.

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