

How to keep hot air out of the Paris Agreement: technical proposal

This document is addressed to Article 6 negotiators and Heads of Delegations at COP25, and proposes a detailed and structured text to address the issues described in the briefing “Empty targets? How to avoid the trading of hot air under the Paris Agreement”.

Key numbers from the briefing are below, and a detailed explanation can be found in the document itself. In the next sections, you will find an outline of four “damage control measures” proposed to avoid that hot air credits be used to meet NDC targets, and a final text proposal.

A very large number of carbon credits has been created through the three carbon markets of the Kyoto Protocol: the Clean Development Mechanism (CDM), Joint Implementation (JI) and International Emissions Trading (IET).

Key numbers from the briefing (all sources can be found in the original publication):

- Potential supply of available CERs for emission reductions taking place until 2020: 4 billion
- Supply of unused ERUs: 220 million
- Supply of AAUs generated during the first commitment period of the Kyoto Protocol: 14.1 billion
- Estimated supply or AAUs which could be generated under a second commitment period of the Kyoto protocol (taking into account the effect of the Doha amendment): 1.7 billion
- Estimated amount of hot air in current NDCs: 18.7 - 28.3 GtCO₂e

What does the Article 6 text currently say?

Allowing the use of hot air within the Paris Agreement and setting up a new mechanism which could lead to the generation and use of new hot air for decades puts global climate targets at risk. It is, therefore, clear that certain measures must be adopted to 1) prevent the use of old units, and in particular those representing hot air or with low environmental integrity, and 2) prevent the generation of new hot air and its transfer between countries and across time.

To achieve this, the section below describes what measures are necessary, and how they are currently being considered in the negotiating text.

Damage control measure 1: *The achievement of an NDC target should rely exclusively on emission reductions achieved after 2020, which implies that no units generated under the Kyoto Protocol should be eligible for use after 2020.*

Section XIII of the article 6.4 text, sub-sections B and C, deal with the transition of units from the Kyoto Protocol to the Paris Agreement. While both subsections are specific to the JI and CDM mechanisms respectively, they both also include the following option: “Kyoto Protocol units may not be used by a

Party towards its NDC". This is the only option which would clearly prohibit the use of CERs, ERUs, and AAUs, while all the other options, even if some would restrict the use of ERUs and CERs, are silent on the fate of AAUs, which leaves their potential use open to the legal interpretation of their nature, as discussed in the briefing.

Damage control measure 2: *Prevent that existing hot air in the NDCs is transferred to - and used by - countries with NDCs which do not include hot air.*

Measures are needed to avoid that hot air is transferred to other countries. Ideally, such a limit should prevent the transfer of any hot air. This would require that the limit is set equal to the difference between actual emissions and emissions under a business-as-usual (BAU) scenario. If actual emissions are below BAU, then a country would be allowed to transfer units up to that difference. If actual emissions are at or above BAU, then the country would not be allowed to transfer any units, because it has not reduced its emissions compared to what it was on track to achieve anyway. The difficulty with this option lies in estimating the level of BAU emissions.

Alternatively, a straightforward limit could be adopted, set at 1% of a country's historical emissions. Using the 2010-2012 average as the reference level for historical emissions, such a limit would avoid 90% of hot air being transferred.

Damage control measure 3: *Prevent the existing hot air in NDCs from being transferred to subsequent NDC periods.*

In the draft article 6.2 text, section XI, option B, the following options are mentioned:

- Sub-item (a) "Transfer limits"
- Sub-item (d) "Maximum limits on the use of ITMOs towards an NDC"
- Sub-item (e) "Requirements relating to the carry over of ITMOs from one NDC period to the next"

In addition, one provision is mentioned in several sections of both the article 6.2 and 6.4 texts: "Use of article 6 should not lead to an increase in emissions in and between NDC implementation periods". This is a key principle, but it is not specific enough to prevent the transfer and use of hot air. For example, it does not specify what actual emissions will be compared to in order to determine whether Article 6 has led to "an increase in emissions".

Damage control measure 4: *Avoid that emissions at any given time be compensated with excessively old emission reduction credits.*

Restrictions on the transfer of ITMOs (Internationally Transferred Mitigation Outcomes) under 6.2 as described above could address this to some extent. For Article 6.4 emission reductions (A6.4ERs) specifically, section XI, option B includes a possible limit: "Restrict the use of A6.4ERs towards NDCs by their vintage".

How can the current negotiation text be improved?

In the latest version of the text, there are sections which open the door to addressing each of the four problems described, hence the solutions below do not introduce new, undiscussed elements, but rather build on existing provisions which need to be further detailed.

In order to address the first problem, the current text stipulating that no Kyoto unit may be used by a Party towards its NDC would be sufficient.

In order to address the “damage control measures” 2-4, the four solutions below are proposed, with an explanation on the reasoning and impact of each measure. The broad objectives of these paragraphs are the following:

1. Limit on the total number of article 6.2 units which can be issued each year
2. No banking of ITMOs generated under article 6.2
3. Limit on the lifetime of A6.4ERs
4. Limited banking of A6.4ERs

A host Party may transfer mitigation outcomes, resulting from a cooperative approach in the context of article 6.2 of the Paris Agreement, within its current NDC implementation period, up to a maximum of 1 percent of its average annual emissions over the 2010-2012 period multiplied by the number of years covered by its current NDC.

This will prevent the transfer of approximately 90% of existing hot air in NDCs. An important element is to ensure that the limit is based on past emissions and not on future emission levels (e.g. “1% of emissions over the current NDC period”) so that this is advantageous for Parties with decreasing emissions rather than for Parties with increasing emissions.

This measure should be extended to cover A6.4ERs if methodologies, baselines, or other provisions related to the environmental integrity of these credits allow for the generation of low-quality units.

For any ITMO, resulting from a cooperative approach in the context of article 6.2 of the Paris Agreement, a corresponding adjustment shall be applied by the host Party to the calendar year in which the mitigation outcome was achieved. The year to which the using Party applies a corresponding adjustment must be before the end of the NDC period during which the mitigation outcome was achieved.

The host Party should apply a corresponding adjustment to the year in which the emission reduction took place, in order to have an accurate and truthful record of emissions in any given year. The using Party can use the mitigation outcome in a year (i.e. apply the corresponding adjustment to that year) which is different from the year in which the mitigation outcome was achieved, but cannot carry over a mitigation outcome across NDC periods. This is to prevent that hot air credits continue to be available long after countries have increased the ambition of their NDCs.

For any emission reduction, resulting from the mechanism established under article 6.4 of the Paris Agreement, a corresponding adjustment shall be applied by the host Party to the calendar year in which the emission reduction was achieved. A corresponding adjustment shall be applied by the using Party to a calendar year which is not older than 5 years after the calendar year during which the mitigation outcome was achieved.

Given that the above paragraph only prevents the banking of A6.2 units, this provision is needed to ensure that A6.4ERs are also time-bound.

This should not significantly affect the incentive to implement a mitigation project, given that a 5-year lifetime for credits is already long. It is also unlikely that 1) a project which is able to continue operating

for more than 5 years without generating revenues from the sale of its credits would be truly additional and non-vulnerable, or 2) a Party acquires a credit with the intent of storing it for more than 5 years. Hence allowing a longer lifetime for A6.4ERs would most likely not significantly increase the incentive to deliver more emission reductions, but would on the contrary allow a build-up of credits which would depress prices and lower demand for new projects.

It should be noted that while this paragraph limits the lifetime of an A6.4ER, it could partly be circumvented by “swapping” old credits for newer ones. For example, a country could use a credit generated in year 1 to meet a target in year 5, and issue a new credit in year 5 as a result. However, as countries decarbonise, and “extra mitigation” becomes scarcer, it will be increasingly difficult to implement projects to issue the new units, hence limiting the ability to “swap”. This provision also forces the “update” of credits over time, assuming that methodologies, baseline settings, etc. increase over time, and that therefore old credits which potentially were of lesser quality, be replaced with newer credits generated under more stringent rules.

Emission reductions, resulting from the mechanism established under article 6.4 of the Paris Agreement, held by a Party in its national registry and which have not been retired or cancelled may be carried over to the subsequent NDC implementation period, up to a maximum of 1 per cent of that Party's average annual emissions over the 2010-2012 period multiplied by the number of years covered by that Party's current NDC.

This final provision is needed to ensure that an unrestricted volume of A6.4ERs will not be carried over indefinitely, which would allow for the build-up of new surplus, potentially damaging the entire market. This measure is particularly important if article 6.4 guidance is relatively weak and allows the issuance of A6.4ERs without clear rules to ensure environmental integrity. In this scenario, the process of “swapping” as described above would be particularly easy (e.g. if baselines are not well defined), which would make the 5-year lifetime provision above ineffective. Hence, the higher the quality of A6.4ERs, the lesser the need to adopt a limit on carry-over.

Even if there was a cap on issuance of A6.4ERs (see paragraph 1), this provision would still be necessary. The cap on issuance would not prevent that units issued over multiple NDC periods (and hence adding up to more than the cap, which is set by NDC period), be carried over forever and accumulate.

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