Carbon Market Watch note on selected Article 6.4 elements following SBSTA 56 call for submissions

- 30 August 2022

The conclusions on Article 6.4 from SBSTA 56 invited observer organisations to make submissions on "any of the elements referred to in decision 3/CMA.3, paragraph 7, for consideration by the SBSTA."

Carbon Market Watch welcomes the opportunity to share our views on Article 6.4 with negotiators. We encourage SBSTA to continue inviting observer organisations to submit views.

Summary

Below is a summary of Carbon Market Watch's views regarding selected Article 6.4 elements on which SBSTA invited observer organisations to comment:

Processes for use of CERs towards first or first updated NDCs

- Parties must not use CERs towards their NDCs. Most CERs are low quality (unlikely to be additional – e.g. see here), and their use towards NDCs can actually lead to an increase in emissions overall. Use of CERs would justifiably generate criticism.

Operation of the mechanism registry

- The 6.4 mechanism registry should set an example for transparency and completeness, learning from existing strengths and weaknesses of Voluntary Market registries - as well as from the CDM - as highlighted in a previous CMW submission.
- Beyond basic information about each project (e.g. name, methodology), the registry should also feature detailed information - downloadable in a spreadsheet - such as:
    - annual baseline emissions used to calculate total reductions/removals; annual project emissions used to calculate total reductions/removals; total annual credits issued; total credits retired; total credits cancelled; GPS

coordinates of the project; name of project developer(s); name of Validation and Verification Bodies/Designated Operational Entities.

- Information on unit transactions should also be featured, including a public record of all transactions involving credits in order to identify changes in legal ownership: i.e. developer X sold this credit to intermediary Y, who retired it for company Z.

Processes necessary to deliver overall mitigation in global emissions (OMGE)

- Carbon Market Watch strongly rejects the interpretation, expressed by some Parties at SBSTA 56, that corresponding adjustments should not always need to apply to the minimum 2% of A6.4ERs specifically set aside for cancellation to deliver OMGE.
- OMGE can only be delivered if corresponding adjustments fully apply to *any and all A6.4ERs* set aside in the OMGE cancellation account. No exceptions can be made.
- To illustrate why corresponding adjustments are needed, consider a hypothetical:
    - 100 A6.4ERs are issued from an activity in a host Party;
    - 2 out of 100 A6.4ERs automatically go to the OMGE cancellation account;
    - if the 2 A6.4ERs are not correspondingly adjusted for, then the underlying 2 tonnes of reduced/removed CO_2e are still reflected in the host Party's GHG inventory, and hence count towards the host Party's NDC;
    - this is as if no credit had been created at all and, unacceptably, this means no OMGE would actually be delivered.

Consideration of whether 6.4 activities could include emission avoidance

- Emission avoidance must not become eligible as a basis for issuing A6.4ERs, since it is inconsistently/poorly defined and could lead to highly questionable A6.4ERs. Most Parties at SBSTA 56 aligned with this view, which Carbon Market Watch supports.
- Errors from the CDM – e.g. crediting fossil fuel use & infrastructure under the label of avoidance (e.g. AM0023, AM0037, AM0043) – should not be repeated.

Processes for use of CERs towards first or first updated NDCs

> *[Decision 3/CMA.3, paragraph 7(c):] "Processes for implementation of chapter XI.B of the annex (Use of certified emission reductions towards first or first updated nationally determined contributions);"*

Certified emission reductions (CERs) must not be used towards "achieving" any Party's NDC. Even though this possibility was problematically included as part of the compromise to approve the 6.4 rules, modalities and procedures at COP 26, there is obviously no obligation, nor expectation, for Parties to actually use CERs towards their NDCs.

It is well documented that most CERs are of low quality (not additional) and that their use towards NDCs actually increases emissions overall (e.g. see here and here). It's unacceptable, and rather absurd, for a Party to use CERs from the last decade, that are by and large unlikely to have been additional, in order to reach its 2030 climate target on paper.

In no respect is the use of CERs towards Parties' NDCs in keeping with environmental integrity, nor does it deliver tangible sustainable development benefits. Such uses would justifiably generate much criticism.

Operation of the mechanism registry

> *[Decision 3/CMA.3, paragraph 7(e):] "The operation of the mechanism registry referred to in chapter VI of the annex (Mechanism registry);"*

The 6.4 mechanism registry should set an example for transparency and completeness. It should learn from existing strengths and weaknesses of Voluntary Market registries - as well as from the CDM - as highlighted in a previous submission by Carbon Market Watch.

First, the registry should include detailed information about each registered project. This should include not only standard information such as project name, methodology used, host country, etc., but also more specific data, allowing more in-depth analysis of the full range of registered projects. This more detailed information should be provided in a downloadable spreadsheet to enable easier analysis (and hence transparency), and should include: annual baseline emissions used to calculate total reductions/removals, annual project emissions used to calculate total reductions/removals, total annual credits issued, GPS coordinates of the project, name of the project developer(s), name of the Validation and Verification Bodies/Designated Operational Entities, total quantity of credits retired, total quantity of credits cancelled.

In addition, the registry should also include information on unit transactions, in order to better identify the paths taken by specific units between their issuance and their retirement or cancellation. This should include a public record of all transactions involving the credits, identifying the change in their legal ownership (i.e. recording that developer X has sold a credit to intermediary Y who has sold it to company Z). This also means that data such as the name of the entity associated with each holding account, as well as the number and status of A6.4ERs held in such an account, should be public.

Beyond serving as a comprehensive record of project information, including project design documents and their full annexes, the registry should also be structured in a way that enables non-experts to understand how Article 6.4 projects are structured. To allow this, it should include, for each project, a 1-2 page summary of the project, detailing among other elements how its baseline was set, how it demonstrated additionality, and how it contributes to sustainable development.

Finally, recognising the role that Article 6.4 is envisioned to play as a tool to channel climate finance from the private sector towards mitigation and adaptation actions, it is crucial that a system is established to be able to measure progress towards that objective.

Currently, there is no established way to measure how much finance is flowing to climate action through carbon markets; this is a major flaw of the system, as it prevents all actors and observers to measure whether the tool is functioning properly. To solve this, the 6.4 registry should include data to enable the tracking of how much finance is reaching project developers. This could be through a requirement for project developers to disclose their annual income (not their profit). Without being able to measure this, and understanding how much of the money paid by companies actually reaches project developers, it will not be possible to carry out a full assessment of the 6.4 mechanism's impact.

Processes necessary to deliver OMGE

> *[Decision 3/CMA.3, paragraph 7(g):] "The processes necessary for the delivery of overall mitigation in global emissions in accordance with chapter VIII of the annex (Delivering overall mitigation in global emissions);"*

To deliver OMGE via the mandatory minimum 2% cancellation of A6.4ERs, the cancelled units need to be effectively 'excluded' from the emissions inventory of the host Party, where the underlying emission reductions/removals took place, via the application of a corresponding adjustment. Otherwise, there is no difference between creating a credit and placing it in an

OMGE account without a corresponding adjustment, and not creating the credit at all. In both cases, the underlying mitigation outcome is counted by the host country towards its NDC target.

During SBSTA 56, some Parties appeared to suggest that in certain cases, the application of corresponding adjustments was not required for the 2% of A6.4ERs set aside for OMGE purposes. Carbon Market Watch strongly rejects this interpretation, since it would lead to an outcome where OMGE is not actually delivered.

It's simple why corresponding adjustments must apply to the portion of A6.4ERs set aside for OMGE in all cases:

- Consider a hypothetical case where 100 A6.4ERs are issued from an activity in a host Party.
- 2 of the 100 A6.4ERs will automatically go to the OMGE cancellation account, where they "shall not be further transferred or used for any purpose" (Decision 3/CMA.3, Annex, Paragraph 69b).
- However, if no corresponding adjustment were to apply to these 2 A6.4ERs, then the underlying 2 tonnes of reduced/removed CO_2e would still be reflected in the host Party's emissions inventory (since the project activity was located in the host Party). This means the 2 cancelled A6.4ERs still count towards reaching the host Party's NDC, and hence no OMGE has actually been delivered.
- Even if corresponding adjustments apply to the 98 other A6.4ERs from that issuance batch (upon their use), excluding corresponding adjustments for the 2 A6.4ERs specifically set aside for the purposes of OMGE cancellation is unacceptable, since this means no OMGE occurs.

In summary, corresponding adjustments must apply to any and all A6.4ERs set aside in the OMGE cancellation account, otherwise OMGE simply does not happen. If any exceptions are made, then OMGE will not be guaranteed, which would undermine Article 6.4(d) of the Paris Agreement and the principles in the Article 6.4 rules, modalities and procedures.

Consideration of whether 6.4 activities could include emission avoidance

> *[Decision 3/CMA.3, paragraph 7(h):] "The consideration of whether activities could include emission avoidance [and conservation enhancement activities];"*

Emission avoidance should not become eligible as a way to generate A6.4ERs. Carbon Market Watch would align with Parties at SBSTA 56 (nearly all Parties) who opposed the inclusion of emission avoidance under Article 6.4 and/or expressed significant concerns about the possible impacts of its inclusion.

These concerns are well founded since “emission avoidance” is an inconsistently and poorly defined term, especially in a carbon crediting context, and could be interpreted in a variety of ways with potentially devastating outcomes. In some cases it is quite unclear how to distinguish emission avoidance from emission reduction. Would all reductions against an increasing baseline qualify as avoidance? In such cases, emissions are not actually decreasing, they are just increasing by less than the baseline. This begs the question of what else could qualify as emission avoidance.

For example, under the guise of emissions avoidance, a fossil fuel extracting Party or company or proponent could say they’ll pump less oil and gas and hence become eligible to sell A6.4ERs for use by another Party or company to “reach” its climate target.

Under the CDM, certain emission avoidance methodologies credited fossil fuel use and infrastructure (e.g. AM0023 / 0037 / 0043), which was already highly questionable at the time, and which should not be repeated again in the context of the Paris Agreement.

In addition to eroding environmental integrity, there is also a significant risk that crediting on the basis of emission avoidance would flood the A6.4 market with hot air credits to the detriment of the entire mechanism’s credibility.

It is therefore good that emission avoidance is not eligible under Article 6, and this should not change. A6.4ERs should not be generated on the basis of such an inconsistently and poorly defined term which carries very real risks of actually increasing emissions when used towards reaching NDCs and compliance targets, or even as “offsets” on a voluntary basis.

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