Carbon Market Watch note on selected Article 6.2 elements following SBSTA 56 call for submissions

- 30 August 2022

The conclusions on Article 6.2 from SBSTA 56 invited observer organisations to make submissions on "any of the elements referred to in paragraphs 3, 6, 7 and 10 of decision 2/CMA.3 for consideration by the SBSTA."

Carbon Market Watch welcomes the opportunity to share our views on Article 6.2 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 6.2 elements on which SBSTA invited observer organisations to comment:

Corresponding adjustments for single-year NDCs while avoiding double counting

- Corrective measures are needed which can apply in an *ex-post* fashion in order to address the risk of double counting, which exists namely when applying corresponding adjustments via averaging for single-year NDCs.
- One possible corrective measure that should be considered is the cancellation of ITMOs in proportion to double-counted reductions / removals (including if double-counting occurred in a previous NDC period).
- This should not be complex to implement, since the Art 6.2 Guidance allows Parties to voluntarily cancel ITMOs (para 39). Registry mechanisms and reporting processes to cancel ITMOs thus will necessarily be established in SBSTA's ongoing Art 6.2 work.
- This corrective measure should also apply to other cases, e.g. for over-crediting.

Tables and outlines for required information as well as agreed electronic format

- The Article 6 technical expert review team should perform a consistency check to verify whether any ITMOs were double counted in a Party's NDC period.
- If the review finds double counting occurred, including in a previous NDC, Parties should apply a corrective measure, such as a cancellation of ITMOs.
- To facilitate this review and to encourage transparency, there should be an option in reporting tables/outlines for Parties to report on double counting and on corrective measures taken to address it (e.g. ITMO-cancellation).

Guidelines for reviews: modalities for reviewing information that is confidential

- As detailed in a previous CMW submission, all Article 6 information reported and submitted by Parties (+ other entities) must be comprehensive & publicly accessible.
- The default status of information should be "public". Any exception - if information is deemed "confidential" - must be governed by clear rules and duly justified.
- Observer organisations should be given further opportunities to share views on the subject of confidentiality, especially in case SBSTA begins to draft rules to govern how the status of confidentiality could be granted to certain types of information.

Infrastructure, including guidance for registries, international registry, Art 6 database, the CARP

- Article 6 registries, the database, and the CARP must build on lessons from CDM and VCM platforms/registries to be more robust and transparent, as detailed here.
- The proposed Article 6 infrastructure is a complex set of systems, whose concrete implementation should enable market actors and observers to easily understand: i) amount of tCO_2e reduced/removed through cooperative approaches; ii) who has used ITMOs to meet NDC target(s); iii) who are the sellers and buyers of ITMOs.
- All information should be reflected in the CARP, in a standardised downloadable and machine-readable format, in order to ensure public availability and transparency.

Consideration of whether ITMOs could include emission avoidance

- Emission avoidance must not become eligible for issuing ITMOs, since it is inconsistently/poorly defined and could lead to highly questionable ITMOs. 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.

Corresponding adjustments for multi-year and single-year NDCs while avoiding double counting

> *[Decision 2/CMA.3, paragraph 3(b):] "Elaboration of further guidance in relation to corresponding adjustments for multi-year and single-year nationally determined contributions, in a manner that ensures the avoidance of double counting, on:*
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> *(i) Methods for establishing an indicative trajectory, trajectories or budget and for averaging, including with respect to relevant indicators, and for calculating cumulative emissions by sources and removals by sinks;*
>
> *(ii) Methods for demonstrating the representativeness of averaging for corresponding adjustments by quantifying how much the yearly transaction volume differs from the average for the period;"*

Double counting of ITMOs goes against Art 6.2 principles, but risks occurring via averaging accounting

Article 6.2 of the Paris Agreement, as well as the guidance on Article 6.2 adopted at COP 26, require the avoidance of double counting. The 6.2 guidance also stipulates that cooperative approaches cannot lead to a net increase in emissions within and between NDC periods

However, there is a risk that double counting may still occur in practice, especially when applying corresponding adjustments for Parties with a single-year NDC target (nearly all Parties have a single-year NDC target - only 10 Parties have a multi-year target). Parties with a single-year target for their NDC can apply corresponding adjustments pertaining to their use of cooperative approaches under Article 6.2 either via "indicative multi-year accounting" or via "averaging accounting" (Decision 2/CMA.3, Chapter III.B, paragraph 7(a)i-ii).

In the first approach of "indicative multi-year accounting", there may be no risk of double counting, since this approach effectively results in the annual application of corresponding adjustments in proportion to the annual use of ITMOs. While the methods of applying this are yet to be finalised, in principle this does not appear to pose a risk for double counting.

However, in the second approach of "averaging accounting", the risk of double counting exists. Analysis shows that in multiple scenarios, the use of an averaging approach can lead to an aggregate increase in emissions between two Parties (depending on whether the number of ITMOs transferred and used increases, remains constant, or decreases over time, among other factors).[1]

This is because, in some scenarios with averaging accounting, a portion of the ITMOs will not be correspondingly adjusted: the host/selling Party could then sell ITMOs, without actually reducing more proportional emissions, and still reach its NDC target. This risk could well be further pronounced when ITMOs authorised for International Mitigation Purposes are sold to airlines under CORSIA: because demand is likely to increase over time, and due to other factors (see same source), this is one scenario where such double counting may be likely to arise.

In summary, there is a risk of double counting associated with applying an averaging approach for the application of corresponding adjustments for single-year NDC targets.

This could be resolved if Parties were to adopt more comprehensive multi-year NDC targets that set out a clear trajectory for emission reductions. This would come with added benefits of greater transparency and control over potential overshoots in emissions (not to be mixed with temperature overshoots). While Parties work towards such targets, an alternative approach is needed as outlined below.

Preparing a corrective measure for possible double counting: cancellation of ITMOs

In anticipation of the risk of double counting, corrective measures should be put in place, such as an obligation to cancel ITMOs in an *ex-post* fashion if double-counting is found to have occurred.

Consider if a Party uses ITMOs to reach its 2030 single-year target with an averaging approach for corresponding adjustments, but that it's only discovered in the next NDC period that there had actually been double counting of ITMOs in the previous NDC period. The impacts of this double counting must be addressed, since this would have increased global emissions overall, which goes against Article 6 principles: the Article 6.2 guidance states, for example, that cooperative approaches cannot lead to a net increase in emissions both within and between NDC periods (Decision 2/CMA.3, Annex, paragraph 7).

[1] Anne Siemons & Lambert Schneider (2022), "Averaging or multi-year accounting? Environmental integrity implications for using international carbon markets in the context of single-year targets", Climate Policy, 22:2, 208-221, DOI: 10.1080/14693062.2021.2013154

If it's discovered that double counting occurred in a Party's previous NDC period, then the Party must address the GHG emissions represented by those double counted ITMOs. That is to say, if 5MtCO_2eq were double counted in the previous NDC period, then the Party must be obliged to mitigate an extra 5MtCO_2eq during its current NDC period.

This obligation could be satisfied by the Party reducing/removing emissions domestically in proportion to the double-counted ITMOs from the previous NDC period. Operationalising this could entail a requirement for the Party to "overachieve" its current NDC target, without any associated ITMO transfer, in proportion to the double-counted ITMOs from the previous NDC period. The Party would then demonstrate that it overachieved its NDC target, which, for example, could be done through the introduction of an additional Article 6.2 reporting requirement related to addressing double-counted ITMOs. However, this approach might not be feasible for all NDCs, including for those not expressed in tCO_2e.

If the Party cannot address double counting through "extra" domestic abatement (or if it cannot demonstrate/report this), then a corrective measure would be for the Party to cancel ITMOs in proportion to the double-counted reductions/removals:

- Any ITMOs cancelled for the purposes of addressing double counting must, evidently, not be counted towards any Party's NDC or for other international mitigation purposes.
- In the event that the amount of double-counted ITMOs is higher than the amount of ITMOs available for cancellation from a given cooperative approach, then ITMOs from other cooperative approaches, or possibly A6.4ERs (if supply of ITMOs is limited), could be cancelled.
- **Cancelling ITMOs as a corrective measure for double counting should not be overly complex to implement since there is already a clear basis for Parties to voluntarily cancel ITMOs in the Article 6.2 Guidance** (Decision 2/CMA.3, annex, paragraph 39). This means that the registry mechanisms and reporting processes pertaining to the cancellation of ITMOs will necessarily be established as part of SBSTA's ongoing Article 6.2 work. Hence, provisions could easily be included to allow for the cancellation of ITMOs to address double counting as a corrective measure.

The same corrective measures should also be required if double counting occurs in a Party's current NDC period and is discovered in the same, i.e. current, NDC period.

Applying this ITMO-cancellation corrective measure to other cases, e.g. over-crediting

The corrective measure to cancel ITMOs could also apply to other cases beyond just double-counting, for example if over-crediting has occurred. For instance, if methodology-/project-level baselines implemented over the course of several years are later found to have actually over-credited ITMOs, then it is necessary to require the cancellation of a

proportional amount of ITMOs (or possibly A6.4ERs, depending on supply), as a corrective measure in order to protect environmental integrity and the credibility of the mechanism.

Tables and outlines for required information as well as agreed electronic format

> *[Decision 2/CMA.3, paragraph 6:] "Also requests the Subsidiary Body for Scientific and Technological Advice to develop tables and outlines for the information required pursuant to chapter IV of the annex (Reporting), including the agreed electronic format referred to in chapter IV.B of the annex (Annual information), on the basis of the submissions referred to in paragraph 4 above and taking into account the options developed pursuant to paragraph 5 above, for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its fourth session;"*

Given the risk of double counting and the need for corrective measures to address it in case it occurs (as detailed above), the Article 6 technical expert review team should perform a consistency check, as part of the Article 6.2 review cycle, to verify whether any ITMOs were double counted in a Party's NDC period. If double counting is found to have occurred, including in a previous NDC period, Parties should implement a corrective measure such as the aforementioned one to cancel ITMOs in proportion to double-counted reductions/removals.

To facilitate this review, and to encourage disclosure of relevant information, there should be an option for Parties to report, in tables or outlines, how and when double counting occurred and what corrective measures they have taken to address this. Therefore, at the minimum, a reporting column or field should be introduced as part of Article 6.2 reporting tables/outlines, whereby Parties that have applied corrective measures to address any double counting can report on what was done.

Guidelines for reviews: modalities for reviewing information that is confidential

> *[Decision 2/CMA.3, paragraph 7(c):] "Development of modalities for reviewing information that is confidential;"*

As detailed in a previous CMW submission, all Article 6 information reported and submitted by Parties (and/or other entities) must be exhaustive, comprehensive and publicly accessible.

The default status of information should be set as "public" (i.e. not confidential). Any exception, i.e. if information is deemed "confidential", must be governed by clear rules and duly justified.

Observer organisations should be given further opportunities to share their views on this question of confidentiality, since further discussions will be held in SBSTA on this in the coming months, and especially in the event SBSTA begins to draft rules to govern if and how the status of confidentiality could be granted to certain types of information.

In addition, Article 6 registries, the Article 6 database, and the "centralised accounting and reporting platform" (CARP) must build on lessons from CDM and VCM platforms/registries to be more robust and transparent (see next section as well as the section entitled "operation of the mechanism registry" in CMW's parallel submission on Article 6.4). With regard to A6.4ER transactions, the related registries, accounts & CARP should publicly identify any entity retiring a A6.4ER (and on whose behalf), and include a public transaction log reflecting ownership of A6.4ERs, identifying who holds them, and how ownership has changed over time: i.e. project proponent X sold a credit to intermediary Y, on this date, who retired it on behalf of company Z, on this date.

Infrastructure, including guidance for registries, international registry, Article 6 database, and CARP

> *[Decision 2/CMA.3, paragraph 10:] "Also requests the Subsidiary Body for Scientific and Technological Advice, on the basis of the submissions referred to in paragraph 8 above and taking into account the options developed pursuant to paragraph 9 above, to make recommendations relating to infrastructure, including guidance for registries, the international registry, the Article 6 database and the centralized accounting and reporting platform referred to in chapter VI of the annex (Recording and tracking), for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its fourth session;"*

Article 6.2 infrastructure should ensure transparency, public access, comprehensiveness, and consistency of information over time and across different reports. The proposed infrastructure combining national registries, an international registry, the Article 6 database, and the centralized accounting and reporting platform (CARP) is a complex set of systems, whose concrete implementation should enable market actors and observers alike to easily understand the following elements:

1. How many tonnes of CO_2e have been reduced through cooperative approaches?
2. Who has used ITMOs to meet NDC target(s)?
3. Who are the sellers and buyers of ITMOs?

The system should also allow tracking of ITMO trades, and should hence not be limited to summarising information from national reports. Upon the creation of a mitigation outcome, and upon any subsequent transfers -- whether originating in or occurring between national registries and/or the international registry, including any relevant accounts, and/or combinations thereof -- the relevant data should be duly recorded in the Article 6 database and subsequently publicly disclosed on the CARP.

In order to provide greater transparency over the paths taken by units between issuance and retirement, all transfers should be recorded in a centralised location, with information made publicly available in order for observers to be able to identify where and when ITMOs are transferred.

These elements should in turn all be included within the CARP, in a standardised downloadable and machine-readable format, in order to ensure public availability of this information.

Consideration of whether ITMOs could include emission avoidance

> *[Decision 2/CMA.3, paragraph 3(c):] "Consideration of whether internationally transferred mitigation outcomes could include emission avoidance;"*

Emission avoidance should not become eligible as a way to generate ITMOs. Carbon Market Watch would align with Parties at SBSTA 56 (nearly all Parties) who opposed the inclusion of emission avoidance under Article 6.2 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 could say they'll pump less oil and gas and hence become eligible to sell ITMOs for use by another Party to "reach" its NDC (or by an airline to "reach" its CORSIA obligation).

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.

It is therefore good that emission avoidance is not eligible under Article 6, and this should not change. ITMOs should not be generated on the basis of such an inconsistently and poorly defined term which carries very real risks of actually increasing emissions.

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