

Carbon Market Watch recommendations for Article 6 of the Paris Agreement

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Carbon Market Watch welcomes the opportunity to provide input to the discussions on matters relating to Article 6 of the Paris Agreement.

Years of stalled negotiations leading up to Paris Agreement unexpectedly delivered a strong provision for markets in the Agreement's Article 6, alongside provisions for non-market approaches. Now, in elaborating the rules, modalities, and procedures for Article 6, it is imperative that Parties learn from past experience with international climate cooperation, especially the Kyoto Protocol, and integrate provisions to ensure environmental integrity, foster sustainable development, and protect human rights in the future international market regime.

The Paris Agreement creates three different frameworks: one for cooperative approaches in the implementation of NDC's; one for a new "mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development" (SDM), and one framework for non-market approaches to sustainable development.

A clear overall structure for how these provisions are covered by the common accounting rules in Article 4, transparency regime in Article 13, and compliance in Article 15 and how they relate to each other will be essential.

Limit eligible activity sectors to within the scope of NDCs to support and encourage all parties to move towards economy-wide emission targets as called for in Article 4.4. Mitigation outcomes from outside of quantified ambitious NDC's cannot be considered for international transfer. The ability to sell reductions from outside of NDCs would provide a perverse incentive against such expansion and undermine ambition.

In elaborating this overall structure, it is essential that one provision does not undermine others and that all provisions are equally robust. Furthermore, while the framework for non-market approaches does not imply international transfer of mitigation outcomes, it is important that it includes safeguards for transparency and international oversight to promote sustainable development and to uphold human rights.

Article 4.1 of the Paris Agreement sets out the common goal to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century. The erstwhile practice of calculating greenhouse gases based on a 100 year time horizon may lead to an undermining of such a balance on a timescale before the end of the century. The fungibility of different gases may no longer be appropriate on a 100 year time scale and should be reevaluated to consider effects over a 20 and 50 year time horizon.

Cooperative approaches (Art. 6 (1-3))

→ Only Parties to the Paris Agreement should be able to generate or use cooperative approaches involving internationally transferred mitigation outcomes.

- Establish prerequisites to allow only countries with an economy-wide quantified targets with NDCs set well below business as usual and in line with 1.5C targets to generate and use international transfers towards their NDCs.
- Avoid double counting, claiming and use by, inter alia, ensuring a common accounting system for all international transfers and comply with provisions for accounting under Article 4, transparency in Article 13, and compliance in Article 15.
- Limit eligible activity sectors to within the scope of NDCs to support and encourage all parties to move towards economy-wide emission targets as called for in Article 4.4. Mitigation outcomes from outside of quantified ambitious NDC's cannot be considered for international transfer.
- Establish rules to ensure environmental integrity by requiring that emission reductions are real, additional, verifiable, and permanent; are supplemental to ambitious national mitigation, and ensure net atmospheric benefits.
- Require host countries to certify that mitigation actions have not violated human rights or caused environmental harm.
- Create an even playing field between cooperative approaches and the SDM including with regard to net mitigation of overall greenhouse gas emissions and a share of proceeds for adaptation and the GCF.

SDM (Art.6 (4-7))

- Design the SDM as a tool for results based finance not for zero sum offsetting
- Ensure environmental integrity, contribute to transformational change, and avoid perverse incentives that undermine ambition
- Define, monitor, report and verify real, measurable and long-term sustainable development and mitigation benefits
- Establish a robust SDM oversight body
- Establish an institutional SDM grievance process
- Ensure effective public and local stakeholder participation
- Adapt, reform and build on beneficial existing CDM infrastructure

Framework for non-market mechanisms (Art. 6 (8-9))

- Ensure transparency and good governance
- Ensure social and environmental integrity
- Ensure contribution to sustainable development
- Uphold human rights

COOPERATIVE APPROACHES

In the Paris Agreement, Parties may “choose to pursue voluntary cooperation in the implementation of their nationally determined contributions.” So called cooperative approaches allow countries to use and transfer “international mitigation outcomes towards nationally determined contributions”¹ to allow for higher ambition. **It is imperative that robust multilateral rules are established to avoid a race to the bottom. A lack of robust rules would undermine ambition and the environmental integrity of the Paris Agreement.**

The purpose of cooperative approaches is for more ambition in NDCs, only Parties to the Paris Agreement

¹ Paris Agreement, Art. 6(1)

should be able to generate or use cooperative approaches involving internationally transferred mitigation outcomes.

Make sure double counting doesn't undermine environmental integrity

While the first round of NDCs were very diverse in terms of target types, coverage, greenhouse gas gases included and in terms of single vs. mutli-annual targets. Robust accounting requires comparability between targets, that Parties use the same metrics and have mutli-annual quantified targets. The Paris Agreement furthermore specifies that these cooperative approaches shall “promote sustainable development and ensure environmental integrity and transparency, including governance, and shall apply robust accounting to ensure, inter alia, the avoidance of double counting.”² Robust accounting rules and avoidance of double counting will be crucial to ensure an overall increase of global emissions. Rules must ensure a harmonized approach for cooperative approaches and the the SDM in accordance with Article 4 paragraph 13, transparency in Article 13, and compliance in Article 15.

Avoid perverse incentives against expansion of NDCs

Article 4.4 of the agreement encourages developing countries to move towards economy wide quantified targets for their NDCs. In order to **avoid creating a perverse incentive** against the expansion and increased ambition of NDCs, internationally transferred mitigation outcomes must come from sectors covered by quantified ambitious NDC's.

Cooperation between Parties cannot supplant ambitious domestic action on behalf of all parties

Supplementarity must be ensured: reaching the overall temperature objectives in line with 1.5C requires all Parties to rapidly reduce their own emissions instead of simply buying compliance with their NDCs.

Overselling may also be a danger; transparency and a conservative approach, especially with regard to transfers and their relation to NDC's must be integral to a country's transfer activities.

An even playing field

Further, Cooperative approaches must function on an even playing field producing a net mitigation of overall greenhouse gas emissions and a share of proceeds for adaptation. The Agreement obliges countries to promote environmental integrity, which means that the markets will have to consider a transfer's effect on the Parties' reduction pathways towards 1.5C and wider social and environmental factors in addition to the amount of carbon traded.

- **Only Parties to the Paris Agreement should be able to generate or use cooperative approaches involving internationally transferred mitigation outcomes.**
- **Establish prerequisites to allow only countries with an economy-wide quantified targets with NDCs set well below business as usual and in line with 1.5C targets to generate and use international transfers towards their NDCs.**

² Paris Agreement, Art. 6(2)

- **Avoid double counting, claiming and use by, inter alia, ensuring a common accounting system for all international transfers and comply with provisions for accounting under Article 4, transparency in Article 13, and compliance in Article 15.**
- **Limit eligible activity sectors to within the scope of NDCs to support and encourage all parties to move towards economy-wide emission targets as called for in Article 4.4. Mitigation outcomes from outside of quantified ambitious NDC's cannot be considered for international transfer.**
- **Establish rules to ensure environmental integrity by requiring that emission reductions are real, additional, verifiable, and permanent; are supplemental to ambitious national mitigation, and ensure net atmospheric benefits.**
- **Require host countries to certify that mitigation actions have not violated human rights or caused environmental harm.**
- **Create an even playing field between cooperative approaches and the SDM including with regard to net mitigation of overall greenhouse gas emissions and a share of proceeds for adaptation and the GCF.**

THE SUSTAINABLE DEVELOPMENT MECHANISM (SDM)

The Paris climate deal established a new "mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development"³, in short the Sustainable Development Mechanism or SDM. The Parties should move quickly to phase out the CDM at the end of the second Kyoto compliance period and learn from the experience for a fundamentally reformed SDM. The SDM cannot be a "copy-paste" exercise from the flawed CDM. Critically, the new mechanism must truly lead to a net mitigation of greenhouse gases, protect human rights, and develop effective criteria to evaluate co-benefits and to promote sustainable development. The SDM must also use a share of the proceeds to assist vulnerable countries with climate adaptation financing adaptation.

Like the CDM, the SDM is intended not only to promote the mitigation of greenhouse gas emissions but also to foster sustainable development.⁴ Unlike the CDM, all countries could theoretically host activities under the SDM, however they must be careful to not oversell and trade away their low hanging fruit - all countries are expected to regularly increase the ambition of their Nationally Determined Contributions. Overselling may also be a danger transparency, especially with regard to transfers and their relation to NDC's must be integral to a country's transfer activities.

The SDM must address a number of elements including how to assess sustainable development outcomes; how to promote ambition, how to deliver net mitigation; how to move beyond projects to broader policies and measures; and how to avoid double counting.⁵ From the CDM experience, additionality and perverse incentives for present and future climate policy making are some of the largest challenges. All this must be governed and transparently accounted for.

It is also an imperative to include strong provisions for the social implications of climate mitigation projects. The preambular reference to human rights in the Paris Agreement also covers the SDM. The Paris Agreement's accompanying COP decision recognizes the significance of building on the experiences gained and lessons

³ Paris Agreement, Art. 6(4)

⁴ Id.

⁵ See UNFCCC, Paris COP Decision, Decision 1/CP.21, 2015, para. 38(f) and Paris Agreement, Art. 6(4)

learned from existing mechanisms and approaches adopted under the Convention.⁶ To prevent repeating the same mistakes and to help ensure the SDM's success, human rights must be at the core of the new mechanism's modalities and procedures.

- **Design the SDM as a tool for results based finance not for zero sum offsetting**
- **Ensure environmental integrity, contribute to transformational change, and avoid perverse incentives that undermine ambition**
- **Define, monitor, report and verify real, measurable and long-term sustainable development and mitigation benefits**
- **Establish a robust SDM oversight body**
- **Establish an institutional SDM grievance process**
- **Ensure effective public and local stakeholder participation**
- **Adapt, reform and build on beneficial existing CDM infrastructure**

FRAMEWORK FOR NON-MARKET MECHANISMS

The third framework included in Article 6 is the “integrated, holistic and balanced non-market approaches being available to Parties to assist in the implementation of their nationally determined contributions, in the context of sustainable development and poverty eradication.”⁷ The framework has potential as a means to channel climate finance in a manner that is measurable, reportable and verifiable. It also creates a potential basis for technology transfer and capacity-building, both for solutions related to mitigation and adaptation.⁸

- **Ensure transparency and good governance**
- **Ensure social and environmental integrity**
- **Ensure contribution to sustainable development**
- **Uphold human rights**



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⁶ UNFCCC, Paris COP Decision, Decision 1/CP.21, 2015, para. 38(f)

⁷ Paris Agreement, Art. 6(8-9)

⁸ Paris Agreement, Art. 6(8-9)

