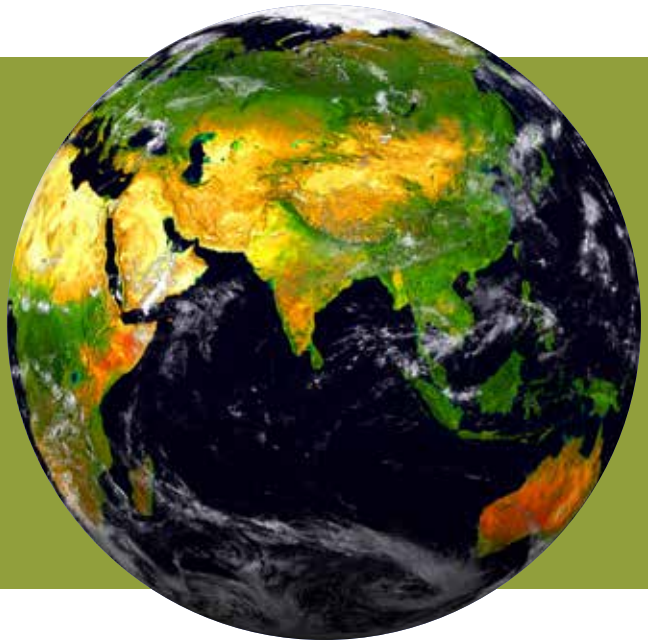
DISCUSSION **PAPER**



# MARKET-BASED APPROACHES OF THE PARIS AGREEMENT:

## WHERE ARE WE NOW?

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### Article 6 of the Paris Agreement reads…

1. "Parties recognize that some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contributions to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity.
2. Parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred mitigation outcomes towards nationally determined contributions, promote sustainable development and ensure environmental integrity and transparency, including in governance, and shall apply robust accounting to ensure, inter alia, the avoidance of double counting, consistent with guidance adopted by the Conference of the Parties serving as the meeting of the Parties to this Agreement.
3. The use of internationally transferred mitigation outcomes to achieve nationally determined contributions under this Agreement shall be voluntary and authorized by participating Parties.
4. A mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development is hereby established under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to this Agreement for use by Parties on a voluntary basis. It shall be supervised by a body designated by the Conference of the Parties serving as the meeting of the Parties to this Agreement, and shall aim:
   a. To promote the mitigation of greenhouse gas emissions while fostering sustainable development;
   b. To incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party;
   c. To contribute to the reduction of emission levels in the host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfil its nationally determined contribution; and
   d. To deliver an overall mitigation in global emissions.
5. Emission reductions resulting from the mechanism referred to in paragraph 4 of this Article shall not be used to demonstrate achievement of the host Party's nationally determined contribution if used by another Party to demonstrate achievement of its nationally determined contribution.

6. The Conference of the Parties serving as the meeting of the Parties to this Agreement shall ensure that a share of the proceeds from activities under the mechanism referred to in paragraph 4 of this Article is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.
7. The Conference of the Parties serving as the meeting of the Parties to this Agreement shall adopt rules, modalities and procedures for the mechanism referred to in paragraph 4 of this Article at its first session.
8. Parties recognize the importance of 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, in a coordinated and effective manner, including through, inter alia, mitigation, adaptation, finance, technology transfer and capacity-building, as appropriate. These approaches shall aim to:
   a. Promote mitigation and adaptation ambition;
   b. Enhance public and private sector participation in the implementation of nationally determined contributions; and
   c. Enable opportunities for coordination across instruments and relevant institutional arrangements.
9. A framework for non-market approaches to sustainable development is hereby defined to promote the non-market approaches referred to in paragraph 8 of this Article."

## Introduction

Article 6 of the Paris Agreement (PA) focuses on a framework for countries to ***voluntarily*** cooperate using market and non-market based approaches to raise climate ambition. In the process there is also recognition of the need to establish an emissions accounting framework that will promote sustainable development, and environmental integrity. PA establishes three approaches for the said cooperation within the various paragraphs:

- Paragraph 2 and paragraph 3 of Article 6 call for cooperative approaches for Internationally Transferred Mitigation Outcomes (ITMOs) for countries to achieve their nationally determined contributions (NDCs);
- Paragraph 4 calls for a new mechanism to promote mitigation and sustainable development and;
- Paragraph 8 and paragraph 9 calls for a framework for non-market approaches.
- While the PA calls for setting up the above new market based mechanism in order to implement INDCs effectively, at the same time, it aims to address the issues and challenges that beset the market based mechanisms of the Kyoto Protocol, particularly those of 'additionality' and 'baselines'.

In order to finalise the frameworks, the COP requested the Subsidiary Body for Scientific and Technical Advice (SBSTA) to develop and recommend modalities for operationalising the approaches under Article 6 of the PA. SBSTA invited submissions by Parties on all the three approaches, and prepared informal documents for further consultations at subsequent intersessional meetings. Parties have made submissions on (a) the guidance on cooperative approaches (Art. 6.2), (b) rules, modalities and procedures for the mechanism established under Article 6 (Art. 6.4), and (c) the work programme under the framework for non-market approaches (Art. 6.8).

This discussion paper focuses on the market-based mechanisms of Article 6 (particularly, Art. 6.2 and Art. 6.4). It attempts to provide a discussion around the key areas of deliberation on Article 6 by assessing various country positions and views on the new market-based regime for trading in emissions or mitigation outcomes. This has been done by assessing the last round of submissions (October 2017), then taking into account the emerging areas of discussion at the May 2018 SBSTA meeting held in Bonn. The areas of discussions emerging from SBSTA 48 have been captured by interpreting the informal notes. These informal notes are meant to inform the continued intersessional discussions at SBSTA 48-2, to be held in Bangkok, Thailand from 3-8 September 2018.

## Discussions Till Date: Recent Developments Under Article 6

The three approaches of Article 6 began to be discussed by the Subsidiary Body for Scientific and Technological Advice (SBSTA) at its 44th session in May 2016 - the first session after the adoption of the Paris Agreement at COP 21 on 12 December 2015. The first call for submissions on inputs to operationalize Article 6 was issued at SBSTA 44 to be submitted by 30 September 2016. Later that year in November, Parties met at SBSTA 45 in Marrakesh and exchanged views on the modalities for developing the market based approaches and

focused on creating a common understanding of the matters relating to the Article. SBSTA issued a second call for Party submissions on developing the modalities for the market in 2017 and continued the work on cooperative approaches, recognising the previous views and inputs exchanged at the roundtable organised during the meeting. After the session, an informal note was prepared on 17 May 2017 by the co-facilitators for each of the agenda items as an attempt to consolidate all the views expressed by Parties. SBSTA invited the third round of submissions as well, by 2 October 2017, and further requested the UNFCCC secretariat to organize the next roundtable. Subsequently, at SBSTA 47 in Bonn, work continued on paragraphs 2, 4 and 8 of Article 6, with a request to prepare an informal document on the draft elements of each in order to facilitate the deliberations at SBSTA 48. The informal notes for SBSTA 47, prepared on 12 November 2017, further enhanced the structure of Article 6 draft decision based on the various Party views and inputs, wherein both Art. 6.2 and 6.4 included sections on preamble, principles, scope, purpose, definitions and the governance structure.

The informal note on Art. 6.2 further elaborated on the details of the guidance for cooperative approaches, including institutional arrangement, governance, and transfers and included summary of views of Parties on that issue. On Article 6.4, the informal note contained draft elements on key issues e.g. the role of the CMA (Conference of Parties serving as the meeting of Parties to the Paris Agreement), a supervisory body, a registry, participation requirements and roles of host Parties as also the acquiring/transferring-in/using Parties, participation by other actors, designated operational entities, eligible mitigation activities, mitigation activity cycle, levy of share of proceeds towards administration and adaptation, overall mitigation, avoiding use of emission reductions from mitigation activities by more than one Party, emission reductions for purposes other than NDCs, limits to trading and use of emission reductions towards NDCs, transition from Kyoto Protocol, adaptation ambition, addressing negative social and economic impacts (in line with Art. 4.15), and adjusted transfer of project based emissions to Parties with absolute emission caps.

Following up on the above, discussions were held on the basis of the earlier informal notes and the notes on draft elements to be contained within Art. 6.2 and Art. 6.4 at SBSTA 48 in Bonn. The discussions held in Bonn further streamlined the structure of the proposed draft elements of Articles 6.2 and 6.4. Based on these discussions, revised informal notes were released on 10 May 2018 with a view to bring together elements of each issue while developing the language and clarifying options for further elements. SBSTA 48 concluded[1] the discussions on Article 6 by taking note of the informal documents, noting that elaborations and deliberations of the Article 6 approaches will continue at SBSTA 48-2.. The revised notes underlined that they did not represent a consensus view because of some Parties having brought up the issue of their views not being well reflected. Parties also objected the contemplated link of Article 6 with the Ad Hoc Working Group on the Paris Agreement (APA). It is unlikely that there will be a new call for submissions, draft texts, technical papers and a roundtable in conjunction with SBSTA 48-2, considering a non-consensus amongst Parties on the need for them.

The informal drafts regarding the structure and elements of Article 6.2 and 6.4 have thus gone through two iterations; the final versions of the two market-based approaches contain twenty sections each with several options, reflecting the detailed and continual discussions and the effort by the Co-chairs to integrate various views. These informal notes outlining questions posed and comments made during the two meetings of SBSTA have been elaborated further in light of the Party submissions.

## Identifying Key Areas

In order to understand the views of Parties, an analysis of the latest round of submissions by Parties, covering submissions from the industrialised economies, developing economies, the least developed countries (LDCs) and small island developing states (SIDS) was undertaken. As of April 2018, 21 Party submissions on the guidance under Art. 6.2, and 18 Party submissions on the rules, modalities and procedures (RMP) under Art. 6.4 were received by SBSTA.[2] The analysis of the views on the broader Principles of Article 6, (namely voluntary participation, raising climate ambition, and promoting sustainable development and environmental integrity), as well as frameworks including cooperative approaches such as ITMOs, and the new mechanism are captured. The assessment has been made on the basis of the significance that different groups of countries attached to the specific elements of the Article, important for its implementation. Some of the key elements emerging from Article 6.2 and 6.4 Party submissions are listed below.

Moreover, based on how detailed the views and inputs were, they were categorized into "Neutral" (not mentioned),

1 FCCC/ SBSTA/2018/L.13

2 UNFCCC Submissions portal

"Positive" (positively acknowledged), "Mild Recommendation" (suggestions without actionable inputs, or suggestions that sow questions for deliberation), and "Strong Recommendation" (comprehensive or actionable suggestions).

This analysis gives us an insight on the key issues that were to be addressed at SBSTA 48. Despite the dedicated discussions and participation of Parties, the developments at SBSTA 48 have been gradual. After interpreting the informal notes presented at SBSTA 48 and identifying key areas, we assess the progress in more detail. The third iteration of the informal note presented at the session enumerates the various "options" for elements of the draft decision, signifying the seemingly continuous need for coherence in views amongst parties.

Areas where countries' views do not meet are of stark importance for the very reason that Parties need to unanimously agree on a draft decision in order to adopt it. It is also necessary that each issue integral to the draft decision be addressed. Hence, areas with both divergent and deficient views, i.e. areas where submissions have not voiced a comprehensive roadmap, have been encapsulated below, after which the progress at SBSTA 48 is examined.

Further, the guidance for ITMOs should ideally be drawn from the guidance for operationalizing the new mechanism, considering emission reductions from the mechanism can be internationally transferred as well. In fact, the CMA is tasked to ensure consistency between the guidance under Art. 6.2 and RMP of Art. 6.4 in relation to the use of emission reductions under that mechanism towards achievement of NDCs. For this reason, the analysis of submissions along with the interpretation of the latest informal notes are viewed across both the market-based approaches, the results of which are integrated key areas of deliberations. The pertinent areas to pave the way forward for SBSTA 48-2 are catalogued below.

## Key Areas of Deliberation

### *Elements and Definitions for the Market Framework*

#### Nature and Rationale for Cooperative Actions

In the submissions, some countries such as New Zealand and Papua New Guinea view ***cooperative approaches*** as any kind of cooperation to transfer mitigation outcomes between two or more countries, while others such as Canada and South Africa view them as cooperation for ***international*** transfers of mitigation ***surpluses*** towards achieving countries' NDCs and do not cover domestic and regional emissions trading.

Of the countries and groups selected, all have expressed strong recommendations on the meaning of the new ***mechanism***, except for Like Minded Developing Counries (LMDCs) who underscore that the central goal of Article 6 is to contribute to NDC implementation and give few recommendations on Art. 6.4, which includes incorporating the share of proceeds into the mechanism.

The African Group of Negotiators (AGN) views the mechanism's aims as enhancing ambition through **'additional mitigation action'** by including private and public stakeholders, and to provide a globally vetted framework with real, measurable and long-term mitigation benefits resulting from cooperation. They suggest that the units generated can be used by both state and non-state actors. They refer to the mechanism as the 'SDM' – Sustainable Development Mechanism.

Brazil states that the Art. 6.4 mechanism, which they too refer to as the SDM, is the "ultimate international mechanism to certify and issue credits", and that its scope is similar to that of the CDM. Hence, it supports that the CDM transitions to the SDM, and subsequently, CERs be used towards NDCs, CDM methodologies be continued, CDM projects continue to be valid, and that the CDM accreditation system be migrated to the new mechanism.

The EU believes that the scope of activities and their contribution to mitigation objectives should be defined by host Parties, enabling the promotion of mitigation and benefits to the host party from credited activities. They believe that surplus emissions should stay with host parties and only activities inside the NDC scope should be credited.

#### List of Definitions for the Market Approaches

In the submissions, few countries highlight the need for a section on definitions, such as Australia and the EU for 6.2 and Brazil and the EU for 6.4. Other Parties that draw attention to the same but are not included in the study are CORSIA, Korea, the LDCs[3] and New Zealand. Australia stresses on the importance of a list of definitions for the purpose of clarity in its submission. It has adopted and defined certain terms

3 LDCs define the terms "Cooperative approach that involves the use of internationally transferred mitigation outcome" (CAITMOs) and "NDC Limitation Quotient" (NLQs). CAITMOs: any cooperation (in Art. 6.2 scope) through trading of greenhouse gas emission reduction levels that are consistent with the Paris Agreement including the associated accounting guidance. NLQs: total emissions reduction defined within or planned under a Party's NDC and shall be expressed as tonnes of carbon dioxide equivalent pursuant to the relevant provisions in the Guidance for NDC accounting.

to capture the concepts integral to the discussion, namely, 'ITMO', 'double counting', 'corresponding adjustment', and 'host'. Japan only talks about the definition of 'credits/units', stating that one credit/unit should represent 1 mtCO2e, calculated using common GWP. Brazil posits the definition of CER is vital to the RMP of 6.4. An arising definition is that of NDC quotients, highlighted by Korea and the LDC group. It can be broadly understood as total emission reductions in the scope of a Party's NDC, and may be expressed in CO2e.

The final version of the informal note on Art. 6.2 (6.2 note) presents a robust list of terms, However, not all terms are defined. The term "sustainable development", the promotion of which is one of the objectives of Article 6 itself, has been left undefined. This could possibly have stemmed from the divergence in views amongst Parties on whether promoting sustainable development should be a national prerogative or be reported to international governance. Other terms that have not been defined include ***creation, first transfer, issuance, retirement, transfer, use towards NDCs,*** and ***first international transfer***. In the informal note for Art. 6.4 (6.4 note), there are also terms that present several options, reflecting the various opinions on what it should mean, such as ***cancellations*** and ***stakeholder***.

It goes without saying that clarification on the meaning of terms that are to be regular actors in the process of cooperative approaches is crucial to avoid confusion.

## Principles & Guidance

During the intersessionals, a debate ensued on why the ***Principles***, ***Preamble***, ***Participation Requirements*** and ***Eligibility*** for the two approaches differed. Parties diverged on the need for a Principles section at all, considering that the section could be subsumed into the section on the Preamble. Elaborating on my previous stance[4], considering the credits to trade in the mechanism, i.e. ITMOs draw from rules that govern the mechanism itself, reiterating these sections on both the guidance for cooperative approaches and the rules, modalities, and procedures for the mechanism could, in most likelihood, cause repetition.

Deliberations are still ongoing on whether the guidance under Article 6.2 (6.2 guidance) should be applicable to emission reductions under the new mechanism (A6.4ERs). The 6.2 informal note debates the applicability of the 6.2 guidance. The options to which it should be applicable are – (i) all A6.4ERs transferred internationally; (ii) A6.4ERs from sectors/GHGs covered by the NDCs; (iii) A6.4ERs covered by the NDC in general; (iv) initial forwarding of A6.4ERs; (v) as a corresponding adjustment[5], (vi) or as a national allowance[6]. The note also states that A6.4ERs transferred internationally and used towards NDCs are ITMOs. This strengthens the assertion that the 6.2 guidance should be drawn from that of the mechanism, and therefore, the 6.2 guidance should apply to ITMOs generated from the mechanism as well. The 6.2 note also includes in its scope (application of guidance) mitigation activities under the new mechanism.

Further, according to the 6.2 note[7], ITMOs must be real, permanent and verifiable, and may be used towards the achievement of NDCs or otherwise. The aspect of their additionality is still under debate. The A6.4ERs, amongst other requirements, must deliver real, measurable and long-term mitigation benefits, foster sustainable development, and not have negative environmental impacts, which is one of the deliberated meanings of environmental integrity.

## Raising Ambition & Environmental Integrity

Not many submissions have voiced their inputs on raising ambition or environmental integrity comprehensively. However, the two are often discussed simultaneously. In their submissions, the AGN and EU have expressed that raising ambition needs to be a concerted effort towards maintaining environmental integrity. Canada also implicitly suggests so by expressing that ensuring environmental integrity in market-based approaches means that ITMOs must reduce global emissions. The AGN has recommended that mitigation outcomes should be traded only if cooperative approaches have resulted in ***a greater level*** of mitigation. They suggested that parties should report how they promote environmental integrity (along with sustainable development), and once expert reviewed and approved, should they be allowed to use ITMOs towards achieving their NDCs. The EU sites that to ensure environmental integrity, the guidance should allow for higher ambition, successive NDCs should represent a progression and reflect its highest possible ambition,

4 "Further, the guidance for ITMOs should ideally be drawn from the guidance for operationalizing the new mechanism, considering emission reductions from the mechanism can be internationally transferred as well" – Identifying Key Areas, pg 4.

5 For use of one Party towards NDCs, and reflected in the host Party's calculation of its GHG inventory.

6 A Party with an absolute emission limitation or reduction target in its NDC may transfer an equivalent quantity of national allowance, post application of the 6.2 guidance to A6.4ERs.

7 Section VI (Internationally Transferred Mitigation Outcomes), subsection "Characteristics of an ITMO".

and finally, Parties should move towards economy wide emission reductions over time. The AOSIS suggests that, in order to contribute to higher ambition, overall mitigation by the mechanism and share of proceeds for adaptation could be included in cooperative approaches. However, LMDCs view transfers as a central element to Article 6 and mention "ambition" only in the context of co-benefits.

The informal notes define environmental integrity comprehensively, reflecting robust discussions on the topic despite the lack of it in the submissions. For 6.2, the informal note enlists a set of meanings attached to environmental integrity. These include no increase in global GHGs resulting from cooperative approaches and ITMOs; additionality, realness, permanence and verifiability of ITMOs; and a list of environmental integrity standards. Requirements to ensure environmental integrity involve reporting by Parties and third party oversight.

"Higher ambition" is included in the principles, requirements for environmental integrity, and adaptation ambition sections of the 6.2 note. This reiterates the views that environmental integrity and raising ambition are interlinked. The 6.4 note includes environmental integrity in its set of principles. According to the note, ensuring environmental integrity is part of the mechanism; in the absence of a principles section in the RMP text, those of the 6.2 guidance would apply. It further states that the mechanism must allow for higher ambition, even in terms of adaptation, hence (and as stated in the 6.2 note, too), allowing participants to deal with A6.4ERs resulting from mitigation co-benefits from adaptation action or economic diversification.

### Promoting Sustainable Development

Actions to promote sustainable development have not been discussed in detail, and in some submissions, not even at all. Following suit from the CDM, where 'sustainable development' remained undefined due to the opposition from developing countries towards application of uniform universal standards and criteria[8], there remains a split in the submissions that do discuss it – whether universal international rules and provisions should monitor the promotion of sustainable development, or whether this aspect should be governed by domestic national prerogatives. Maintaining environmental integrity has also been viewed in a similar manner, with some parties suggesting the system for governance to be set at the national level, some suggesting a central international framework, and some suggesting a melange of both through a bottom-up approach led by the Parties themselves.

- **Bottom up:** Most parties suggest in their submissions that defining the sustainable development and their component activities should be the prerogative of individual parties. . Some Parties, including Australia, the AOSIS, LMDC and South Africa although, mention that certain aspects such as sustainable development should be determined based on "national circumstances".
- **International supervision:** The EU emphasises the usage of the SDGs as a basis for reporting, while some other Parties suggest that a similar sustainable development tool be used to assess whether activities contribute to this aspect, such as the one in CDM. Suggestions also include limitations on transfers of outcomes and the eligibility of sectors based on their quantifiability, as well as addressing potential areas for conflict with other aspects of the environment. Though the divergence that existed during the CDM is still extant, there is further a lack in inputs on how sustainable development should be implemented.

The informal notes do not define the term sustainable development, but refer to its promotion in the Principles and Reporting Requirements sections of the 6.2 note. The informal note further echoes the EU's views on complying ITMOs with SDGs. In 6.4, it reiterates it in the section on Principles, and further in the responsibilities and benefits of Parties, and the general requirement for mitigation activities.

## *Mitigation*

### Operationalization of Tradable Units: ITMOs & A6.4ERs[9]

- The AGN has given a strong recommendation on ITMOs. They view ITMOs as a bookkeeping unit to keep track of mitigation outcomes between two Parties, which cannot, therefore, be used by private entities. The AGN views ITMOs as a non-commodity[10] that cannot be issued, held, traded, cancelled or used by private entities. They advocate that mitigation outcomes should only be traded if the cooperative approaches result in a greater mitigation than the level of mitigation without

8 Torvangeri, Asbjørn et al. January 2013. A two-track Clean Development Mechanism to improve incentives for sustainable development and offset production. Climate Policy

9 Emission reductions from the mechanism referred to in Article 6, paragraph 4.

10 Not constituting carbon credits or a commodity that can be traded.

these approaches. For A6.4ERs, the AGN has advocated that they may be used in several ways such as – towards NDCs, towards compliance schemes for private actors such as CORSIA, and may serve as an instrument for results-based finance (RBF) in conjunction with the cancellation of units.

- Canada, Japan, Australia, the AOSIS group, and the EU expresses the view that ITMOs should be in amounts denominated in CO2e. It further stresses that ITMOs should be intended for use towards NDCs, and their transfer is subject to the agreement of Parties involved. They believe that the use of an ITMO occurs when a corresponding adjustment is duly recorded, followed by reporting and review in the accounts of the relevant Parties in a centralised accounting database. As for A6.4ERs, the EU states that these should be subject to the requirements of the 6.2 guidance, at a minimum, when transferred internationally and for both Parties. They also state that this should include a report identifying the scope of their NDC and their 'accounting balance'.
- LMDCs believe the primary scope of Article 6 to be the achievement of NDCs. In their view, Art. 6.2 deals with ***only transfers*** of mitigation outcomes, while Art. 6.4 deals with ***both*** transfer and generation, suggesting that mitigation outcomes defines both the market approaches. They highlight that mitigation outcomes are not unique to Article 6 and suggest other areas that could be incorporated into the Article, such as mitigation co-benefits, activities leading to emission reduction or avoidance. They also state that share of proceeds as transactional fees should be applied to both ITMOs and the mechanism in order to stay focused on the overall goal of achieving NDCs.
- Russia believes that operationalization of ITMOs in the NDC recording system of each Party should be subject to the type of NDC, and should be expressed in emission reduction units/absorption units. They suggest that A6.4ER transfers should be appropriately accounted for during the demonstration of NDC achievements, and deem it appropriate to use Kyoto mechanism approaches.
- South Africa suggests that ITMOs must be quantifiable and satisfy the requirements set up by the standards and methodologies body under governance mechanisms, and that the test point for an ITMO is the criteria that will be set through the standards and methodologies body. They state that A6.4ERs should be additional (to what would otherwise occur and to BAU), and hence contribute to progression of NDC ambition levels.
- Brazil doesn't limit the scope of emission reductions and its units to the scope of NDCs. It states that ITMOs should be multilaterally accounted if they are used towards NDCs. For A6.4ERs, it opines that units held in the SDM registry should be either used by Parties towards their NDCs or by a non-State stakeholder towards voluntary climate strategies or commitments.

The 6.2 informal note discusses the operationalization of ITMOs, deliberating on factors such as use towards NDCs, characteristics of an ITMO, and other ITMOs. The subsection "other internationally transferred mitigation outcomes" points out that emission reductions generated from the 6.4 mechanism are ITMOs too if they are internationally transferred. The note also states that CERs and ERUs from the Kyoto mechanisms used towards NDCs are also ITMOs. Further, it provisions for single-year and multi-year NDCs; for single-year, it deliberates upon the type of guidance to be applied, while for multi-year, it contemplates whether or not to apply a specific guidance.

The section on eligible mitigation activities in the 6.4 note further reflects on whether mitigation activities should be inside or outside NDCs, or both, while deliberating options under setting a baseline and calculating emission reductions[11]; taking into account special circumstances; and additionality.

### Additionality

In the submissions, Australia, the AGN, the AOSIS and Canada stress on the aspect of additionality. The AGN asserts that mitigation outcomes can only be traded under the condition that the cooperation has resulted in a greater level of mitigation than would have occurred in the absence of the cooperation. The AOSIS states that common minimum standards ensuring that ITMOs represent additional (other than real, measurable, verified and permanent) emission reductions, should be applied. Canada talks about additionality of emission reductions in the context of corresponding adjusting and suggests that Parties could explore how the accounting guidance related to corresponding adjustments might be designed to result in generating additional emissions reductions through initiatives in the short term.

11 With a methodology approved by the Supervisory Body.

The 6.4 note states that A6.4ERs are "additional" if it meets the requirements stated under the ***Additionality*** section[12]. The options presented under this section have different interpretations of additionality,, namely, an activity is additional if it is additional to what would otherwise have occurred, related to being beyond the NDC, or linked to the scope of NDCs. Demonstrating additionality, however, does not apply to LDCs and SIDS, according to the text. Additionality, agreeably should be a melange of what would otherwise have occurred and and what is achieved beyond NDCs. Further, the note states that Parties should authorize mitigation activities that deliver additional emission reductions. The 6.2 note states that ITMOs should be real, permanent and verifiable, with the aspect of additionality not consistent throughout the list. This also holds to protect environmental integrity.

### Overall Mitigation

The recommendations on overall mitigation are mostly "Mild Suggestions", with more comprehensive inputs from Japan. Brazil approaches this area by disputing the view that corresponding adjustments of activities within the scope of the host country's NDC are necessary to deliver an overall mitigation. They believe that "SDM-certified additional mitigation action at scale" rather than corresponding adjustments are Principal for overall mitigation. The EU underscores the need for clarification on the determination and assessment of overall mitigation, and view overall mitigation as important for accounting rules, for a provision to ensure  own contribution by the host Party, and for a potential net benefit for the atmosphere. Japan believes that in order to achieve an overall mitigation, the methodological approach to calculate emission reductions and removals should be redesigned considering learnings from existing mechanisms (like the CDM), by pursuing approaches such as referencing below BAU and pursuing high approach values. AGN states that areas for which new or modified guidance needs to be developed should relate to the operationalization of overall mitigation, along with its governance structure, mechanism scope and relationship between crediting and NDCs. They also suggest that mitigation activities have to be additional and deliver an overall mitigation. The lack of inputs on the operationalization of overall mitigation needs attention.

The informal notes for Art. 6.2 and Art. 6.4 preceding the SBSTA 48 meeting had highlighted that that an overall mitigation takes place "when the mitigation resulting from a cooperative approach is delivered at a level that goes beyond what would be achieved through the delivery of NDCs of participating Parties in aggregate;" and "when emission reductions are delivered at a level that goes beyond what would be achieved through the delivery of the host Party's NDC and the acquiring Party's NDC in aggregate" respectively. Both these definitions imply that mitigation must go beyond that achieved through NDCs to have an overall mitigation. Though there seems to be a consensus on the meaning of overall mitigation, the specific difference between overall mitigation and environmental integrity of cooperative approaches was questioned during the intersessional.

The 6.2 note reflects that there is yet to be a consensus on whether overall mitigation should be part of the global mitigation requirement, where overall mitigation is achieved through surplus ITMOs not used by creating or acquiring Party towards their NDCs and depicted through a corresponding adjustment. This surplus is met through either automatic cancellation or discounting of ITMOs at the time of issuance, prior to the time of issuance, or prior to use towards achieving NDCs. Delivering an overall mitigation in global emissions through the A6.4ERs follows the same suit as ITMOs in the 6.4 note.

Both the notes state that overall mitigation should be reported to the CMA, though for direct bilateral cooperation using ITMOs[13], it should be reported by the secretariat (Art. 17, PA), and for the mechanism[14], it should be reported by the supervisory body (designated by the COP). It would be fair to assume that the secretariat could prevail as the body designated by the COP if no body was designated, or if the body designated does not satisfy the views of all Parties.

## *Governance and Participation*

The Principles account for transparency in governance, making it pertinent to have a well-defined and laid-out governance structure that is, most importantly, unanimously agreed upon – engendering a long and drawn out process.

### Governance

Not all submissions have mentioned a framework for governance for the mechanism. The AGN believes that it should take-away from the processes, methodologies,

12 Section XII.D of the 6.4 informal note.

13 6.2 Note

14 6.4 Note

institutions and experiences from the CDM. Brazil views that "certified emission reduction units" should be issued by the "SDM Executive Board" and be registered in the "SDM registry". The EU suggests that the governance should include a supervisory body (under the CMA), Parties using the mechanism, Parties authorising participation of public and private actors, and designated operational entities verifying and certifying emission reductions resulting from mitigation activities. The EU also maps out the role of the supervisory body, and also states that the governance of the mechanism should comprise Parties that are authorizing non-state actor participation. Japan suggests that the supervising body should have better representation of all Parties to the Paris Agreement, and should be different from the one under the CDM where countries were separated into Annex I and non-Annex I.

In the informal notes, the governance structure discussed for 6.2 includes the role of the CMA, oversight arrangements[15], role of the secretariat, and other actors[16], while for 6.4, the governance debate revolved around the Supervisory Body, and included deliberations on its membership, the rules of procedure[17], functions[18], and role of the secretariat[19]. From previously nearing a consensus through Party submissions on limiting international governance, the debate on the type of system, centralized or Party-led, seems to have reignited.

The functions of the CMA also came under debate in the 6.2 note under the section on governance, discussing whether or not they should exist at all in terms of approving ITMOs and reviewing non-state participation. Matters that were correspondingly[20] deliberated include avoiding the use of emission reductions by more than one Party, ensuring consistency with the 6.2 guidance, and a multilateral registry maintained by the secretariat. Matters relating to multilateral governance and a rules-based system are still under development, as issues were raised during the intersessional. Moreover, the section on mitigation activity cycle in the 6.4 note states that mitigation activities need be designed according to requirements defined by the CMA and supervisory body, approved by the host Party, validated by a designated entity and then registered if the supervisory body decides it meets the requirements.

### Participation

Parties to the Paris Agreement may participate in the cooperative approaches of Article 6 voluntarily, with their national governments approval. There have been no deviating views from this in Party submissions. South Africa, though, suggests that a quantifiable NDC (in light of different national circumstances) should be required to facilitate the accounting provisions and corresponding adjustments between Parties where emissions reductions are counted towards NDCs. It further elaborates that participation will require adherence to the reporting and accounting procedures.

Non-state actors, however, need to be incentivized and authorized to participate by participating Parties. In its submissions, the EU states that authorizing Parties should be part of the governance structure, and that host Parties should approve non-state actor participation. Brazil discusses the usage of 'SDM units' by non-state actors, highlights that non-state actor participation requirements should be reflected in the RMP, and considers the smooth transition of the CDM to the new mechanism integral to private sector engagement. Similarly, South Africa suggests that discussing the transition of CDM activities into the new mechanism will be imperative to incentivise current project developers and investors, and that participation of the private sector must be clearly defined and authorized by a Party.

Canada opines that any undue burden in terms of Party authorization should be avoided.

During SBSTA 48, the discussions on host party participation and responsibilities pertained the relationship between human rights and negative social and economic impacts, and links between Articles 6.2 and 6.4. Both 6.2 and 6.4 notes discuss participation requirements and responsibilities of host, transferring, acquiring and using Parties, and non-state actors. The 6.4 note delineates the benefits and roles of participants. Here, too, there is a debate on whether or not the rules across both the market approaches should be the same. Another option depicts applying the 6.2 guidance only when the mechanism's emission reductions are internationally transferred and used towards NDCs. This option was

15 Options include – an Article 6.2 body, an Article 13 review, and other expert review.

16 Non-party actors, subject to authorization by a participating Party, may participate in cooperative approaches, transfer and acquire ITMOs, and use ITMOs for purposes other than towards an NDC.

17 As referred to in 'Transition from Kyoto'.

18 Options include – a centralized system where the Supervisory Body supervises the mechanism under authority and guidance of the CMA; a host Party led system; and a dual system that is both centralized and host Party led, supervised by the Supervisory Body.

19 In the 6.4 note, the role of the secretariat is to serve the Supervisory Body, and specific duties have been laid out.

20 Governance section, subsection B – Oversight arrangements.

appended during the third iteration of the informal note. Further, the participants of a proposed mitigation activity also need to be authorized by an involved Party[21].

The participation of non-state actors is to be authorized by participating Parties. These actors may then acquire and transfer A6.4ER, and their participation may or may not be limited to the scope of NDCs. Parties must also incentivize and facilitate participation of non-state actors according to provisions relating to authorization of such participation.

## *Robust Accounting*

### Accounting & Reporting

All parties have positively mentioned accounting and transparency, and with the exception of the LMDCs, all have given strong recommendations for possible frameworks and guidance of accounting and transparency. A variety of inputs on how to account for emissions have been incorporated in the submissions, some suggesting that countries taking part in the approaches established under Article 6 should be required to create a budget of emission allowances towards achieving their NDCs, some discussing how different NDC types can be reconciled, while some other have highlighted the inter-linkages with Article 4.13 (broader accounting framework) and Article 13 (broader transparency framework). NDCs differ based on the target type, reference period or target period, sectoral and geographical scope of the target, covered GHGs, conditionality of the target, methodologies for estimating GHGs and GWPs (global warming potentials), and the intended use of market mechanism (Graichen, Cames, & Schneider, 2016). Keeping in mind the different types of NDCs, some submissions, such as Australia's, also highlight the need to develop common approaches to convert mitigation outcomes to CO2e. The views mostly converged to not restricting the participation of different types of NDCs.

The 6.2 note states that establishing and maintaining a ***centralized*** accounting database is one of the roles of the secretariat. The note describes and debates aspects of the accounting infrastructure, namely, the registry requirements, a log or database for recording and maintain transactions. The latter is then deliberated to be an international transaction log connected to each national registry (ensured by the Party); a centralized accounting database that records information on the scope of NDC quantity in CO2e, on its current level of emissions and removals by its NDC, the accounting balance of participating Parties, and the corresponding adjustments to the accounting balance; or a distributed ledger accessible to all participating Parties. It also deliberates not having such an infrastructure at all.

The accounting and reporting discussions at the intersessional revolved around whether it should be project-based, emission-based, in real time, or in accounting periods, and how best to reflect final accounting and its linkages with PA's Art. 4.13. In the 6.4 note, accounting and reporting requirements have been reflected in terms of ex-ante and ex-post. Similar to 6.2, the supervisory body is to establish and maintain a registry that accounts for A6.4ERs, with a cancellation account for overall mitigation administrated by the secretariat.

Options addressing participation requirements and responsibilities of Parties state that reporting guidelines (national inventory and mechanism's activities) must be in line with Art. 13.13[22], which encourages the CMA to adopt common guidelines for transparency. The congruency with Art.13.13 is further strengthened in the reporting subsection under "Other processes associated with mitigation activities".

### Corresponding Adjustments

Corresponding adjustments can be understood as an adjustment made by a Party to its recording and tracking registry, log, etc. representing a corresponding action regarding its mitigation outcomes, such as acquiring or cancelling a unit. Some parties are of the view that these adjustments are essential to avoid double counting, and/or perverse incentives. Several Parties highlight the need for corresponding adjustments for this purpose, such as AOSIS, AGN (for ITMOs within the scope of NDCs), Australia, Canada, Japan and South Africa. Other views emerging from some of the submissions are that corresponding adjustments contribute to environmental integrity (such as the AOSIS, EU and Australia) and should be recorded and reported for all Parties involved (such as AGN, Australia and Canada). The AGN states that corresponding adjustments, however, are not needed to avoid double counting when mitigation outcomes are cancelled or outside the scope of NDCs, and such a need would place an undue burden in sectors covered by host Party NDCs. Australia states that when

21 Mitigation activity cycle section, 6.4 note

22 Article 13, paragraph 13 reads: "The Conference of the Parties serving as the meeting of the Parties to this Agreement shall, at its first session, building on experience from the arrangements related to transparency under the Convention, and elaborating on the provisions in this Article, adopt common modalities, procedures and guidelines, as appropriate, for the transparency of action and support."

reporting quantified tracking of progress towards their NDCs, Parties should, inter alia, report on evidence that both sides acknowledge and record the corresponding adjustment. It also highlights the need to elaborate technical details of the corresponding adjustment, including different NDC types, preferably through technical papers by the UNFCCC secretariat. However, Brazil is of the view that corresponding adjustments are to apply in second[23] transactions, and are not applicable to the initial forwarding to the multilateral registry. These second transactions will occur in national accounts within the multilateral registry. It also states that corresponding adjustments to avoid double counting are restricted to 6.2 and do not apply to the mechanism as it would be contradictory to Art. 6.4 (c)[24], and further, are not needed to deliver overall mitigation. Canada suggests that a corresponding adjustment should resemble double-entry book-keeping, wherein additions and subtractions for host Party and receiving Party are recorded in $CO_2e$. This view is reiterated by the AOSIS. Canada also recommends that Parties could explore how the accounting guidance for corresponding adjustments could generate additional emission reductions. The EU states that a corresponding adjustment is essential to the purpose of tracking progress, and that it considers an ITMO or A6.4ER is used when a corresponding adjustment is duly recorded (following recording and review). Japan recommends that the originating Party should add the amount of 'credits/units' transferred to its own emissions or deduct it from its own removals and identify "adjusted GHG emissions". South Africa[25] highlights the need for a congruence between GHG and non-GHG NDC targets, assisted by technical work involving the development of matrixes using IPCC guidelines.

The 6.2 note discusses the 'Article 6.2 corresponding adjustment', the application of a corresponding adjustment, and the frequency of such an adjustment. The Article 6.2 corresponding adjustment subsection further deliberates the basis for corresponding adjustment and the prerogative of Parties for choosing such a basis[26]. The 6.2 guidance applies to corresponding adjustment for emissions and removals by Party NDCs and the frequency[27] of such an adjustment. The application aspect presents options on the discussed bases. Corresponding adjustments are also linked to environmental integrity – both require that the creation, transfer, acquisition and use of ITMOs do not lead to an overall increase in GHG emissions. The secretariat is to check the information submitted on these adjustments.

The 6.4 note discusses making a corresponding adjustment in line with the 6.2 guidance to ensure overall mitigation as discussed previously, to avoid the use of emissions reductions by more than one Party, and for purposes other than towards NDCs.

### Double Counting

Most submissions address counting, some attributing them to environmental integrity in addition to robust accounting. A few submissions have defined "double counting", and broadly view it as using mitigation outcomes/emission reductions are used more than once towards a target or used towards more than one target. Some, such as Canada, address the concept within the scope of NDCs, while others include "beyond the scope of NDCs".

Further, submissions such as Canada, EU, Japan view the applicability of the 6.2 guidance to ensure the avoidance of double counting, while Brazil states the concept of double counting does not apply to the 6.4 mechanism at all. Brazil opines that Article 6.5 prevents double counting by not allowing the host country to use A6.4ERs (which they refer to as SDM CERs) if another Party uses these emission reductions towards their NDCs. South Africa highlights the relationship between Art. 6.2 and Art. 6.4, although it does not state that

23 When an acquiring Party transfers the unit acquired to a third Party.

24 Art. 6.4 (c): The mechanism shall aim "to contribute to the reduction of emission levels in the host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfill its nationally determined contribution"

25 South Africa also states that there are no less than 5 simple scenarios that serve to illustrate the notion of a sector inside/outside the NDC: (i) A case where a sector might be the same but the only difference be that in one case it may be inside the NDC while in another party it might be outside the NDC. (ii) A case where in both parties NDCs the sectors are inside the NDC but there are two different sectors. (iii) A case where parties want to effect corresponding adjustments to sectors that are both outside their respective NDCs. (iv) A case where parties want to effect corresponding adjustments to sectors that are both within the NDCs but the difference is in how targets are captured, e.g., absolute/intensity target etc. (v) A case where parties want to effect corresponding adjustments to sectors that are both within the NDCs and the target is expressed in the same/similar manner (classical case).

26 Budget-based – corresponding adjustment applied to a quantified budget of allowable emissions based on a Party's quantified NDC; emissions-based – corresponding adjustment to relevant emissions derived from greenhouse gas emissions totals in its national inventory, with a resulting balance (e.g. accounting balance/tracking and accounting balance/real-time balance); buffer registry based – buffer registry where a Party applies the corresponding adjustment for each transfer and acquisition from a starting point of a zero balance, with a resulting balance that reflects net transfers and acquisitions; and emission reductions based – Party to effect an addition or subtraction of all ITMOs.

27 Real-time, periodic, when demonstrating NDC achievement, or when recorded in the centralized accounting database.

the 6.2 guidance should be applicable to the mechanism. It stresses on the importance of limitations applicable to surplus mitigation outcomes carried forward to the next NDC cycle – a key takeaway from Kyoto mechanisms. It also suggests a governance on 'recognition of ITMOs' coupled with measures akin to 'buyer beware' in order to avoid mitigation activities and projects that are not sustainable for a longer term. Contrastingly, Russia talks about avoiding double counting via the application of the existing Kyoto Information Transaction Log (ITL) – which Japan disputes.

Moreover, inputs from Australia and Japan have delineated the different types of double counting; "double registration", "double issuance", "double usage" and "double claiming".

The 6.2 informal and guidance text iterate the role of robust accounting as integral to avoiding double counting, and include the four subparts of double counting as suggested by Australia and Japan under its list of definitions[28]; double registration, double issuance, double usage and double claiming. Ensuring the avoidance of double counting is one of the requirements for the registry as well. The 6.4 informal does not touch upon double counting.

### Share of Proceeds

The share of proceeds, through PA's Art. 6.6, is to cover administration expenses and assist adaptation in developing countries. The concept of dedicating a share of the proceeds to meet certain needs is not new, and has been an integral part of meeting costs of adaption. Similar to the new mechanism, the CDM incorporates share of proceeds to "cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse impacts of climate change to meet the costs of adaptation"[29]. One of the sources for the Adaptation Fund, a pertinent fund for developing countries, is the share of proceeds from the CDM. Finance for meeting vulnerable country needs e.g. adaptation and loss and damage do not receive adequate support from developed countries. Directing a portion of the proceeds from the mechanism is an effective way to fill this gap.

Some of the Parties have discussed share of proceeds in detail. The LMDC group advocate that the share of proceeds be included in both ITMOs and the mechanism as a measure to stay focused on what they believe the overriding goal of Article 6 to be – achievement of NDCs. South Africa specifically mentions share of proceeds, and suggests that it should be prioritized to assist developing countries, especially the ones with special circumstances.

The 6.2 note discusses whether or not there should be a share of proceeds for adaptation. For the option that represents share of proceeds, it deliberates on the kind of approaches from which this share can be collected. It further deliberates on the accounting for share of proceeds from activities, and whether to use processes of discounting or percentage to forward and transfer credits to it. The 6.4 note states that the share of proceeds from activities under the mechanism is to be used to cover administration expenses and to assist particularly vulnerable developing countries, as the share of proceeds for the CDM stated. The secretariat is assigned the duty of reporting the collection of the share of proceeds to the CMA at each of its sessions. The mechanism registry, established by the Supervisory Body, will house an account for the share of proceeds, along with other accounts[30]. The note also deliberates on the destination of the share of proceeds; whether they should have a specified destination, i.e. the Adaptation Fund. Similar to the 6.2 note,

28 "Double counting", as per Article 6, paragraph 2, means double claiming, double issuance, double registration or/and double use:

(i) "Double claiming" is any of the following: {potential further list below}

a) The use by more than one Party of an ITMO/mitigation outcome towards achievement of its NDC;

b) The use by one Party of an ITMO towards achievement of its NDC and the use by the same, or another,

b) Party of the same ITMO/mitigation outcome for a purpose other than towards achievement of its NDC;

(ii) "Double issuance" is the issuance, by a Party, in the same or different metrics of two or more ITMOs for the same mitigation outcome;

(iii) "Double registration" means that the same activity and/or ITMO/mitigation outcome is registered or equivalent under two or more cooperative approaches/non-UNFCCC or other programmes/the mechanism established in Article 6, paragraph 4;

(iv) "Double use" is any of the following: {potential further list below}

a) The use by one Party of an ITMO towards achievement of its NDC more than once;

b) The use by one Party of an ITMO towards achievement of its NDC and the use by the same or another Party of that ITMO for a purpose other than towards achievement of its NDC;

c) The use by one Party of an ITMO towards achievement of its NDC, or the claim of a mitigation outcome through the GHG inventory by the Party where the mitigation outcome occurs, and the use by the same, or another, Party or any stakeholder of the same ITMO/mitigation outcome for a purpose other than towards achievement of its NDC.

29 Background paper on Share of Proceeds to assist in meeting the costs of adaptation UNFCCC WORKSHOP ON THE ADAPTATION FUND Edmonton, Alberta, Canada, 3 – 5 May 2006

30 A pending account, holding account, forwarding account, retirement account, cancellation account.

it presents options for calculating[31] the share of proceeds towards adaptation. The administrative expenses are to be covered by an alternative (unspecified) source till the share of proceeds are sufficient to do so themselves. For these expenses, a certain sum will be levied and payable at the time of registration request, then a certain sum per A6.4ER issued for an activity that is payable at the time of issuance request.

### *Transition from Kyoto*

There are several Parties who view the Art. 6.4 mechanism as similar to the CDM, and advocate for CDM projects and credits to be transferred into the new mechanism. Brazil advocates for the new mechanism to be similar to the CDM, while others suggest that such transfers need to be fully assessed before incorporating them into the new mechanism. On the latter end, the EU also strongly suggests that the Kyoto mechanisms ***shall not continue*** after the end of the second commitment period. South Africa stresses on the importance of key takeaways from the Kyoto mechanisms while highlighting that the Paris Agreement and Kyoto Protocol are different.

The informal note on 6.2 lightly touches upon the subject of transition, and states that CERs and ERUs from Kyoto are also ITMOs. In the 6.4 informal note, the discussions of some matters involve adopting ***existing*** systems and models, usually referring to the Kyoto mechanisms CDM and JI, and their application to membership and rules of procedure for the supervisory body, and the transition of emission reduction units and activities. On the other hand, a ***new*** model that takes into account the special circumstances of LDCs and SIDS. In the supervisory body membership composition, the new model which translates to a balanced representation of Parties with members from UN regional groups, developed and developing countries, LDCs and SIDS is proposed against the CDM, JI and Paris models. The new model is also proposed under the rules of procedure for the supervisory body against JI and CDM options[32]

Further, these special circumstances are to be reflected through the cooperative market approaches, as stated in principles, scope, participation requirements for 6.2, and principles, scope, and mitigation activities for 6.4. However, they are represented as options under the scope (for both) and mitigation activities. This provision for special circumstances of LDCs and SIDs in particular was, however, not highlighted in the Party submissions. Australia, the AOSIS, LMDC and South Africa although, mention that certain aspects such as sustainable development should be determined based on "national circumstances". South Africa in particular suggests that NDCs should be quantified to participate in the mechanism considering the different needs and capacities of developing countries. The 6.2 informal note also states that when used towards achieving NDCs, CERs and ERUs are also ITMOs. Though the use of ITMOs beyond purposes of NDC achievement is debated in the note, the text still clarifies those ITMOs that have been or intended to be used for specific other purposes[33] are not to be used towards NDCs.

## Conclusion: Way Forward

The analysis of the latest round of submissions gives us insight on Party views on Article 6; the strength, as well as the lack of contention of inputs (either because views are unanimous or because only a few submissions robustly address it) on each key area may increase the probability of it being incorporated into the text. The analysis further highlighted a need to reach a broader consensus on divergent issues as well as a need to address issues that have not been given due attention under both the market-based approaches (such as promoting sustainable development), in order to establish effective institutional and facilitative frameworks.

From the informal notes, it was observed that some progress has been made on these issues, although, views of Parties have not entirely converged, and issues such as promoting sustainable development have not progressed from its status in the submissions. New issues have moreover emerged from the latest discussions while addressing previous ones, such as non-consensus on the type of system that should be followed while addressing the needs of different NDCs and considering special circumstances of some nations.

The informal notes have been able to capture elements that are potentially significant to the Article 6 text and present several options for most elements. For elements that have not been comprehensively addressed, provisions have been

31 Percentage at issuance; percentage at forwarding/first transfer; increasing rate over time at transfer; linked with an overall mitigation in global emissions.

32 Use the rules of procedure of CDM Executive Board (EB); draw from the CDM EB; use the rules of procedure of the JI Supervisory Committee (SC); or draw from the JISC.

33 Towards mitigation outside UNFCCC; towards voluntary climate actions not mandatory in the relevant jurisdiction; or as a means of demonstrating climate finance pursuant to Article 9 of the Paris Agreement.

made in brackets for incorporations post future discussions. These options and provisions indicate an effort towards a consistent and universally applicable final text. However, as voiced during the intersessional, an abiding concern is that the informal notes do not fully reflect all Party views; the issue of double counting, for example, does not take into consideration the view that corresponding adjustments for double counting may not be applicable to the mechanism. SBSTA 48-2 needs to amend this.

It is also to be noted that emission reductions outside the scope of NDCs have not been thoroughly discussed in the informals. Potentially, the usage of emission reductions could be applied for the achievement of targets under other carbon pricing initiatives, such as emission trading systems (ETS) at international, regional, national and subnational jurisdictions. Carbon Offsetting Reduction Scheme for International Aviation (CORSIA) and Partnership for Market Readiness (PMR) are examples of carbon pricing initiatives at the international level, and several national level ETSs have launched or are in the process of launching, such as the one in China and the ones launching in Argentina and Singapore. Full discussion on the methods for integrating these existing trading mechanisms into the new mechanism is also wanting. For this purpose, there is a need for extensive market analysis of existing ETSs the size, nature, and volume of demand consumed by such markets along with the development of comprehensive methodologies for a universally relevant MRV structure. This should include a transparent and robust accounting system for host Parties and other Parties under Article 6, which stipulates provisions for avoiding double counting, addresses the need for corresponding adjustments, and nominates the appropriate institutional arrangement to overlook it. The similarity in the method for accounting and measurement between countries will additionally contribute to environmental integrity.

However, for some parts of the developing world, such as India, integrating other emission trading mechanisms other than the CDM into the new mechanism may be irrelevant due to the lack of domestic ETSs. For instance, CORSIA, a market approach under the International Civil Aviation Organisation (ICAO) that aims to offset annual increases in CO2 emissions from international civil aviation above 2020 levels, sees economies like Brazil, India, Russia and several developing countries not participating.

Furthermore, but on a related note, existing units, activities and projects from the Kyoto mechanisms need to be addressed. Considering the fact that significant resources and funding have gone into these particulars, it is imperative to not leave them idle. However, weightage needs to be given to the consideration that they cannot be transferred into the new mechanism as is, and hence, an all-inclusive framework to test and adjust them also needs to be developed. This framework should be linked to the aforementioned MRV structure. The new mechanism has room for having various differences with Kyoto mechanisms, such as nature of mitigation outcomes, mechanism type, governance, and participation. Bearing this in mind, the ***new*** model that is discussed in various elements of the informal notes is likely to be a better fit. Without limiting the scope to those of existing models, the new mechanism can draw on key takeaways from these models, such as a practical and yet globally acceptable framework for testing sustainability of projects, while incorporating additional relevant aspects, such as additional destinations for the share of proceeds from the mechanism.

It is clear that the overarching goals of Article 6 must not be neglected while essaying to assimilate all Party views. At SBSTA 48-2, one of the key issues engaging the attention of parties, apart from those discussed above,may be the requirements for raising ambition , especially with regard to the impact of cooperative approaches on ambition, while taking into account national circumstances and different types of NDCs, and keeping environmental integrity intact. The arguments posed by some Parties regarding the need and validity of corresponding adjustments in different contexts within both the approaches is especially important here. Additionally, finance for adaptation action is a major issue, and is a recurrently voiced concern of developing and particularly vulnerable countries. The Warsaw International Mechanism for Loss and Damage (WIM), an eminent mechanism for LDCs and SIDs established at COP 19, for instance, still lacks a financial instrument. In light of this concern, the share of proceeds for adaptation must be given more weightage than it has received, and could possibly structure their discussions towards exploring more avenues the share of proceeds could contribute to.

Furthermore, seeing that there remains a significant gap between emission reductions on achieving NDC targets and the 2°C goal[34], determining additionality of emission reductions as part of Article 6 should be subject to more

34 The emissions gap for the 2°C goal is 11 to 13.5 GtCO2e (both conditional and unconditional NDCs for 2030), and for 1.5°C target is 16 to 19 GtCO2e. (UNEP Emissions Gap Report 2017)

stringent measures than the CDM. While contending the governance for cooperative approaches, it is relevant to note that under the guidance of an international body/ bodies complemented by domestic institutional bodies, previously established instruments and mechanisms such as the CTCN, GCF and GEF[35] have been successful in achieving their objectives. This bottom up approach is iterated in several submissions as well.

Reflecting on the above issues, areas and concerns highlighted in the paper is key to the success of the upcoming SBSTA 48-2, which will be held from 3-9 September 2018 in Bangkok, Thailand. Thorough discussions surrounding these particulars should take us a step closer towards reaching a consensus on operationalizing Article 6 of the Paris Agreement in time for post-2020.

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