



Paris Agreement
Article 6 – Markets
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What is the current situation ?

Markets 1.0 – Cartesian and moribund.

Markets 2.0 – being born, but will it take off ?

- Issues : virtual disappearance of the international component of the carbon market, due to the lack of demand to meet KP 2 and the Cancun Commitments.
- Lack of clarity on the governance of markets for the Paris Agreement.

What is the current situation ?

- What will be the role and oversight of the CMA under different paragraphs of Article 6 of the PA?
- Who sets the value of any domestically issued units in the PA accounting system?
- Does the CMA have any oversight on the quality of the units that are accounted for?
- What is the definition of “accounting standards” is referred to in Art 6 of the Paris Agreement?
- What governance lessons can be learned from the operation of the KP mechanisms, and what should be retained for the new mechanism being created?

Article 6 in perspective

Article 6 –last piece in Paris Agreement.

Why?

- Importance to environmental integrity of PA
- Connection to other parts of the PA
- Issues to be « traded »
- Ideological opposition to markets

Evolution of Article 6

- Article 6 represents a progression especially since the October ADP session
- Important drafts and documents
- November 2014 : Brazil submission
- November 10, 2015: Draft PA
- December 5 – Draft AP, ADP to COP
- December 8: EU-Brazil submission
- December 9: Panama, AOSIS, LMDC submissions
- December 9 & 10: Draft PA, Committee de Paris
- December 12: Final PA

Scope of Article 6

1. Cooperative approaches: (Paragraph 6.1)
2. Transfer of mitigation outcomes (Paras 6.2-6.3)
3. Mechanism to support SD (SDM) – (Paras 6.4-6.7)
4. Framework for non-market approaches (Paras 6.8-6.9)

There was also a vision of one mechanisms (paras 6.4-6.9) but resistance from proponents

Cooperative approaches (para 6.1)

- Broad article
- Covers markets, non markets and beyond
- Initially merged with « EU article »
- Recognizes cooperation but does not provide permission
- Reference to sustainable development
- « allow higher level of ambition » vs « enhance »
- Voluntary cooperation

Transfer of mitigation outcomes

- Special case of cooperation involving international transfers
- Recognizes but does not provide permission
- Transfers any outcomes, no special qualifiers (UNFCCC)
- 6.2-6.3 does not create a market or price, creates conditions for convergence
- Play same role as KP Art 3.10-3.12 and Art 17

Transfer of mitigation outcomes

ITMOs

- ITMOs are an acronym not a unit
- Reasons from creating ITMOs
 - Resistance to market language
 - No units issued in some cases
 - Non markets and these paras were originally very broad

Transfer of mitigation outcomes

Role of CMA

- Role of CMA limited to issuing guidance for accounting
- No CMA approval or conformity check required for a transfer
- Some modulation present ?
 - Promote sustainable development?
 - Ensure transparency including in governance
 - Ensure transparency including in governance
 - Apply robust accounting

Transfer of mitigation outcomes

Accounting

- Parties apply the accounting in « accordance » with guidance
- Who decides if guidance observed and what happens if not ?
- Language softer than in previous versions – « in accordance in previous drafts

Transfer of mitigation outcomes

SD and environmental integrity

- 6.2 & 6.3 are transfer articles and “product articles”
- What is the meaning of SD and EI?
- Are SD & EI tests to be applied to non UNFCCC (domestic) ITMOs?
- There is no WP in 1/CP.21 to develop such tests
- No institution to operationalize such tests
- Boilerplate language that may add uncertainty in the future ?

Transfer of mitigation outcomes

Governance

- Promotes Sd and EI including in « governance »
- First such reference in such text
- What needs does it meet and whose needs are they ?
- Some Parties have asked for stronger central governance to test environmental quality of domestics units trasfered internationally for PA compliance (ITMOs)
- This reference goes in that direction but wthat will it buy ?

Transfer of mitigation outcomes

Accounting

- How does one operationalize « towards NDCs » an avoid double counting?
- Are ITMOs retired in national registries (if there is one)
- How do you identify and ITMO?
- Will there be serial numbers based on tons?

SDM

Origin in Brazil submission of November 2014

“The Economic Mechanism shall be comprised of general guidelines related to an emission trading system and an enhanced Clean Development Mechanism (CDM+)”.

“The new market mechanism (...), should be established under the agreement, incorporating the modalities, procedures and methodologies of the Clean Development Mechanism, to allow trading of CER among all Parties.”

SDM

Key provisions in SDM

1. Nature and governance of SDM
2. Scope of SDM
3. Overall mitigation
4. Share of proceeds
5. Participation of private entities

SDM

Nature and governance

- Mechanism is established
- Output is GHG emission reductions
- Under the authority and guidance of the CMA
- Body designated by the CMA
- It is a « production » mechanism
- Further interational transfers covered under 6.2-6.3
- Supporting SD could again prove to be a subjective clause leading to regulatory instability due to the lack of definition

SDM

Scope of the SDM

- Which Parties can host the SDM?
- Which Parties can use the product of the SDM
- SDM one or more mechanisms ?

Overall mitigation

- Deliver an over all mitigation in global emissions
- Earlier versions included some details to help interpretation
- Who pays the bill – donates to the environment?

SDM

Share of proceeds

Participation of private entities



Networked Carbon Markets

- Three values for a unit: CV/MV/FV
- CV value can be CVI and CVD
- For a stable market $CV=MV$

4 Scenarios

1. Decentralized, CVI international set by Party
2. Decentralized with guidelines from CMA. CVI set by Party, MV influenced by guidelines
3. Decentralized with guidelines to be observed. CVI set by Party, MV influenced by guidelines
4. Centralized, CVI set by CMA

What does it mean for NCM?

- Depending on the interpretation the role of the CMA could be to provide guidance. Good probability that would end up in Scenario 2 (CVI set by Party)
- Liberal interpretation with CMA playing some role it may go to Scenario 3 where guidance may need to be peer-reviewed (CVI set by Party)
- Little probability that we end in Scenario 4 (CVI set by CMA)

What does it mean for NCM ?

- NCM more obvious for paras 6.-6.2
- SDM units have CVI set by the CMA
- CVD is set by the Party
- MV is set by stakeholders
- MV will influence in the LR CVD and will more inertia CVI
- While CVD may be allowed to float unlikely that CVI will be allowed to.

Conclusions

- Prior to COP21 and PA it was unclear which of the four scenarios will be the outcome
- PA has clarified to a larger extent or has changed the probabilities for the different scenarios
- Language is still ambiguous and with hooks that there is no certainty – yet
- Key issues still left to interpretation and possible challenge
- Likely outcome is that 6.1-6.2 will be in Scenario 2/3

Conclusions

- For paras 6.4-6.7 it is unlikely that interaction will be as strong as 6.1-6.2
- However, MV will play a role and may lead to regulatory intervention of the CMA to reset $CVI=MV$
- Percentages have moved to a better probability that we the outcome will be in the first scenario
- That is we will be in a regime that is conducive to NCM
- 6.1 also allows for « clubs » which can be combined

Version 5 December

Article 3 [Cooperative approaches]

[Option 1 .

19. Parties acknowledge the importance of [cooperation in][cooperative approaches for] implementing and enhancing the ambition of climate action [at the international level].

19alt. Parties may also cooperate in the implementation of ###.

19bis. Where cooperative approaches involve the use of internationally transferred mitigation outcomes towards ###,

Parties participating shall [safeguard] [promote] sustainable development and environmental integrity and shall apply robust accounting to ensure, inter alia, that double counting is avoided, taking into account relevant guidance adopted for this purpose by the CMA [taking into account guidance adopted at the national level].]

19ter. A share of proceeds for adaptation shall apply.]

Option 2.

19. Cooperative approaches of Parties, based on Article 4.7 of the Convention, must ensure the enhancement of mitigation outcomes together with adaptation co-benefits to be verified internationally but non-transferrable.]

Version 5 December

[Article 3ter] (Mechanism to support sustainable development)

{Proposed Mechanism 1}

1. [[Establishes a multi window mechanism][Establishes a framework for sustainable development mechanisms][A mechanism to support sustainable development in [developing country] Parties is hereby established] under the authority and guidance of the CMA, shall be supervised by a body designated by the CMA, and shall aim to:

(a) Promote sustainable development in developing country Parties;

(b) Incentivise and facilitate participation in mitigation action by public and private entities authorised by a Party;

(c) [Enhance mitigation ambition by developing country Parties, by incentivising supplementary voluntary climate action, beyond their ###][Fully respect the mitigation contributions of participating Parties to ensure that the global mitigation effort is not undermined];

(d) [Provide for net global emission reductions through the cancellation of a share of units generated, transferred, used or acquired];

Version 5 December

[Article 3ter] (Mechanism to support sustainable development)

(e) [Assist Parties with a ### that reflects an absolute target in relation to a base year to fulfil their ###, through the use of mitigation outcomes from mitigation activities in developing countries][Consider the variety and dynamics of national circumstances of Parties];

(f) [Ensure environmental integrity of Parties' cooperative mitigation actions, including ensuring that such mitigation shall not be claimed more than once, in accordance with accounting guidance elaborated under Article [3.10]].]

2. [The CMA shall ensure that a share of the proceeds from certified project activities are 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.]

3. [The CMA shall adopt modalities and procedures for the first window of the above mentioned mechanism building on the mechanism defined under [Article 12][Article 6] of the Kyoto Protocol and related decisions of the CMP.]

Version 9 December at 15:00

Article 3 [Cooperative approaches]

20. [Parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred mitigation outcomes towards ###, promote sustainable development and environmental integrity and apply robust accounting to ensure, inter alia, the avoidance of double counting, in accordance with guidance adopted by the CMA.]

Version 9 December at 15:00

[Article 3ter] (Mechanism to support sustainable development)

{Proposed Mechanism 1}

1. [A mechanism to support sustainable development [in developing country Parties] is hereby established under the authority and guidance of the CMA, shall be supervised by a body designated by the CMA, and shall aim to:

- (a) Promote sustainable development [in developing country Parties];*
- (b) Incentivise and facilitate participation in mitigation action by public and private entities under the responsibility of a Party;*
- (c) Enhance mitigation ambition by [developing country] Parties [, by incentivising supplementary voluntary climate action, beyond their ###];*
- (d) Deliver, where desired by participating Parties, a net decrease in, or avoidance of, emissions;*
- (e) Assist Parties [with a ### reflecting an absolute target in relation to a base year] to fulfil their ###, through the use of mitigation outcomes from mitigation activities [in developing country Parties];*
- (f) Ensure environmental integrity, including by ensuring that such mitigation shall not be claimed more than once, in accordance with guidance adopted by the CMA pursuant to Article [3, paragraph 14].*

Version 9 December at 15:00

[Article 3ter] (Mechanism to support sustainable development)

- 2. [The CMA shall ensure that a share of the proceeds from activities under the mechanism are used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effect of climate change to meet the costs of adaptation.]*

- 3. [The CMA shall adopt modalities and procedures for this mechanism at its first session.]*

Version 10 December at 21:00

Article 3 [Cooperative approaches]

20. [Cooperation between Parties in the implementation of ### includes approaches that enhance mitigation and adaptation ambition, promote sustainable development and environmental integrity and act in harmony with nature, consistent with guidance adopted by the Conference of Parties serving as the meeting of the Parties to the Agreement. Parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred emission reductions towards ###, promote sustainable development and environmental integrity, and 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 the Agreement, and ensure transparency in the governance of the approaches.

21. The use of internationally transferred emission reductions to achieve ### under this Agreement shall be voluntary and authorized by participating Parties.]

Version 10 December at 21:00

Article 3ter

1. [A mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development [in developing country Parties] is hereby established under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Agreement, shall be supervised by a body designated by the Conference of the Parties serving as the meeting of the Parties to the Agreement, and shall aim to:

- (a) Promote the mitigation of greenhouse gas emissions [in developing country Parties] while fostering sustainable development;*
- (b) Incentivise and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party;*
- (c) Contribute to the reduction of emission levels in the [developing country] host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfil its ###;*
- (d) Promote a net contribution to the mitigation of greenhouse gas emissions;*

Version 10 December at 21:00

Article 3ter

2. *Emission reductions resulting from this mechanism shall not be used to demonstrate achievement of the host Party's ###, if used by another Party to demonstrate achievement of its ###.*

3. *The Conference of the Parties serving as the meeting of the Parties to the Agreement shall ensure that a share of the proceeds from activities under the mechanism are 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.*

4. *The Conference of the Parties serving as the meeting of the Parties to the Agreement shall adopt modalities and procedures for this mechanism at its first session.]*

Final version 12 December

Article 6

- 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 the Paris 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.*

Final version 12 December

Article 6

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 the Paris 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 the 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 fulfill its nationally determined contribution; and*
- (d) To deliver an overall mitigation in global emissions.*

Final version 12 December

Article 6

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 the Paris 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 the Paris Agreement shall adopt rules, modalities and procedures for the mechanism referred to in paragraph 4 of this Article at its first session.

Final version 12 December

Article 6

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 nonmarket approaches referred to in paragraph 8 of this Article.