

Regulating carbon markets: building capacity for the implementation of Article 6 of the Paris Agreement

14-16 May 2024
Victoria Falls and Online

Article 6.2 of the Paris Agreement

Cooperative approaches

22nd April, 2024 - 14:00 - 15:30 Hours Addis Ababa Time

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Agenda

- Operationalizing Article 6.2
- Host Party requirements for Article 6.2
- Article 6.2 COP28 outcomes and implications on the compliance market
- Discussion

Article 6: co-operation towards NDCs

Cooperative approaches

Articles 6.2 and 6.3 and decision 1/CP.21, paragraph 36

Bilateral/multilateral cooperation between countries, involving international transfers of the mitigation outcomes (**ITMOs**) produced through such cooperation

The Paris Agreement Crediting Mechanism (Article 6.4 Mechanism)

Articles 6.4 to 6.7 and decision 1/CP.21, paragraphs 37 and 38

To be operated centrally (6.4 SBM and UNFCCC secretariat), credits emission reductions by public and private sector actors, allows for international transfer of those credits or use for any other purpose

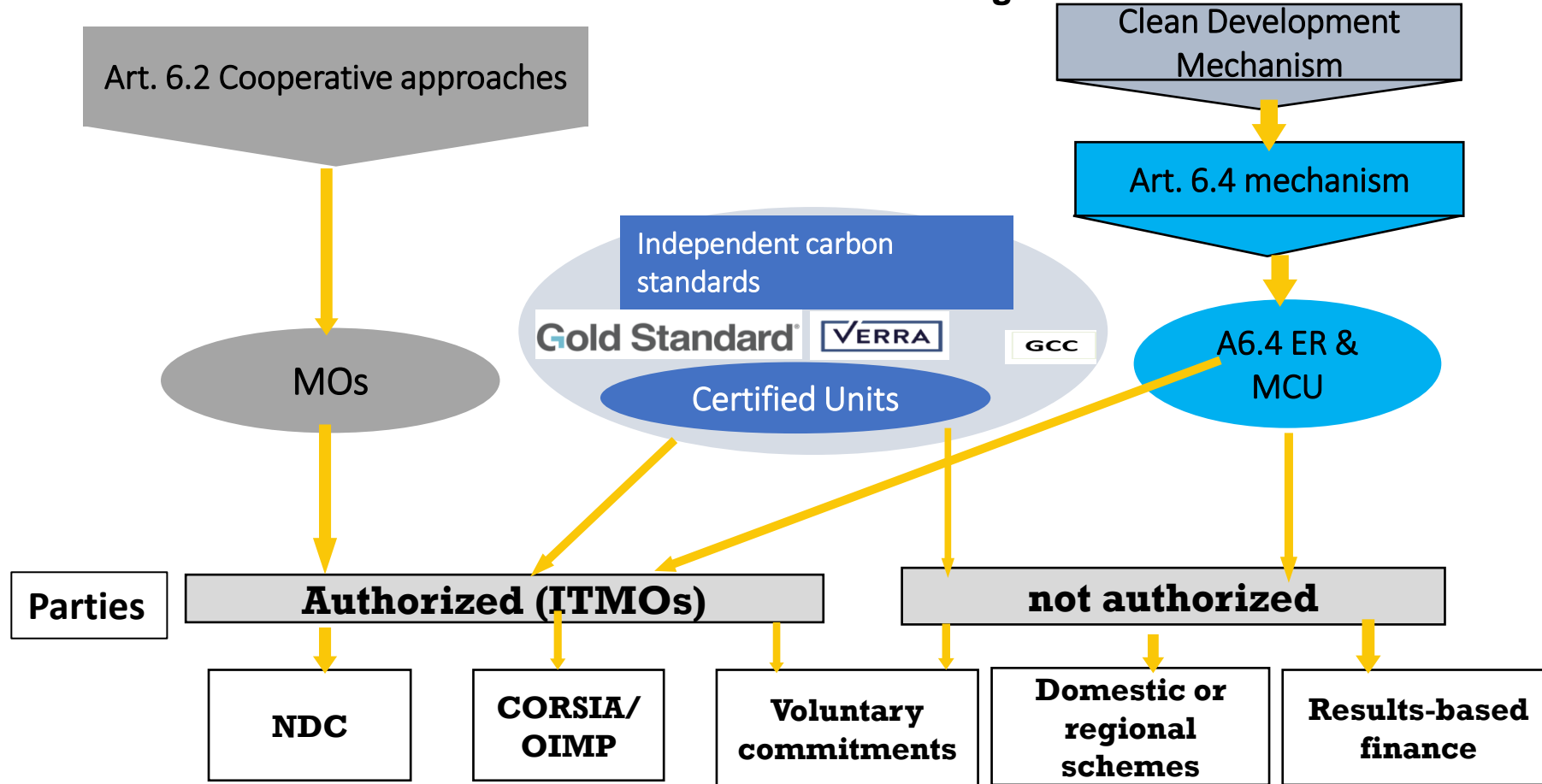
Framework for non-market approaches

Articles 6.8 and 6.9 and decision 1/CP.21, paragraphs 39 and 40

Facilitates climate action through international cooperation focused on sustainable development and poverty eradication (and does not involve trading of mitigation outcomes)

Carbon markets under Article 6

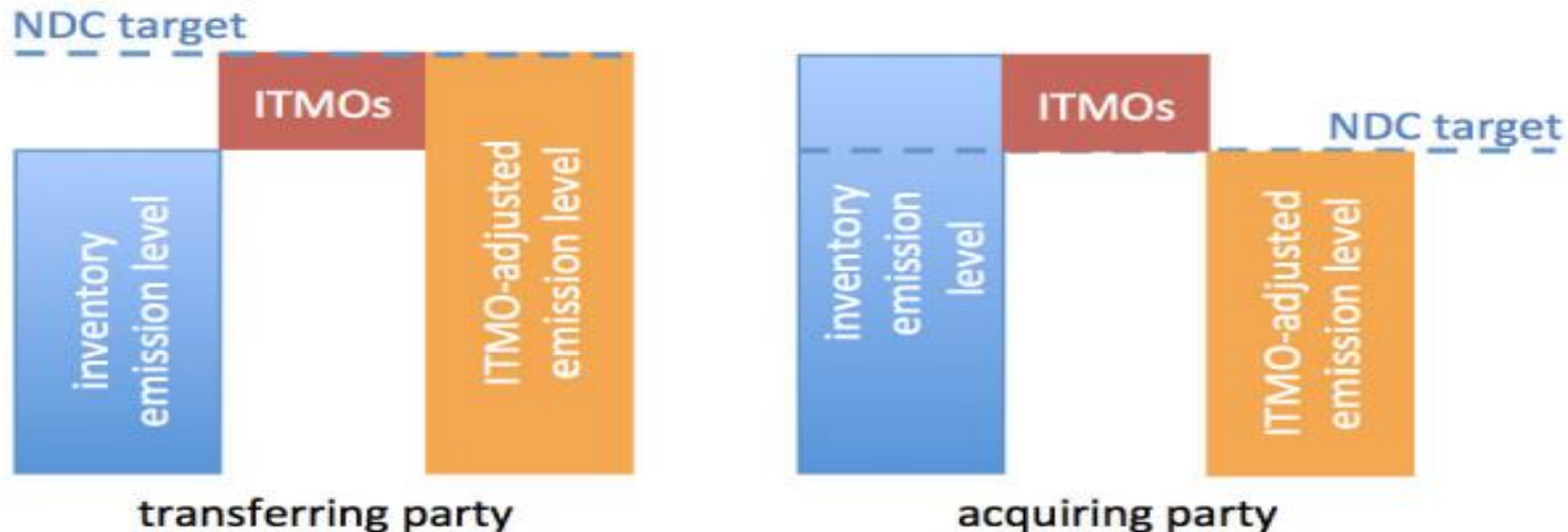
Carbon credits transactions under Article 6 of the Paris Agreement



All authorized ITMOs are subject to **corresponding adjustment** to avoid double counting. They can not be used by the Host Party to meet its NDC

Corresponding adjustment

- The basic idea of corresponding adjustment is that countries' emissions levels, as reported when they track the progress towards achieving the NDCs, should be adjusted to reflect the transfer (export) or receipt (import) of ITMOs.
- Corresponding adjustments do not change the national greenhouse gas (GHG) inventory.
- They are adjustments to an **emissions balance** that represents the sources of emissions and removals covered by the NDC targets.



Recording, tracking and reporting obligations

- In addition to the information to be reported in the Biennial Transparency Report (BTR) of the Enhanced Transparency Framework, Parties participating in cooperative approaches will need to present specific information, including an:
 - Initial report;
 - Annual information; and
 - Regular information (biennial).
- **Initial Report:**

Each participating Party shall submit an Article 6.2 initial report no later than authorization of ITMOs from a cooperative approach or where practical (in the view of the participating Party), in conjunction with the next BTR for the period of NDC implementation.

Initial Report (1)

The initial report shall contain comprehensive information to:

- Demonstrate that the participating Party fulfils the participation responsibilities;
- Provide, the information referred to the description of its NDC under Article 4 of the P.A., against which progress will be tracked;
- Communicate the ITMO metrics and the method for applying corresponding adjustments for multi- or single-year NDCs;
- Quantify the Party's mitigation information in its NDC in t CO₂ eq, including the sectors, sources, GHGs and time periods covered by the NDC, the reference level of emissions and removals for the relevant year or period, and the target level for its NDC; or where this is not possible, provide the methodology for the quantification of the NDC in t CO₂ eq;
- Provide, for each cooperative approach, a copy of the authorization by the participating Party, a description of the approach, its duration, the expected mitigation for each year of its duration, and the participating Parties involved and authorized entities;
- Describe how each cooperative approach ensures environmental integrity

Initial Report (2)

The initial report shall contain comprehensive information to:

- Describe how each cooperative approach will:
 - 1) Minimize and, where possible, avoid negative environmental, economic and social impacts;
 - 2) Parties, when taking action to address climate change, respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity;
 - 3) Is consistent with the sustainable development objectives of the Party, noting national prerogatives;
 - 4) Apply any safeguards and limits set out in further guidance from the CMA;
 - 5) Contribute resources for adaptation, if applicable;
 - 6) Deliver overall mitigation in global emissions (OMGE), if applicable.
- For each further cooperative approach, each participating Party shall submit the information above in an updated initial report and for inclusion in the **centralized accounting and reporting platform (CARP)** and include it in the next biennial transparency report due.

Annual information

Each participating Party shall, on an annual basis by **no later than 15 April of the following year** and in an **agreed electronic format (AEF)**, submit for recording in the **Article 6 database**:

- Annual information on authorization of ITMOs for use towards achievement of NDCs, authorization of ITMOs for use towards other international mitigation purposes, first transfer, transfer, acquisition, holdings, cancellation, voluntary cancellation, voluntary cancellation of mitigation outcomes or ITMOs towards overall mitigation in global emissions, and use towards NDCs;
- In respect of the above, the cooperative approach, the other international mitigation purpose authorized by the Party, the first transferring participating Party, the using participating Party or authorized entity or entities, as soon as it is known, the year in which the mitigation occurred, the sector(s) and activity type(s), and the unique identifiers

Regular information (1)

Each participating Party shall include as an annex to its biennial transparency reports and no later than 31 December of the relevant year, the following information in relation to its participation in cooperative approaches:

- 1) Contributes to the mitigation of GHGs and the implementation of its NDC;
- 2) Ensures environmental integrity ;
- 3) Where a mitigation outcome is measured and transferred in t CO₂ eq, provides for the measurement of mitigation outcomes in accordance with the methodologies and metrics assessed by the IPCC and adopted by the CMA;
- 4) Where a mitigation outcome is measured and first transferred in a non-GHG metric determined by the participating Parties, ensures that the method for converting the non-GHG metric into t CO₂ eq is appropriate for the specific non-GHG metric and the mitigation scenario in which it is applied;
- 5) Provides for, as applicable, the measurement of mitigation co-benefits resulting from adaptation actions and/or economic diversification plans;

Regular information (2)

Each participating Party shall include as an annex to its biennial transparency reports and no later than 31 December of the relevant year, the following information in relation to its participation in cooperative approaches:

- 6) Minimizes and where possible avoids negative, environmental, economic and social impacts;
- 7) Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity;
- 8) Is consistent with and contributes to the sustainable development objectives of the Party, noting national prerogatives;
- 9) Applies any safeguards and limits set out in further guidance from the CMA;
- 10) Contributes resources for adaptation, if applicable ;
- 11) Delivers overall mitigation in global emissions, if applicable

Regular information (3)

Each participating Party shall also include, as an annex to its biennial transparency reports and no later than 31 December of the relevant year, the following information on how each cooperative approach in which it participates:

- 1) Annual anthropogenic emissions by sources and removals by sinks covered by its NDC or, where applicable, from the portion of its NDC;
- 2) Annual quantity of ITMOs first transferred;
- 3) Annual quantity of mitigation outcomes authorized for use for other international mitigation purposes and entities authorized to use such mitigation outcomes, as appropriate;
- 4) Annual quantity of ITMOs used towards achievement of its NDC;
- 5) Net annual quantity of ITMOs ;
- 6) Total quantitative corresponding adjustments used to calculate the emissions balance;
- 7) The cumulative information in respect of the annual information;
- 8) The amounts per the cooperative approach, sector, transferring Party, using Party and vintage of the ITMO for each cooperative approach;
- 9) In biennial transparency reports that contain information on the end year of the NDC implementation period, in its assessment of whether it has achieved the target(s) for its NDC, the application of the necessary corresponding adjustments consistently.

Regular information (4)

- Each participating Party shall submit the following annual information (reported biennially) in a manner consistent with the application of corresponding adjustments and any updates to information submitted for previous years in the NDC implementation period to the Article 6 database, and shall include it in the structured summary as part of the biennial transparency report):
- Information submitted by a Party pursuant to this chapter that is not identified by that Party as confidential (non-confidential information) shall be made public on the centralized accounting and reporting platform.
- **Recording and tracking :**
 - i. Each participating Party shall have, or have access to, a registry for the purpose of tracking and shall ensure that such registry records, including through unique identifiers, as applicable: authorization, first transfer, transfer, acquisition, use towards NDCs, authorization for use towards other international mitigation purposes, and voluntary cancellation (including for overall mitigation in global emissions, if applicable), and shall have accounts as necessary.
 - ii. The secretariat shall implement an international registry for participating Parties that do not have or do not have access to a registry. Any Party may request an account in the international registry.

Article 6 Review

- Review requirements under cooperative approaches:

Information reported for the cooperative approach is subject to an **Article 6 TERT** that could happen through a desk or centralized review. An Article 6 TERT will review the information submitted in the initial report and in the annex to the BTR (i.e. the regular information).

To the extent possible, information submitted by all participating Parties on the cooperative approach shall be reviewed as part of the same review.

The Article 6 TERT will prepare a **review report** (using an agreed outline), that shall, if applicable, include **recommendations** to the participating Party on how to improve consistency with this guidance and **how to address inconsistencies in quantified information that is reported and/or identified by the secretariat** as part of the consistency check.

The Article 6 TERT will forward its review reports for consideration in the ETF technical expert review, and the review reports shall be **made publicly available on the CARP**.

It should be noted that the ETF technical expert review team will not make changes in the findings and recommendations from the Article 6 TERT.

Article 6.2 outcomes from Sharm el Sheikh

Reporting



INITIAL REPORT

Initial report outline, which allows Parties to start reporting on cooperative approaches



REGULAR INFORMATION

Regular report outline, which allows Parties to report on progress and update information from the initial report with each biannual transparency report



DRAFT AGREED ELECTRONIC FORMAT

A draft version of the annual electronic format, which Parties are encouraged to test and provide feedback on

Article 6.2 outcomes from Sharm el Sheikh

Review



REVIEW PROCESS GUIDANCE

Review guidelines were adopted in order to provide structure and timelines to Article 6 reviews



REVIEW REPORT OUTLINES

Outlines for the Article 6 review reports of the initial report and regular information that detail the contents of Article 6 review outcomes



TRAINING PROGRAMME

An outline of the training programme was agreed with the intention to develop courses for Article 6 reviewers, with an initial version of training courses planned for the end of 2023

Article 6.2 outcomes from Sharm el Sheikh

Infrastructure



REGISTRIES

Guidance on registries and the international registry, including on ITMO unique identifiers and principles for interoperability, which enables Parties to build registries to record and track ITMOs



REGISTRY ADMINISTRATORS' FORUM

The launch of the registry administrators' forum to facilitate discussions on recommended practices for registries



REPORTING TOOLS

Guidance on the Article 6 database and centralized accounting and reporting platform (CARP) to support transparency by housing submitted documentation on cooperative approaches and to check consistency in reported transactions

Article 6.2 outcomes from Sharm el Sheikh

Capacity Building



SUPPORT

Capacity building programme, including 2 manuals: (1) for the Article 6 database and the centralized accounting and reporting platform (CARP) and (2) a manual containing illustrative elements of information for reporting



TECHNICAL PAPER

Two technical papers will be produced to further understanding on the initial report preparation and the funding of infrastructure requirements



WORKSHOPS

Workshops on reporting elements to further Parties' understanding of how to utilize the initial report and agreed electronic format

Article 6.2 work programme

2023

Accounting	<ul style="list-style-type: none">• Authorization processes for ITMOs, entities and cooperative approaches• First transfer rules when an ITMO is authorized for more than one use• Notification and correction of inconsistencies in reported information
Reporting	<ul style="list-style-type: none">• Recommendations for a manual to support the preparation and submission of initial reports• Finalization of the agreed electronic format for quantitative information• Tables for aggregated quantitative information and corresponding adjustments (p23)• Common nomenclatures• Non-GHG metric conversions
Review	<ul style="list-style-type: none">• Sequencing and timing of initial report submission and its review, and the submission of the agreed electronic format• Recommended actions when inconsistencies are not addressed• Reviewing confidential information
International registry	<ul style="list-style-type: none">• Accounts and role of the international registry administrator• Procedures for reporting and review for the cooperative approaches of the participating Parties requesting services• Submission of information for recording and tracking ITMOs to the international registry• Transfer of A6.4ERs to the international registry
Other	<ul style="list-style-type: none">• Funding Article 6.2 activities by the secretariat• Considerations for LDCs and SIDS (<i>continuous consideration</i>)

2024

Accounting	<ul style="list-style-type: none">• Further guidance on corresponding adjustments• Consideration if ITMOs could include emissions avoidance
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Expected COP 28 outcomes

- Decisions at CMA 5 to make the 6.4 Mechanism operational in 2024:
 - Recommendations by the 6.4 SB and the SBSTA;
 - Adopt decisions on Article 6.4 and CDM transition during CMA 5
- Adopt decisions during CMA 5 to strengthen the environmental integrity of the 6.2:
 - Authorization processes under 6.2 vs under 6.4 Mechanism;
 - Outlines of the Initial report, the AEF report and biennial report (manual);
 - Review (inconsistencies, confidential information);
 - Sequencing (initial report, review, AEF report and Biennial report);
 - Interoperability between registries
- Operationalization of the web-based platform of the GCNMA
- Review of the status of the Trust Fund for the Clean Development Mechanism;
- Decision on the functioning and operation of the processes and institutions of the clean CDM in the future, including appropriate time frames.

Article 6 negotiations in Dubai (1)

Before negotiations :

- SBSTA Chairman's proposal on textual elements;
- The UNFCCC Secretariat published the Article 6.2 manual on the centralised accounting and reporting platform (provisional solution);
- The Secretariat developed three versions of the Annual Report (AEF);
- The Secretariat developed the training programme for reviewers.

During SBSTA 59 and CMA 5

- Definition of cooperative approach ;
- Common nomenclature ;
- Authorisation (timetable, content, forms, revision, revocation) ;
 - CA authorization;
 - Authorization of entities; and
 - ITMO authorization.
- Application of the first transfer ;

Article 6 negotiations in Dubai (2)

During SBSTA 59 and CMA 5 (next)

- Application of the report and tables in the approved electronic format (AEF) ;
- Tables for the submission of annual information as part of regular reporting; Sequence and timetable for the various stages (initial report, review, annual report, biennial report);
- Process for identifying, reporting and correcting data inconsistencies;
- Process for dealing with inconsistencies identified during reviews by technical experts under Article 6;
- Procedures for the review of confidential information;
- Additional functionality and procedures for the International Registry;
- Submission of information by Parties using the International Registry;
- Financing of the Secretariat's activities relating to Article 6.2;
- Work programme for 2024.

Progress and COP 28 outcomes

Three iterations of the texts have been developed during CMA 5:

- SBSTA 59 forwarded a draft decision to CMA 5;
- Two iterations of Presidency proposals were produced during the negotiations;
- Final Presidency proposal.

After nearly 15 days of intense negotiations, only the decision on Article 6.8 of the Paris Agreement, the Work Programme for Non-Market-Based Approaches was adopted, based on the Presidency's final proposal. This is the first time that the final decisions on Article 6 have been separated from the adoption of the decision on the framework for non-market-based approaches and the rejection of the final decisions on cooperative approaches and the 6.4 mechanism proposed by the Presidency.

COP 28 outcomes

The Presidency's final proposal was not adopted despite a final effort by the facilitators to take into account the concerns of the main negotiating groups. These major differences concern:

- The definition and scope of cooperative approaches: do they necessarily involve the participation of 2 Parties or can they be unilateral, as in the case of the OIMP (CORSIA for example), and their link with the underlying certification systems;
- Authorization: the possibility of revising and/or revoking authorizations and the conditions under which this is possible, as well as the mandatory use of standard forms;
- The possibility of using one of the AEF projects pending finalization of discussions on this issue;
- The sequencing and handling of inconsistencies in reports: whether or not transactions can be blocked depending on the results of the review or the lack of responsiveness of the participating parties;
- The question of whether the international registry can also serve as a transactional registry;
- The close relationship between the Article 6.2 guidelines and the Article 6.4 mechanism, with some groups considering that they will not allow Article 6.2 to be operational with the use of ITMOs generated by other certification standards and bilateral agreements, while the 6.4 mechanism, which is a UNFCCC mechanism, is not yet operational.

Remaining tasks and responsibilities

As the proposed decisions on Article 6.2 and the Article 6.4 Mechanism were not adopted, the SBSTA Chair, assisted by the co-facilitators, will have to find a way to preserve all the progress made in Dubai and focus the next negotiations on the main differences.

This will not be easy insofar as the non adoption of the decisions proposed by the Chair may lead some Parties or groups of Parties to reject all the points of convergence achieved in Dubai.

The secretariat has a lot of work to do to put in place all the infrastructure needed to ensure environmental integrity and avoid double counting of ITMOs on the basis of mandates prior to CMA 5, and particular attention must be paid to monitoring their progress.

Article 6.2 work programme

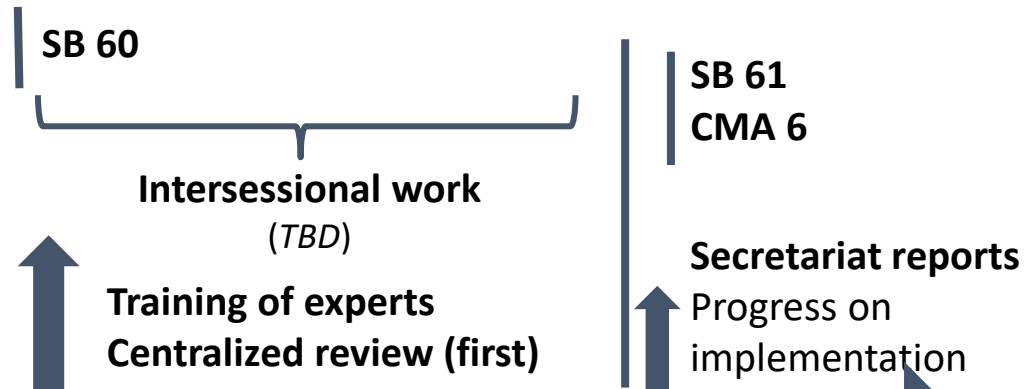
Accounting	<ul style="list-style-type: none">• Authorization processes for Internationally Transferred Mitigation Outcomes (ITMOs), entities and cooperatives approaches• First transfer rules when an ITMO is authorized for more than one use• Notification and correction of inconsistencies in reported information
Reporting	<ul style="list-style-type: none">• Recommendations for a manual to support the preparation and submission of initial reports• Finalization of the agreed electronic format (AEF) for quantitative information• Tables for aggregated quantitative information and corresponding adjustments• Common nomenclatures• Non-GHG metric conversions
Review	<ul style="list-style-type: none">• Sequencing and timing of initial report submission and its review, and the submission of the agreed electronic format• Recommended actions when inconsistencies are not addressed• Reviewing confidential information
International registry	<ul style="list-style-type: none">• Accounts and role of the international registry administrator• Procedures for reporting and review for the cooperative approaches of the participating Parties requesting services• Submission of information for recording and tracking ITMOs to the international registry• Transfer of A6.4ERs to the international registry• Functional requirements and associated cost estimates for IR.
Other	<ul style="list-style-type: none">• Considerations for Least Developed Countries (LDCs) and Small Island Developing States (SIDS) (<i>continuous consideration</i>)
Accounting	<ul style="list-style-type: none">• Further guidance on corresponding adjustments• Consideration if ITMOs could include emissions avoidance

CMA 5 Dubai requested SBSTA to continue consideration of the relevant matters mandated by decision 6/CMA.4 (WP from Sharm), at SBSTA 60, with a view to recommending a draft decision for consideration and adoption by CMA 6.
 Article 6.2 outlook for 2024

- Revision of the A.6 Manual
- Training material for review
- Preparation for A.6 centralized review
- SBSTA chair outreach with HODs (Approach?? Text??)



- RSA forum meeting for business rules and communication protocols
- Centralized Accounting and Reporting Platform (CARP):
 - A.6 Nomenclature
 - Assigning Co-op Approach identification



Secretariat: infrastructure development, review arrangements, capacity building

Implications on the compliance market

Although all the points of negotiation from SBSTA 58 are still current, the orientations taken by the sessions under SBSTA 59 and CMA 5 show that efforts will have to be concentrated on the following points to arrive at a draft decision for CMA 6:

- Authorization of cooperative approaches, entities, activities and ITMOs and standard forms;
- Agreed Electronic Format report;
- Sequencing and handling of inconsistencies in reports;
- The functions of the international registry (whether it can also be used as a transactional registry);

The non-adoption of new guidance by MCA 5 will not affect the ability of Parties to cooperate internationally and implement activities, but it will not be possible to report on the transfer of ITMOs, nor to review initial reports.

Way forward for African countries

- Nominate 6.4 DNA and follow the regional workshop;
- Nominate 6.8 focal points;
- Develop national infrastructure and procedures in line with participation requirements on Article 6.4 and 6.2;
- Set up structures and infrastructure for Authorization;
- Set up structures and infrastructure for recording and reporting (initial report, Agreed Electronic Format report, biennial report, GHG emissions, emission balance, etc.);
- Address the coherence between compliance market, voluntary market, domestic market, other carbon pricing instruments;
- Address relationship between carbon markets and NDC achievement;
- Address coherence between the Article 6 reporting and the NDC reporting under the Enhanced Transparency Framework.
- Continue awareness and capacity building activities for all stakeholders

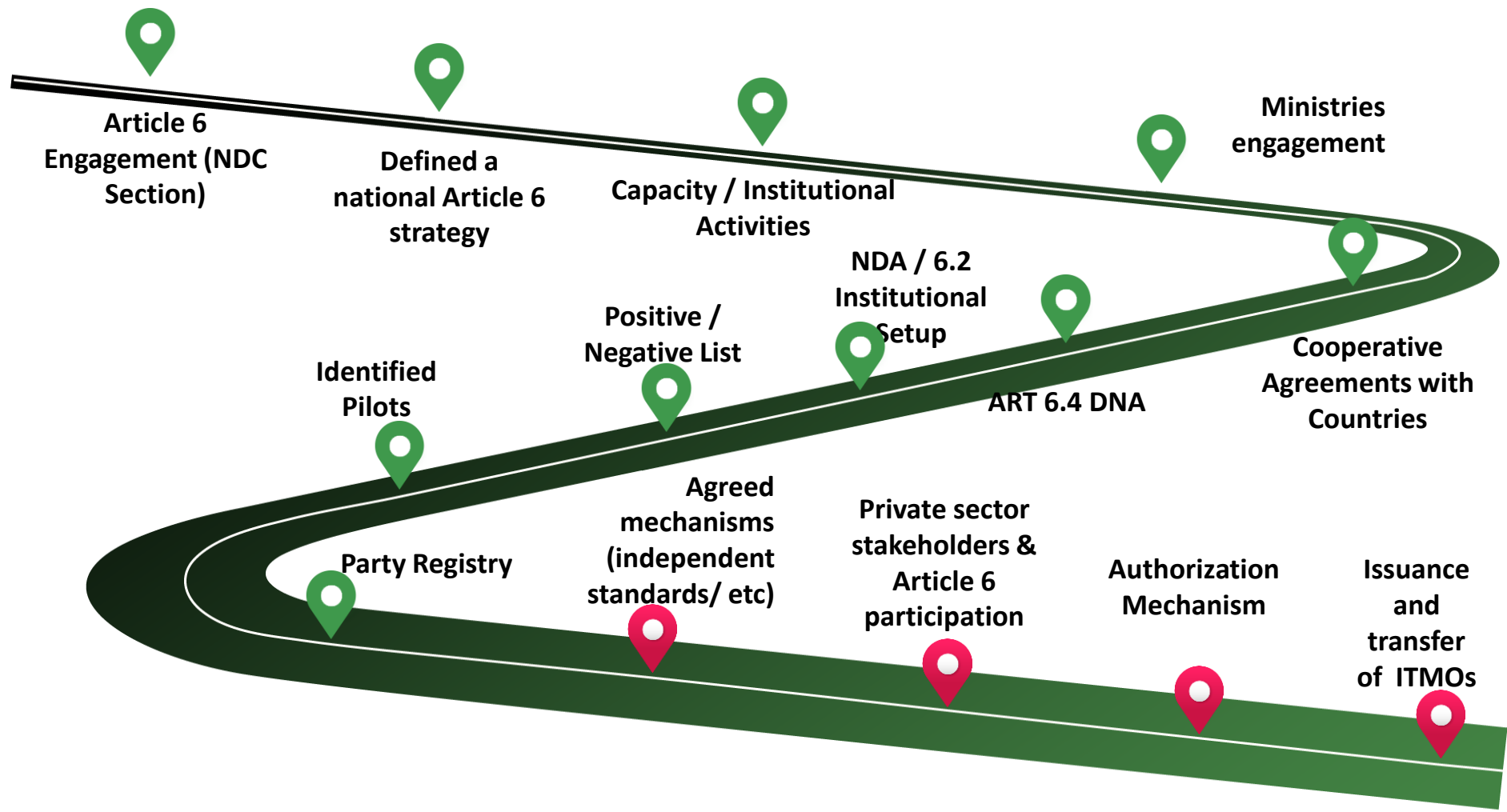
Some Article 6 benefits for Africa

- Article 6 objective is to increase the ambition on Mitigation and Adaptation;
- Encourage and facilitate the participation of non states actors in acheiving the PA objectives
- Support african countries in acheiving their NDCs objectives (mainly conditional ones);
- Improve the profitability of certain projects and contribute to their implementation;
- Contribute to acheivement of sustainable development goals (energy access, health through clean cooking, clean water access; etc.);
- Facilitate transfer and dissemination of clean technologies;
- Participate in fighting poverty;
- Funding for the Adaptation Fund (5% SoP from 6.4 Mechanism) and voluntary from the 6.2 Activities;

African experiences in Article 6 implementation.

- Different level of implementation of Article 6 in african countries;
- Strategy for the implementation of Article 6
- Institutionnal framework: definition and operationalization
- Governance framework: development, legal implementation and operationalization
- Conclusion of bilateral agreements under Article 6.2;
- Participation in Other International Mitigation Activities (CORSlA);
- Integration of different marckets and mechanisms (Article 6.2, Article 6.4 mechanism, Article 6.8 framework, independant carbon market, vountary carbon market, domestic and or regional carbon market, etc.);
- Capacity building of the different stakeholders

Article 6 Implementation





**THANK
YOU!**

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Ideas
to
Action