

Carbon Market Watch input to SBSTA on matters related to article 6 of the Paris Agreement



Share of proceeds for adaptation and avoiding double use of outside NDC A6.4ERs

Response to the call for submissions on the above-mentioned topics by the SBSTA chair

- April 2021

Summary

Financing for Adaptation/Share of Proceeds:

- **A share of proceeds for adaptation should be levied on both 6.2 and 6.4 transactions**
- **The share of proceeds for adaptation should be a monetary (rather than in-kind) contribution valued as a share of the unit price, combined with a floor value.**

Avoiding double use of emission reductions generated outside Nationally Determined Contributions (NDC) under article 6.4 of the Paris Agreement (A6.4ERs)

- **All Internationally Traded Mitigation Outcomes (ITMOs) and A6.4ERs should be subject to corresponding adjustments. This includes those issued by projects/activities from sectors/gases not covered by the host Party's NDC, should such issuance be authorized.**

Financing for Adaptation/Share of proceeds

Carbon Market Watch urges Parties to scale up adaptation finance in line with increasing adaptation needs, as faced in particular by Least Developed Countries and Small Island Developing States.

Making use of flexibilities in the form of the acquisition of ITMOs or A6.4ERs for use towards a Party's NDC is a voluntary choice, and makes it easier for Parties to reach their NDC objectives. Applying a SOP requirement on the use of such flexibilities does not prevent Parties from engaging in bilateral cooperation. In the specific case of linked ETS, Parties can *choose* to account for the cross-border flow of allowances as an ITMO transfer. Parties could also choose not to account for this trade as an ITMO transfer, and simply report emissions from their inventory, i.e. reflecting the reductions taking place within their territory. Choosing not to account for the net flow of allowances as an ITMO transfer would not negate the potential benefits of linking ETS, e.g. it would not affect efficiency gains from an enlarged market. Accounting for the net flow of allowances as an ITMO transfer is neither necessary to link ETS, nor to ensure that such linkages deliver extra-benefits. Therefore, if Parties *choose* to account for such linkages, there is no need to exempt the associated ITMO transfers from a share of proceeds for adaptation contribution.

A share of proceeds for adaptation should therefore be levied on all article 6 credits, under both 6.2 and 6.4.

Furthermore, the “share” of proceeds should ideally not be established in the same way as it was done under the CDM, whereby 2% of CERs were levied “in-kind”. In contrast, the administration share of proceeds under the CDM was levied as a fixed monetary contribution (set at 0.10-0.20 USD/CER) and generated a stable source of resources for the CDM Executive Board's operations and the UNFCCC secretariat. The Share of Proceeds for adaptation, was affected by the CER price crash and raised less money in absolute terms than the administration SOP¹. To prevent a similar situation under article 6, while ensuring that article 6 can significantly contribute to adaptation finance should credit prices rise, **the share of proceeds for adaptation should be set as a monetary contribution from levying a percentage of the price paid for the first transfer of the unit, combined with a minimum absolute monetary value which would be applied as a backstop measure**, e.g. set at 0.20 USD per unit.

Avoiding double use of outside NDC A6.4ERs

¹ Michaelowa et al. (2019): [“Operationalizing the share of proceeds for article 6”](#)

Allowing the issuance of A6.4ERs from sectors/gases not covered by an NDC scope, and exempting these from the application of corresponding adjustments, creates a perverse incentive against increasing the scope of the host Party's NDC. **One solution is to not allow the issuance of A6.4ERs from sectors/gases not covered by the host Party's NDC. Another adequate option is to require the application of corresponding adjustments also for A6.4ERs generated outside of the host Party's NDC.**

The heterogeneity and lack of clarity of NDCs should be carefully considered. Due to their bottom-up nature, many NDCs do not clearly specify what is “in” and “out” of their scope. Adopting a specific rule for “outside scope”, or excluding the issuance of credits from “outside scope” could therefore prove to be highly challenging in practice, and potentially subject to significant gaming if Parties are free to clarify what is “in” or “out” of their NDC at the time of authorising a project/ITMO transfer/A6.4ER transfer. **Therefore, a uniform policy requiring the application of corresponding adjustments for all A6.4ERs would be the most practical option.**

All forms of double counting should be prevented under article 6. The use of an emission reduction by two different entities creates a range of problems and undermines environmental integrity. Depending on who these entities are, e.g. a Party to the Paris Agreement, an airline with obligations under CORSIA, or a private company pursuing voluntary action, different problems might occur. These can include unrepresentative accounting, undermined NDC ambition, perverse incentives against NDC ambition, and undue “green” claims. While these problems are diverse in their nature, the application of corresponding adjustments is an effective means to address them. **Corresponding adjustments should therefore be applied to account for the transfer of all ITMOs and A6.4ERs.** This should not be limited to *international* transfers, e.g. in the case of a domestic transfer to an airline for compliance under CORSIA, or to a company for use towards voluntary goals. An offset should represent a “guarantee” or a “promise” that emissions have been reduced beyond what would have happened without the purchase of the offset. This cannot be guaranteed if the emission reduction is also counted by the host country, irrespective of the type of entity the buyer represents, and of whether or not the buyer is itself located in the host country².

² Carbon Market Watch (2020): “[Above and beyond carbon offsetting - Alternatives to compensation for climate action and sustainable development](#)”

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