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COP24 Side Event Report

Transitioning to a new era of Paris Agreement mechanisms for increased ambition

Overseas Environmental Cooperation Center, Japan

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This is a report of a side event held at 24th Session of the e Conference of the Parties to the UNFCCC (COP24) from December 2nd to 14th 2016, in Katowice, Poland.

- Title: Transitioning to a new era of Paris Agreement mechanisms for increased ambition
- Date: 4 December 2018, Tuesday, 16:15–18:15
- Organizers: Carbon Market Watch - Centre of Development & Environment
- Venue: Room Warmia
- Panel: Carsten Warnecke (NewClimate Institute), Alberto Saldamando (Indigenous Environmental Network), Gilles Dufrasnen (Carbon Market Watch), Sophie Closson (International carbon markets negotiator, Belgium)
- Moderator: Erika Lennon (Center for international environmental law)

Abstract

In light of the potential impacts of old Kyoto mechanisms on the Paris Agreement, this event discussed how to transition towards a new system for international transfers under Article 6, and how to ensure these tools contribute to reducing overall emissions and promoting sustainable development.

Session summary

1. Carsten Warnecke (NewClimate Institute): Transitioning to a new era of Paris Agreement mechanisms for increased ambition –Opportunities and safeguard for ambition raising through Article 6

[Necessary considerations for raising ambition through Article 6]

- ✓ Fundamental difference between the KP and PA is that all Parties are expected to peak and reduce their own emissions in this century under the PA.
- ✓ Ambition raising measures will close the gap between NDCs and PA goals.
- ✓ Voluntary cooperation should lead to “higher ambition” described in Article 6.1.
- ✓ Cooperation under Article 6 must enable host countries of mitigation activities to reach overachieve current mitigation efforts without undermining current and future ambition

of domestic action.

- ✓ Article 6 could enhance ambition by driving mitigation in inaccessible abatement options.
- ✓ Potential areas for international Article 6 cooperation should be applied for inaccessible technologies (high cost and emerging technologies) and low cost and mature technology should be considered as a focus of domestic action.

[From country perspective]

- ✓ Need to define a) Measures reserved for own action to efficiently and cost-effectively achieve their own NDC and b) Scope for measures internationally supported through Article 6 cooperation.
- ✓ Governments should take an active role in identifying sector proposals eligible for investment through Article 6 or define exclusion list.
- ✓ Support should last for a limited timeframe only to allow Parties to flexibly reassess inaccessibility.

[Risks for Ambition raising]

- ✓ Incentives to increase domestic ambition and enact policies could be restricted due to an effective increase in the marginal abatement costs of domestic action, associated with the opportunity cost of foregoing ITMOs use.
- ✓ Incentives for originating Parties to extend the scope of their NDCs to economy-wide targets could be restricted.
- ✓ Parties may face perverse incentives to inflate projected emission baselines in NDCs.

[Possible safeguard options]

- ✓ Participation in Article 6 mechanisms could be restricted to Parties who developed and communicated long term strategies that explicitly identify the role of ITMOs in their implementation.
- ✓ Participation in Article 6 mechanisms could be restricted to Parties with economy-wide targets or rules for the ITMO-eligibility of actions could be made irrespective of NDC scope definitions.
- ✓ An objective set of criteria could be established to determine positive and negative lists for inaccessible actions.
- ✓ International benchmarks could be used to assist with the determination of ITMO eligibility for actions in the grey zone.
- ✓ The period for which ITMO-eligible mitigation actions remain eligible should be finite and could be aligned with the period of NDC cycles.
- ✓ The volume of ITMOs available to trade for any originating Party could be limited by baselines based on emissions levels achieved in previous NDCs.
- ✓ International support for Article 6 readiness could assist countries to build the information

and evidence to support ambition target setting.

- ✓ International support for Article 6 readiness could assist countries in the objective identification of domestically inaccessible technologies and actions for ITMO-eligibility.

[Sources]

- [Opportunities and safeguards for ambition raising through Article 6](#)
- [Operationalizing an 'overall mitigation in global emissions' under Article 6 of the Paris Agreement](#)

2. Gilles Dufrasnen (Carbon Market Watch)

- ✓ A yesterday's CDM side event (on 12/3) said just a handful of NGOs are loud for problems of CDM, but actually there are hundreds of NGOs.
- ✓ The CDM has undermined domestic climate action and led to an increase in emissions.
 - CDM is designed as an offsetting scheme, so that means a zero sum game at best.
 - CDM credits with low environmental value increase emissions.
 - A large majority of projects do not rely on CDM revenues to reduce emissions.
- ✓ The CDM does not have necessary safeguards in place to prevent and remedy adverse impacts. Involving all local stakeholders in project design and protecting them from harm is beneficial for all.
- ✓ Infrastructures from CDM/JI such as existing activities, methodologies and accreditation standards should go through a transitional screening process under the new Supervisory Body and appropriate elements may be succeeded to SDM. CERs and ERUs should not be available under the PA.
- ✓ Lessons learned from CDM for Art 6 are follows;
 - Art 6 cannot undermine climate action: Avoiding double counting is essential for post 2020 markets (transparent tracking and corresponding adjustments for units).
 - Art 6 must go beyond offsetting: Overall mitigation is achieved through a discount/cancellation rate.
 - Art 6 cannot generate harm to people or the environment: Detailed rules on local stakeholder consultations and a grievance mechanism governed by an independent body are essential.

3. Alberto Saldamando (Indigenous Environmental Network: IEN)

- ✓ He is a consultant for indigenous people's human rights in the context of climate change.
- ✓ IEN is aware the IPCC special report and necessity of cutting CO2 emissions in half by 2030 and achieving net zero by 2050. But so far, the market mechanisms have never worked to reduce GHG emissions.

- ✓ Oil production is still growing and new coal power plants are constructed even after the adoption of the PA.
- ✓ IEN's concerns extent to primarily to indigenous people in REDD+ projects. Primary objective of investors is not forest but return on their investment.
- ✓ There are concerns about right of indigenous people with forest and actual reductions by REDD+ and other market schemes. With regard to safeguard for the right of indigenous people, much needs to be desired.
- ✓ There is no level playing field and ongoing power unbalance in negotiation between indigenous people and nations/local governments/businesses. In actual, consultations based on REDD+ project doesn't work correctly as the safeguard for indigenous people.
- ✓ IEN supports essential stewardship code for indigenous people and local communities. In some countries, indigenous peoples are simply not recognized, so the safeguard is not applied to them.
- ✓ IEN insists a stringent safeguard needs to be applied for market mechanisms under Article 6. Communication mechanism must be adapted including monitoring and evaluation. If high social cost is shown for a project (e.g. displacement from mega dam, loss of food security, territory, relationship to the land etc.) that project must not generate ITMOs.
- ✓ Independent supervisory body based Article 13 should be established to ensure accurate accounting and emissions baselines for the market mechanism.
- ✓ Accordingly, eligibility of project is important. Even though mega hydro and nuclear projects cut GHG emissions, these projects should not be eligible under the Article 6. Eligible quantity of ITMOs used for NDC achievement should be limited to 10% or less.

4. Sophie Colosson (Belgium)

- ✓ She is a negotiator of Article 6 from EU delegation.
- ✓ EU has been very active in CDM EB and had lot of effort and energy to have the CDM Sustainable Development Tool. It is a voluntary basis tool but at least it can assess impacts of projects on sustainable development.
- ✓ Qualitative assessment in SD tool was really difficult to be approved within the EB because EU is only minority in the board which is still in the old Annex 1 and Non-Annex 1 divide.
- ✓ EU has achieved some but not enough, things needs to be improved in a new board under Article 6 are following; composition and rule of the supervisory body, Local Stakeholder Consultation, hearings from local communities prior to making decision, all the issues linking to human right. EU is requesting these things in the Article 6

negotiation.

- ✓ Some countries are opposing for these things because of; national prerogative, burden of too much consultation, concerns for too much power for the supervisory body.
- ✓ In addition, EU is asking a new element; 1) Parties have to indicate a plan for impact of project in SDGs and defining SD objectives and indicators, 2) Ex-post, assessment of contributions achieved by the project. (*Ex-post assessment doesn't exist under the CDM. Parties only need to submit an approval letter which cannot be rejected.)
- ✓ An initial draft text of Article 6 Guidance was 70 pages with over 360 options at the beginning of COP24, now SBSTA is trying to make a shorter version but the discussion has been difficult so far. That difficulty is caused by lots of diversity, technicalities and political dimensions on the role of market and private sector.
- ✓ EU wants to stop CDM after the end of second commitment period of the Kyoto Protocol. CDM needs to be replaced by the new mechanism under Art 6. This is clear EU's position. However, some countries want CDM to continue because of demand from CORSIA.
- ✓ The draft text consists of two sections for the time being; Annex 1 which negotiators hope to be adopted at COP24, Annex 2 with technical issues on which discussions to be continued in next year. It's already agreed that Art 6 won't be finalized at this COP24.
- ✓ Hoping at least following issues to be finalized at COP24; 1) Baseline for Art 6 which will not be BAU but should be below BAU to create ambition, 2) The metric unit of ITMOs should be tCO₂. Some Parties wants, for example kWh, if the NCD target is in kWh, 3) Rule of Corresponding Adjustment in Parties' inventories in accordance with trading of ITMOs.
- ✓ Difficulties negotiators are facing include; 1) Some Parties wants to have overall mitigation requirement in Art 6.2, 2) Future of CERs in the market, 3) Scope of Art 6 activities, whether Art 6 projects happens inside or outside of the NDCs. EU insists that Art 6 project should be inside scope of NDCs because it can cause perverse incentives.

■ Q&A session

Q1. Wuppertal Institute:

(Q to Carsten) You said Art 6 should focus on high hanging fruits which are inaccessible technologies, but if you look at renewable energies, they are out-competing fossil fuel. Accordingly, it seems difficult to justify additionality of for example solar projects. But much more needs be to be done in this field even though renewables are cost-competitive. What do you think of this mismatch of project perspective and aggregate perspective on additionality?

A1. Carsten:

Actually the price of some renewable energy is lower than it of fossil fuel but we still don't see a change of investment. I see other reasons for this, there are lot of fuel subsidies and regulatory barriers in some countries. I think Parties should lift these barriers by their own before engaging in Art 6, otherwise achieving NDCs might be more expensive because of transferring credits with cheap reduction cost.

Q2: Wuppertal Institute:

Carsten said countries need to think twice about selling credits. But considering that the PA has no legal restriction, it is possible that countries can just oversell credits and only have some facilitative consultation. How to deal with that problem?

A2. Carsten:

If a country doesn't care about achievement of target, its participation in Art 6 should not be allowed.

A2. Gilles:

I hope whether or not it's legally binding is not only reason why countries would want rules on Art 6. Rather it would be because there is the increasing acknowledgement of urgency of taking action for climate change. In addition, we need to recognize that it would cause higher political cost without taking those actions.

A2. Alberto: A problem of Art 6 is that we can trade credits without Art 6, there exists a carbon market already, so problems exist.

Q3. Unknown

What is mitigation benefit of doubling the cost by discounting amount of ITMOs transferred? How does it result in more mitigation projects happening?

A3. Carsten

It depends on how higher price impact on demand. I assume that doubling price of credits would not necessarily half the demand. A report '[Operationalising an 'overall mitigation in global emissions' under Article 6 of the Paris Agreement](#)' prepared by Lambert Schneider of NewClimate Institute conclude that the impact of having discounting/cancellation would lead to overall mitigation.

Q4. Unknown:

What is the difference between the grievance mechanism and the investors-state dispute settlement?

A4. Erika

The investors-state dispute settlement is fundamentally between a company/investor who

feels wronged by decisions of state and a state. A grievance mechanism of Art 6 is conceived as for local communities harmed by the project. Grievance mechanism can provide more avenues for access to remedy or justice.

Q5. Helen from Uganda:

I haven't heard any mentions about Art 6.8 in this session. What do you think of effectiveness of Art 6.8?

A5. Sophie:

Art 6.8 can be a lot of thing. The situation is that we market people is discussing about the non-market approach but we totally recognize the importance of the non-market approach and are trying to define a work program for Art 6.8. Someone is talking about forest, someone is talking about capacity building, etc. We want non-market people to be involved in the discussion and we don't want duplicate discussion taking place in other agendas.

Q6. Unknown (US):

Thinking about the IPCC's recent report which says we have only 12 years to stay 1.5 projection and meanwhile market mechanisms haven't worked well, I offer that we need to take more tangible actions rather than market mechanisms.

A6. Alberto:

IPCC took the view that we have to focus on market approaches. I think that also demonstrates financial interests working inside UNFCCC. We are going to be much healthier and help increase ambition if non-market approach is addressed first as matter of priority.

Q7. Unknown

Would it not be preferable to use the Art 6.4 mechanism outside NDC to go beyond NDC's emission targets?

A7. Carsten:

If you allow mitigation activities outside of scope of NDCs, there is no corresponding adjustment to the NDCs. The same situation of CDM will happen again.

A7. Sophie:

HFC projects in CDM created both perverse incentive and a lot of mitigation at cheap cost. At first it was good and additional but became bad afterward. For example, they constructed new buildings just to obtain CERs. We hope this kind of 'niche' can be found by introducing market mechanism which cannot be measured by host country.

To access the Side Event Reports, please refer to the following link:

English:

https://www.carbon-markets.go.jp/en_info-2/en_info_event/y_2018/cop24-reports/