

Possible Interpretation of discussions on Article 6.4 and Corresponding Adjustments

INFORMAL FORUM ON IMPLEMENTATION OF ARTICLE 6

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One of the main issues, but by no means, the only issue, which was a roadblock to a satisfactory conclusion on the Art 6 rulebook in Katowice at COP 24 was the treatment of the first transfer for A6.4U (article 6.4 units) in terms of corresponding adjustment (CA). The concern is that the treatment proposed by Brazil (and supported by other Parties) could lead to double counting, and has become a highly charged political issue.

This is a result of differences of views, which seem quite deep, including the understanding of what is covered by the Art 6.4 mechanism (A6.4M) and how provisions established by 6.4c¹ and 6.5² should be applied.

In one interpretation, when A6.4M produces mitigation outcomes regardless if is inside or outside the NDC any A6.4U transferred internationally will have to be treated, for accounting towards the purposes of demonstrating achievement of the NDC, in the same way as any other ITMO, from the first issuance on.

A different interpretation, by Brazil and other Parties, is that some A6.4M mitigation action can “be demonstrated to go beyond” the NDC, and therefore able to issue and transfer A6.4U not being subject to corresponding adjustments (at least at the issuance/first transfer).

For many Parties, the practical/operational definition of “beyond” is unclear, and is said to require technical work. Possible interpretations of “beyond” includes three approaches: a) from projects in sectors not included in the NDC; b) credits issued at the end of the NDC when it clear that the come from over-achievement; c) from projects that are inside the NDC but found to be additional through an additionality test.

1. A6.4M issue units in the “post-NDC period”, as this is the only time that one is certain to be “beyond the NDC”;
2. Sectors not covered by the NDC are deemed to be “beyond the NDC”. In this case; in NDCs which are not economy-wide and therefore only cover some sectors of the economy; A6.4M would have the following treatment:

¹ “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; ...”

² “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

- If the A6.4M activity is outside the sectors/activities covered by the NDC, the issuing Party don't need to perform a CA for the purpose demonstrating achievement of the NDC, but the acquiring Party needs to reflect the acquisition and use of the A6.4U in the structured summary (as decided by the MPG of the Transparency Framework)³;
- If the A6.4M activity is inside the sectors covered by the NDC, several scenarios are possible:
 - If both issuing and acquiring Parties plans to use A6.4U for demonstrating achievement of the NDC (through the structured summary); both Parties will need to carry a CA (to comply with 6.5 provisions);
 - If the issuing Party don't plan to use A6.4U for demonstrating achievement of the NDC (e.g. due to "overachievement") the issuing Party don't need to perform a CA for the purpose demonstrating achievement of the NDC, but the acquiring Party needs to reflect the acquisition and use of the A6.4U in the structured summary;
 - If the A6.4M activity is demonstrated to be "additional", the issuing Party don't have to perform a CA and the acquiring Party will have to perform a CA if the A6.4U is transfer to other Parties. This implies that the first acquiring Party has agreed to provide financial support to the A6.4M activity that would not have happened without the transaction of its A6.4U. If the A6.4U is further transferred; then CA will apply between the Parties involved in the second and beyond transfer. In other words, the issuing Party is "transferring the onus of the CA" for the first acquiring Party. Is important to highlight that all of this is based on mutual agreements between the Parties involved.

For countries with an economy-wide NDC, the scenarios described for "A6.4M activity inside the sectors covered by the NDC" applies.

This brings into focus another issue, that of the distinction between "inventory accounting" and "NDC accounting". As part of the decisions taken in Katowice, Parties need to show progress

³ As required by paragraph 77 of the MPG of the Transparency Framework.

towards their NDCs using a structure summary⁴ that will present information on the “indicators” chosen by the Parties⁵.

Pending on the type of NDC, Parties **may choose** to present national totals and/or sectorial/activities emissions and removals estimated through the GHG inventory as they “indicators”. CA will be executed through “an emissions balance reflecting the level of anthropogenic emissions by sources and removals by sinks **covered by their NDC** adjusted on the basis of corresponding adjustments”⁶.

In cases where a Party has economy-wide NDC, is expected that “NDC accounting” (particularly to demonstrating achievement) will be based on covered by the NDC anthropogenic emissions by sources and removals by sinks reported in the GHG inventory.

For Parties without economy-wide targets, is expected that “NDC accounting” (particularly to demonstrating achievement) will be based on sectors/activities anthropogenic emissions by sources and removals by sinks, covered by the NDC, reported in the GHG inventory.

In any case the “NDC accounting” is done through a “structure summary” that may have or not “inventories numbers” pending on the indicators chosen; but there is no “inventory accounting” and/or changes in the “inventories numbers”.

The whole debate is under the label of “avoidance of double counting”. Since in the case of outside/beyond NDC issued Art 6.4U, these units are not deemed to not affect NDC accounting, they will only be used by the using Party, at some point in time.

⁴ As required by paragraph 77 of the MPG of the Transparency Framework.

⁵ As required by paragraph 65 of the MPG of the Transparency Framework.

⁶ As required by paragraph 77dii of the MPG of the Transparency Framework.