INFRAS THINKING FOR TOMORROW

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Transferring mitigation outcomes under Article 6 – practical examples

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Agenda

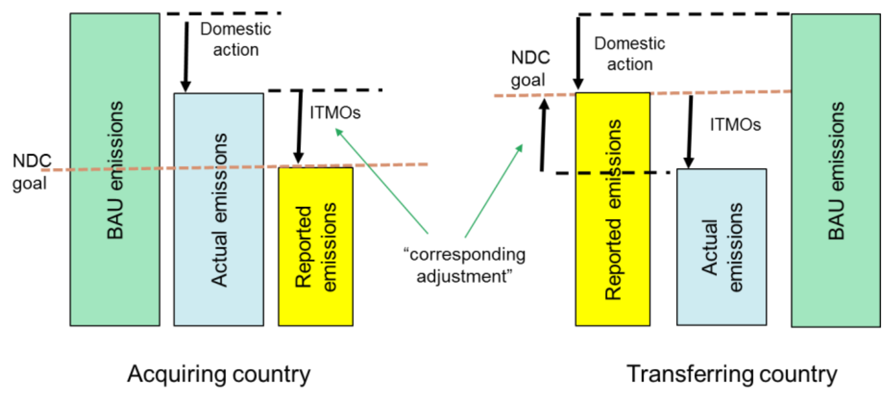
1. Rules are changing for market mechanisms
2. A transferring (host) country's perspective on Art. 6
3. Examples INDC Tunisia – RE wind, cement in ETS, F-Gases
4. Preliminary findings

New rules for market mechanisms under Paris Agreement Art. 6

- Stronger role for national governments vs. UNFCCC and vs. private sector
- Scaling-up, raising of ambition levels required
- NDCs – accounting is also crucial for international transfers
- PA Art. 6 (see presentation by Randall): no “double counting”, requirement for *corresponding accounting adjustments, …*

-> this changes rules and risks for

- Transferring country authority
- Project developers
- Acquiring country authority



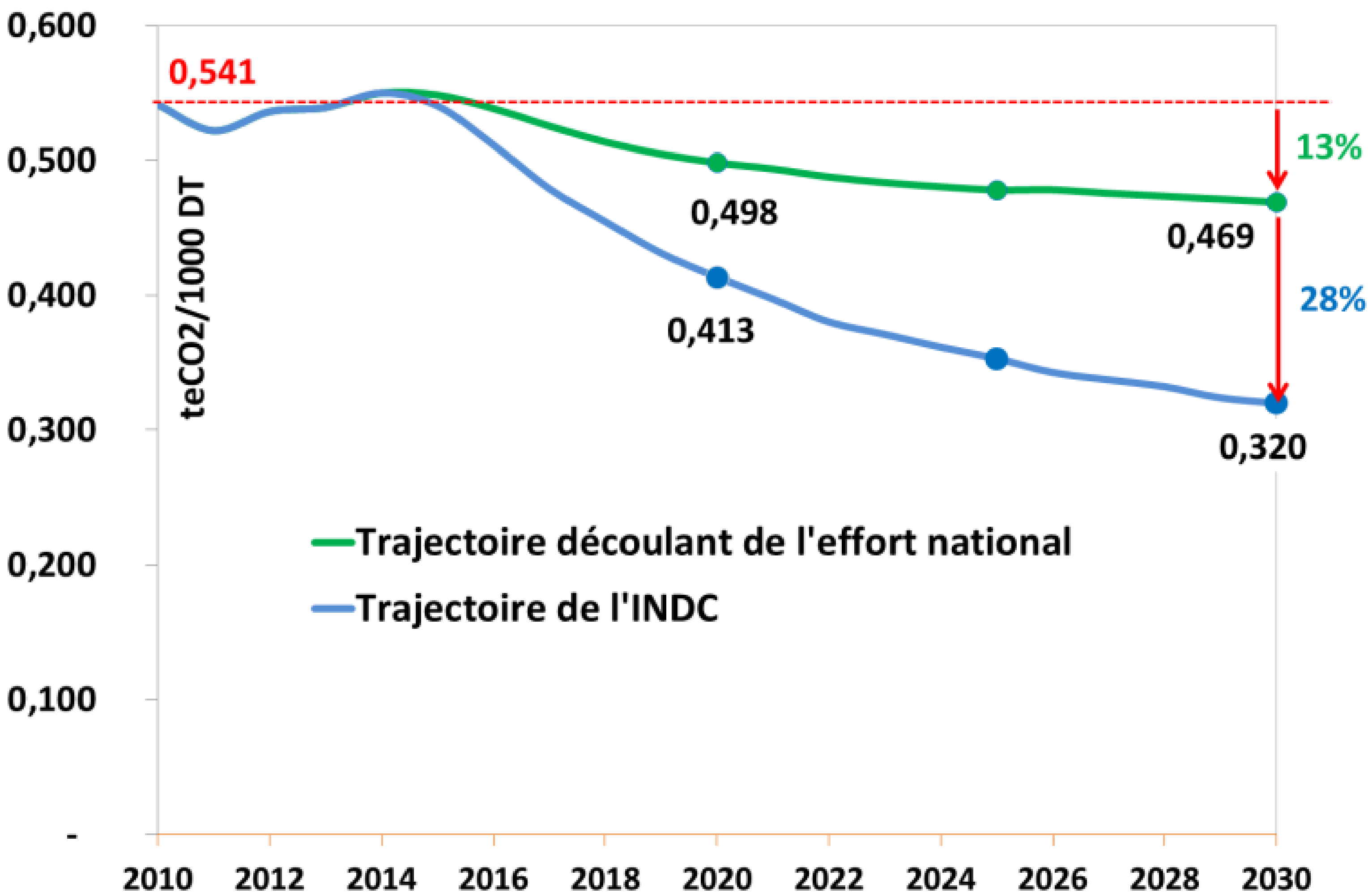
A transferring country’s perspective on Art. 6

- What new rules, what standards for transfer of units?
- Is there a need for clarification in the NDC (quantification, coverage, conditional vs. unconditional, single vs. multi-year, disaggregation)?
- What are the risks of transferring international units for meeting own NDC target?
- Which sectors/ mitigation activities are made available for international transfers?
- What domestic regulatory and institutional framework is needed to participate in international transfer?

Example pledge in INDC

INDC Tunisia: Trajectory of Tunisia's conditional (blue) and unconditional (green) contribution for the period 2015-2030

Source: INDC Tunisia



Use of market mechanisms and conditional targets

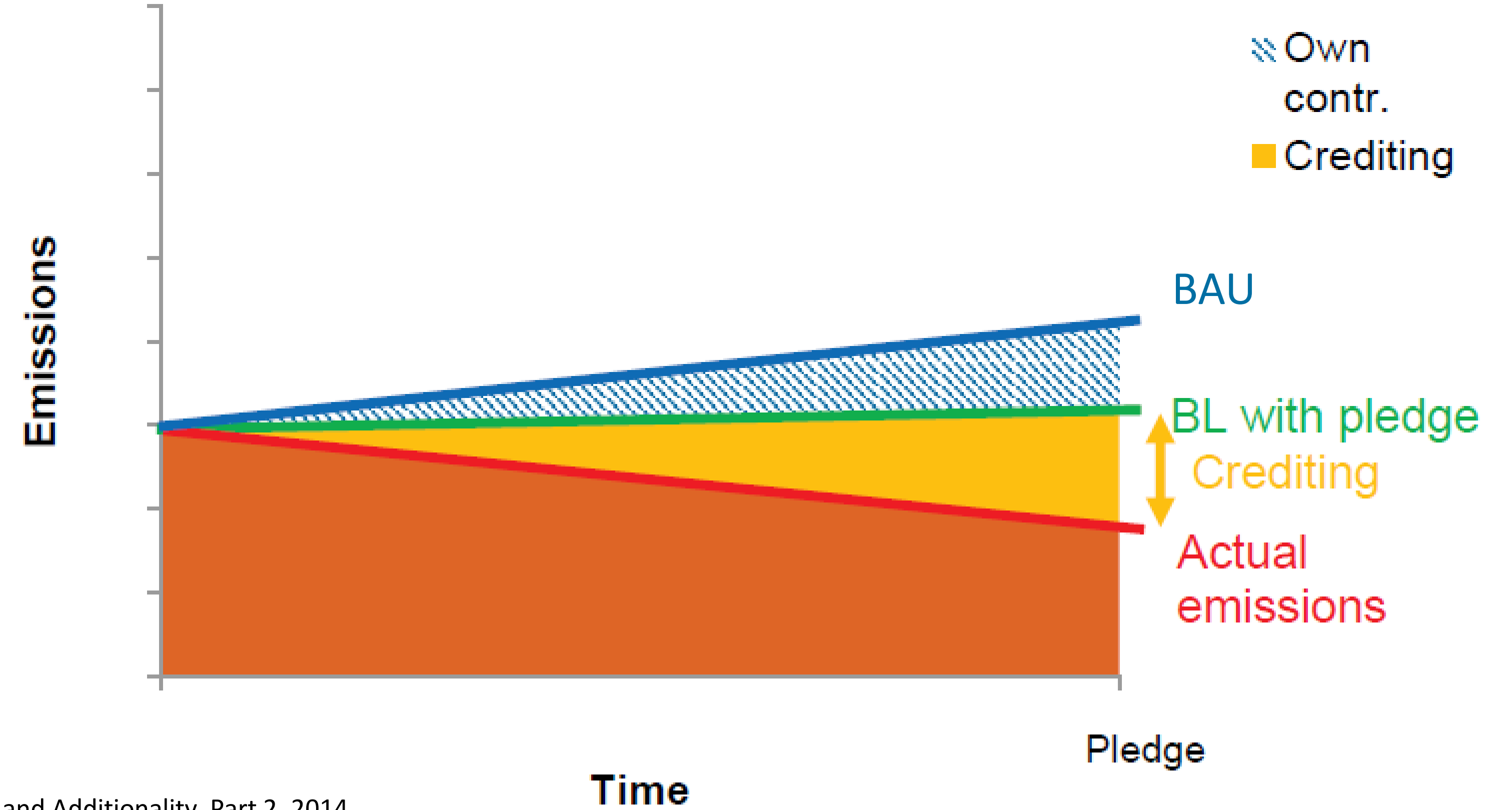
- Intended use of Market Mechanisms – Example: *"Tunisia would like to use carbon market mechanisms in addition to the direct financial supports"* i.e. market mechanisms are defined as part of support for conditional target.
- Conceptual issue: How to account for *market mechanisms* that contribute to *conditional* target? Two options:
  - Count towards meeting conditional target AND towards acquiring country target? -> *double claiming*, or at least the potential for climate finance is reduced with international transfer – potential weakening of targets
  - Count only towards acquiring country target -> does not count towards conditional target

-> Define conditional target *without* market mechanisms

-> Define area of action (sector, gases) for market mechanisms

Crediting baseline and BAU baseline

- In sectors that are covered by NDC pledge, crediting baseline (BL) has to be consistent with a scenario that reaches the pledge.
- NDC pledge shall be below Business as Usual (BAU)



Source: INFRAS, Baselines and Additionality, Part 2, 2014

Example 1: crediting beyond NDC pledge for renewable energy

- NDC formulates a target for wind RE generation. In order for market mechanisms to not endanger reaching this target, the sectoral crediting baseline is to be defined by the pledge value.
- Government needs implementation plan for NDC pledge. Disaggregation of pledge allows for definition of crediting baseline.

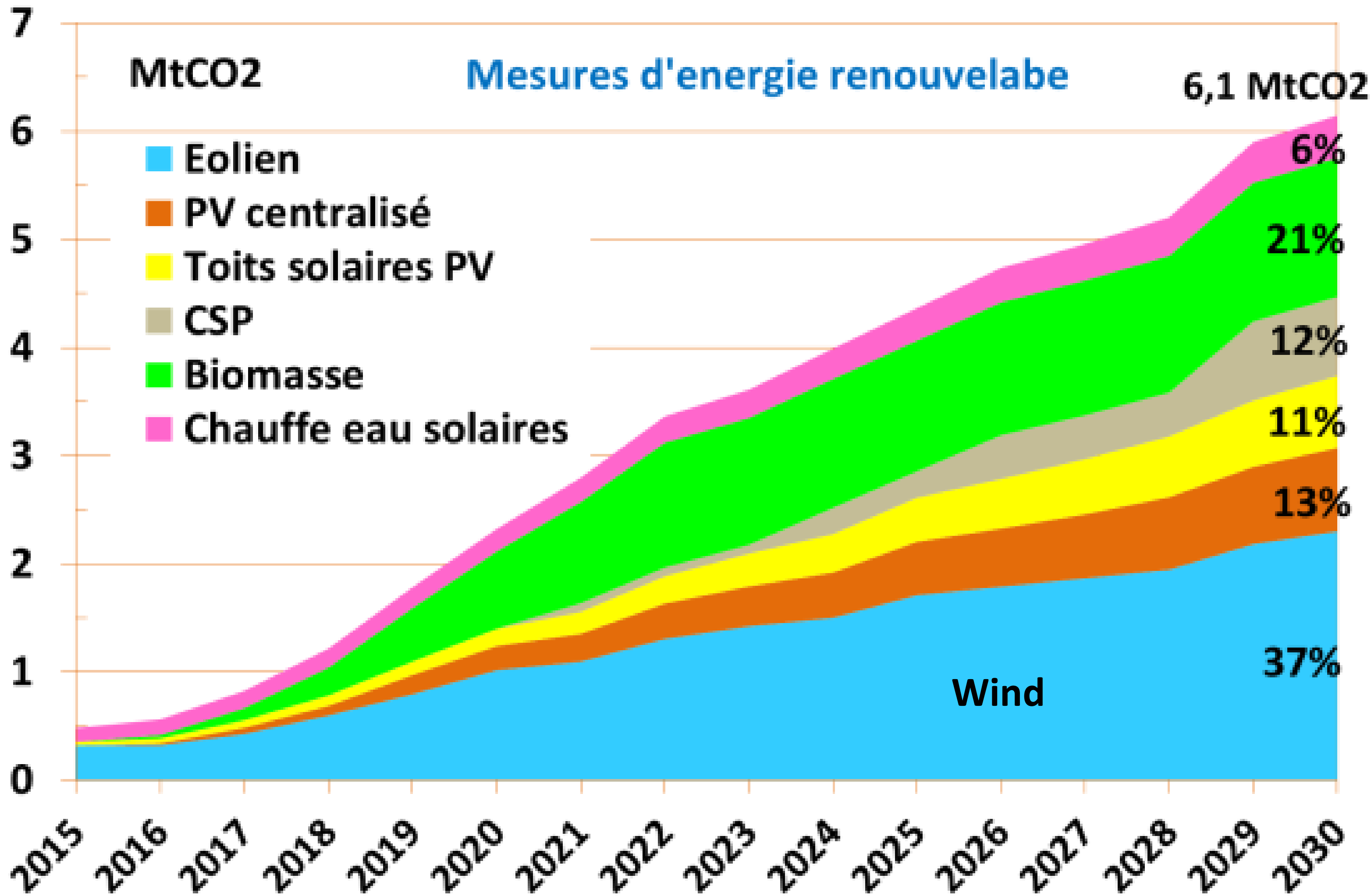
Challenges:

- Low hanging fruits for domestic action – if NDC pledge below BAU, then crediting may become more expensive (than in CDM)
- NDC target above BAU leads to “hot air”
- What if transferring country does not meet NDC pledge? – Liability
- Resources for regulatory & institutional framework, accounting, MRV and tracking necessary for participating in market mechanisms

Example 1: NDC pledge for wind

Reductions in greenhouse gas emissions due to renewable energies

Source: INDC Tunisia



Examples: Transfer from ETS and from sector outside scope of NDC

Example 2: Use of carbon markets in Tunisia's **cement sector**

- Potential approach: include cement sector in a domestic Emissions Trading Scheme. Cap of ETS = NDC pledge for cement sector (RE+EE)
- Use restricted linking e.g. via International Carbon Asset Reserve to transfer overachievements in cement sector abroad.

Example 3: Program to introduce low GWP refrigerants in Tunisia

- **F-Gases** are outside of NDC scope (only CO2, CH4 and N2O)
- Simple: Baseline = BAU development (similar to CDM)

Preliminary findings – transferring country

- Clarifying transferring country’s NDC targets strengthens robust accounting for market mechanisms (quantification, timing, conditionality, reporting)
- Transferring (host) country needs resources to plan NDC implementation (quantitative sub-targets) and manage international transfers
- Crediting baseline depends on NDC – if not, risk of non-achieving NDC
- Risk of transfer of “hot air” if NDC target is above BAU emissions

Preliminary findings - general

- Robust international accounting framework is essential for environmental integrity of PA Art. 6 mechanisms
- Market mechanisms may set perverse incentives for transferring countries – acquiring countries may play an important role in insisting on sound standards for accounting, tracking, MRV and NDC ambition level
- Market mechanisms should be transitory instruments in order to facilitate the increase in ambition levels in the future

Thank you

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Three recent discussion papers on Art 6 mechs for the German Environment Agency: https://www.dehst.de/EN/Emissions-Trading/Perspectives/_functions/market_mechanisms_after_Paris.html

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