



International Cooperation Under Article 6 of the Paris Agreement: Reflections before SB 44

Andrei Marcu



International Centre for Trade
and Sustainable Development

Background paper

International Cooperation Under Article 6 of the Paris Agreement:

Reflections before SB 44

Andrei Marcu
ICTSD



Published by

International Centre for Trade and Sustainable Development (ICTSD)
 International Environment House 2
 7 Chemin de Balexert, 1219 Geneva, Switzerland
 Tel: +41 22 917 8492 Fax: +41 22 917 8093
 ictsd@ictsd.org www.ictsd.org

Publisher and Chief Executive:	Ricardo Meléndez-Ortiz
Director, Climate, Energy, and Natural Resources:	Ingrid Jegou
Programme Officer:	Sonja Hawkins

Acknowledgements

This paper has been produced under the ICTSD Programme on Climate and Energy. It has been prepared as a background paper for an ICTSD workshop before the 44th sessions of the Subsidiary Body for Implementation (SBI 44) and Subsidiary Body for Scientific and Technological Advice (SBSTA 44) of the United Nations Framework Convention on Climate Change.

ICTSD is grateful for generous support for the project from Australia, France, Germany, Japan, New Zealand, Norway, Sweden, Switzerland and the World Bank. ICTSD is also grateful for the generous support from ICTSD's core and thematic donors including the UK Department for International Development (DFID); the Swedish International Development Cooperation Agency (SIDA); the Ministry of Foreign Affairs of Denmark (Danida); the Netherlands Directorate-General of Development Cooperation (DGIS); the Ministry for Foreign Affairs of Finland; the Ministry of Foreign Affairs of Norway; and the Australian Department of Foreign Affairs and Trade.

ICTSD welcomes feedback on this document. This can be sent to Andrei Marcu (amarcu@ictsd.ch) or Fabrice Lehmann, ICTSD Executive Editor (flehmann@ictsd.ch).

Citation: Marcu, Andrei. 2016. *International Cooperation Under Article 6 of the Paris Agreement: Reflections before SB 44*. Geneva: International Centre for Trade and Sustainable Development (ICTSD).

Copyright © ICTSD, 2016. Readers are encouraged to quote this material for educational and non-profit purposes, provided the source is acknowledged. This work is licensed under the Creative Commons Attribution-NonCommercial 4.0 International License.

To view a copy of this license, visit: <https://creativecommons.org/licenses/by-nc/4.0/> or send a letter to: Creative Commons, 171 Second Street, Suite 300, San Francisco, California, 94105, USA.

The views expressed in this publication are those of the author and do not necessarily reflect the views of ICTSD or the funding institutions.

ISSN 2518-3990

TABLE OF CONTENTS

LIST OF ABBREVIATIONS	iv
1. OVERVIEW	1
1.1 Objectives	1
1.2 Article 6 in the Context of the Paris Agreement	1
1.3 Linkages	2
1.4 Components of Article 6	2
1.5 Entry into Force	3
1.6 Decisions	3
1.7 Process Implications	4
2. DECISION ON ITMOs	5
2.1 Provisions in ITMO Paragraphs	5
2.2 Issues for Clarification	6
3. DECISION ON A SUSTAINABLE MITIGATION MECHANISM	8
3.1 Provisions in SMM Articles	8
3.2 Issues for Clarification	8
4. DECISION ON NON-MARKET APPROACHES	11
5. SOME FINAL THOUGHTS	12
BIBLIOGRAPHY	13

LIST OF ABBREVIATIONS

ADP	Ad Hoc Working Group on the Durban Platform for Enhanced Action
ALBA	Bolivarian Alliance for the Peoples of Our America
AOSIS	Alliance of Small Island States
CDM	Clean Development Mechanism
CER	Certified Emission Reduction
CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
COP 21	21 st Conference of the Parties
Decision 1/CP.21	Adoption of the Paris Agreement
EU	European Union
EU ETS	European Union Emissions Trading Scheme
FVA	Framework for Various Approaches
GHGs	Greenhouse Gases
ITMOs	Internationally Transferred Mitigation Outcomes
JCM	Joint Crediting Mechanism
JI	Joint Implementation
KP	Kyoto Protocol
LMDC	Like-Minded Developing Countries
M&P	Modalities and Procedures
NDCs	Nationally Determined Contributions
NMA	Non Market Approaches
NMM	New Market Mechanism
REDD+	Reducing Emissions from Deforestation and Forest Degradation plus
SB 44	Forty-fourth session of the Subsidiary Body for Implementation
SBSTA	Subsidiary Body for Scientific and Technological Advice
SD	Sustainable Development
SDM	Sustainable Development Mechanism
SMM	Sustainable Mitigation Mechanism
UNFCCC	United Nations Framework Convention on Climate Change

1. OVERVIEW

1.1 Objectives

During the discussions leading to the Paris climate talks, as well as during negotiations at the 21st Conference of the Parties (COP 21) to the United Nations Framework Convention on Climate Change (UNFCCC), the very presence of Article 6 in the Paris Agreement¹ was unexpected. Article 6 can be considered a major success, and a minor miracle, by those who believe that international cooperation can play an important role, and should be one of the tools available to meet the nationally determined contributions (NDCs)—that is, the national climate action plans—under the Paris Agreement.

The intent of this paper is to highlight issues associated with Article 6 that have emerged from the discussions since the adoption of the Paris Agreement in December 2015, and that will need to be considered during SB 44 in May 2016, and most likely during the implementation of the work programme contained in Decision 1/CP.21 (UNFCCC Conference of the Parties 2015), which will make Article 6 operational.

Broadly, this paper will discuss:

- Provisions in Article 6 that may require clarification, and implications;
- Article 6 linkages to other parts of the Paris Agreement, and the implications of these linkages.

1.2 Article 6 in the Context of the Paris Agreement

Article 6 cannot be read in isolation, but needs to be interpreted in a holistic manner, in the context of the Paris Agreement. It must also be read in the context of its history. Six months later, the institutional memory is still fresh, and many of those who negotiated its provisions are still very much part of the negotiating process.

In this respect, Article 6 can be interpreted in two ways. It can be given a literal interpretation, some would say narrow, and only consider the provisions, references and work programmes that are specifically, and directly, associated with it. Another way of approaching this article, and any other part of the Paris Agreement for that matter, is to take into account the history of where the different paragraphs and provisions came from, as well as links with provisions in other articles of the Paris Agreement, and in Decision 1/CP.21 (Decision).

The main documents that need to be considered include the paper by the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP) taken to the Paris session (Paris Agreement draft 6 November, revised 10 November),² the paper forwarded by the ADP to the COP (5 December),³ as well as papers that emerged from the Comité de Paris process under the COP (9-10 December).⁴ Moreover, a number of submissions had a significant influence on the final outcome, namely (a)

1 UNFCCC, *Adoption of the Paris Agreement*, 12 December 2015.

2 ADP Contact Group, *Draft Agreement and Draft Decision on Workstreams 1 and 2 of the Ad Hoc Working Group on the Durban Platform for Enhanced Action*, 10 November 2015.

3 ADP Contact Group, *Draft Paris Agreement*, 5 December 2015.

4 UNFCCC. "Comité de Paris." 12 December 2015. http://unfccc.int/meetings/paris_nov_2015/in-session/items/9320.php.

Brazil (6 November 2014);⁵ (b) Alliance of Small Island States (AOSIS) (1 December 2015);⁶ (c) EU-Brazil (8 December 2015);⁷ (d) Like-Minded Developing Countries (LMDC), Arab Group, and Bolivarian Alliance for the Peoples of Our America (ALBA) (9 December 2015);⁸ (e) Panama (9 December 2015);⁹ and (f) Japan (3 September 2015).¹⁰

1.3 Linkages

Article 6 needs to be seen in a broad context of the Paris Agreement. There are some direct linkages, while others can be seen as indirect. The direct linkages go back to the Decision, with specific and direct references to the work programme related to Articles 6.2, 6.4 and 6.8. Indirect linkages connect to elements of the Paris Agreement that are referred to in Article 6, but which have no direct work programme provisions in the Decision. These will include Article 4 (mitigation—accounting), Article 5 (land use), Article 13 (transparency) and Article 15 (compliance provisions). There will be further elaboration on these linkages in the sections below, which discuss specific paragraphs and decisions.

1.4 Components of Article 6

Article 6 can be seen from different perspectives, and its contents divided in a number of ways. One way to segment it identifies four elements, based on the direct provisions that can be found in the Article:

1. General provision on international cooperation (paragraph 6.1);
2. ITMOs (internationally transferred mitigation outcomes), which refer to cases of voluntary cooperation between parties that result in mitigation outcomes being transferred internationally, for use towards NDCs (paragraphs 6.2 and 6.3);
3. Mechanism that will produce mitigation outcomes under the authority of the COP serving as the Meeting of the Parties to the Paris Agreement (CMA) (paragraphs 6.4-6.7), which can then be used towards NDCs;
4. Non-market approaches, which will contribute to the implementation of NDCs (paragraphs 6.8 and 6.9).

A different sub-interpretation sees the first element (paragraph 6.1) as being a simple introduction to the ITMO provision, and not a stand-alone piece.

A different way to group the provisions in Article 6 would be to separate them based on the different functions they contain:

- Market provisions (paragraphs 6.2-6.4 and 6.6-6.7);
- Solidarity provisions (paragraph 6.5);

5 Government of Brazil, *Views of Brazil on the Elements of the New Agreement under the Convention Applicable to All Parties*, 6 November 2014.

6 Government of The Maldives, *Statement Delivered by The Maldives on Behalf of the Alliance of Small Island States (AOSIS) SBI Opening Plenary*, 1 December 2015.

7 Government of Brazil, *Joint Proposal by Brazil and the European Union and its Member States*, 8 December 2015.

8 Government of Bolivia, *Submission by LMDC, Arab Group and ALBA Group*, 9 December 2015.

9 Government of Panama, *Panama's Proposal for a Climate Action Mechanism*, 9 December 2015.

10 Government of Japan, *Post-2020 Transparency System of Mitigation*, 3 September 2015.

- Non-market approaches (paragraphs 6.8 and 6.9).

1.5 Entry into Force

Many of the provisions of the Paris Agreement work programme refer to the adoption of decisions by the first session of the CMA. The first meeting of the CMA will take place in conjunction with the COP following the Paris Agreement's entry into force, which is expected to be sometime before 2020. The conditions for entry into force are spelled out in Article 21: "the thirtieth day after the date on which at least 55 Parties to the Convention accounting in total for at least an estimated 55 per cent of total global greenhouse emissions" have deposited their instruments of ratification.

That provision was expected to give ample time to complete the work programme in the many provisions of the Paris Agreement, including in Article 6. This assumption was thrown into a certain amount of uncertainty by the determination shown by some parties during the signing ceremony in New York on 22 April to have an early entry into force. A high-level informal event took place, also attended by the United Nations Secretary General, and with the participation of many parties, including the United States, Canada, Norway, AOSIS, etc. This event showed a certain amount of determination to have an early entry into force of the Paris Agreement. This may lead to an entry into force of the Paris Agreement in 2017, and maybe even 2016, which would put pressure on UNFCCC negotiators to complete at least significant parts of the work to operationalise the Paris Agreement, including Article 6, before that deadline.

If the experience with the Marrakesh Accords is taken into account, and the time it took to develop modalities and procedures (M&P) for the Kyoto Protocol (KP) mechanisms, the work will be quite laborious. At the same time, it is also true that the development of Article 6 provisions will benefit from the significant experience and knowledge derived from the development and operation of KP mechanisms, as well as discussions under the Subsidiary Body for Scientific and Technological Advice (SBSTA) on the Framework for Various Approaches (FVA), New Market Mechanism (NMM), and Non Market Approaches (NMA).

1.6 Decisions

Article 6 can be expected to result in three decisions on:

1. The ITMOs;
2. The mitigation mechanism under the authority of the UNFCCC;
3. Non-market approaches.

As each heading shows, each of these decisions will have its own focus, and will operationalise a different aspect of international cooperation through markets and non-markets.

However, there are also a number of issues that are common across the different components of Article 6, and can be regarded as horizontal. They include:

- Sustainable development;
- Environmental integrity;
- Accounting, including the avoidance of double counting.

For consistency, and to ensure the integrity of the Paris Agreement, these horizontal issues would need to be treated the same way across all provisions in Article 6. Different ways of defining them would result in a potential lack of consistency between the mitigation outcomes resulting from UNFCCC-sanctioned mechanisms, and those resulting from voluntary international cooperation between parties.

1.7 Process Implications

What is clearly emerging from the discussions above is the separation between the different strands in Article 6 into two areas: markets and non-markets. This is hardly surprising given that both were discussed under previous negotiations under SBSTA (FVA, NMM, NMA), as well as in the discussions leading to the Paris Agreement in which the inclusion of—and balance between—markets and non-markets was seen as a necessary condition for reaching an agreement under these topics. This may also have process implications, especially with respect to how the negotiations will be organised.

So far, Article 6 has been negotiated, by and large, by negotiators whose focus, and area of specialisation, is markets. This was equally true for discussions that have been ongoing under SBSTA, for FVA, NMM and NMA. While the scope of what is to be included in paragraphs 6.8 and 6.9, the non-markets area, is yet to be defined, it is clear that it will include many aspects of the Paris Agreement, which will require significant and in-depth knowledge of a broad range of topics in the Paris Agreement, beyond markets. As such, the expertise, focus and experience for those who will negotiate paragraphs 6.1-6.7 and 6.8-6.9 will need to be different. Currently, all work under Article 6 is clustered together, which seems unnatural given the differences between the different components of Article 6.

With the objective of having both markets and non-markets in the Paris Agreement already achieved, we have now entered a new era in UNFCCC negotiations, where the objective is implementation. This will require specialisation and technical knowledge which may justify examining whether it makes sense to continue to group such different topics together, in terms of efficiency and chances of success, especially in what may be a much shorter time frame than was initially expected.

2. DECISION ON ITMOs

Paragraphs 6.2 and 6.3 cover voluntary international cooperation between parties in cases where it results in the international transfer of mitigation outcomes. This has become known as the “ITMO provision.” It can be seen as ensuring that international cooperation resulting in transfers, while it is entered into on a voluntary basis, needs to respect two “shall” requirements if it is to count towards NDCs:

1. it “shall” ensure that it promotes sustainable development and ensure environmental integrity and transparency, including in governance;
2. it “shall” apply accounting consistent with guidance developed by the SBSTA, including ensuring the avoidance of double counting.

2.1 Provisions in ITMO Paragraphs

The ITMO paragraphs seem to contain a number of provisions on whose meaning parties do not disagree and which could be classified as “generally accepted.” They need to be recognised and highlighted, and include the following:

1. They recognise cooperation between parties, and do not imply in any way that such cooperation is a function of approval by the CMA.
2. They place no restrictions on the type of cooperation that may result in ITMOs that can be used towards NDCs. This cooperation may, therefore, take any form, and include, for illustrative purposes:
 - a. Bilateral, plurilateral, and possibly multilateral cooperation. As no CMA approval is implied for entering into international cooperation, the formation of so-called “carbon trading clubs” can be envisaged. However, while fashionable, this cannot be seen as a new element. The creation of “clubs” was possible under the KP.
 - b. Linking of cap and trade systems, or other types of trading systems. This was also possible under the KP and actually pursued, as in the planned linking of Australia’s Carbon Pricing Mechanism and the European Union Emissions Trading System (EU ETS).
 - c. The transfer of units, or blocks of mitigation, resulting from cooperation between parties (e.g. Joint Crediting Mechanisms created by Japan).
 - d. No limitation to greenhouse gases (GHGs) (i.e. ITMOs can be GHG allowances, energy efficiency units, renewable energy generation units). Cooperation is possible in other approaches such as energy efficiency, renewable certificates, or any other approaches that make sense from an NDC perspective.
3. Any such cooperation needs to be approved by the parties involved. This provision would allow subnational or private sector entities to enter into cooperation, but only as approved by the parties involved. The positive side is that subnational entities can cooperate. However, no such cooperation (and subsequent transfer of mitigation outcomes) can be used by a party towards its NDC unless the parties involved in the transfer give their approval.
4. In order for ITMOs to be usable towards NDCs, the parties involved “shall” develop accounting systems that will be consistent with accounting guidance developed by the SBSTA. That

accounting guidance is being developed under the work programme described in paragraph 37 of the Decision. Further guidance on accounting can be found in paragraph 4.13, which is operationalised through paragraph 31 of the Decision. There is no specific reference to any compliance provisions regarding the accounting guidance developed by the SBSTA, raising the question of what will happen if parties do not follow the guidance.

5. In order for ITMOs to be counted towards NDCs the parties involved will “promote sustainable development and ensure environmental integrity, including transparency.” There is no specific reference to any standards that will be developed by the CMA, or to any type of compliance provisions with regard to those two “shall” requirements. The outcome could be that the parties involved in the international cooperation will promote sustainable development, and that all that is needed is that the parties themselves will ensure transparency on how this is achieved.

2.2 Issues for Clarification

Beyond the “generally accepted” provisions listed above, there are a number of other linkages which, while present in the Paris Agreement, are not directly referred to in Article 6. Some of them can be very powerful, and could have important ramifications. They also have an institutional history in negotiations, in that some of them were at some point included in the Paris Agreement text, even if in squared brackets. As the tempo of the move towards a compromise increased at COP 21, and negotiators aimed at text that was sometimes ambiguous enough to allow everyone to recognise themselves, these provisions were replaced, eventually resulting in the current Paris Agreement text. However, many of these issues were again raised in different intersessional meetings. In order to prevent them slowing down progress in the post-COP21 work programme, it is best to identify them, and find ways to ensure that, if necessary, they are debated, making it possible to “get them out of the way.”

Articles 6.2 and 6.3 are expected to allow for international cooperation directly between parties. As such, many parties will regard them as attractive. The question prior to COP 21 was on the type of governance that would be applied to such cooperation, and the role that the CMA would play. At that stage, the options at one extreme envisaged an approach that was limited to some type of transparency provisions, without any norms defined by the CMA. At the other extreme, some saw the new governance as very centralised, and while not identical, similar in ethos to the KP mechanisms, with norms defined by the CMA, as well as it having some compliance role.

The issues for discussion and which are, to some degree, outlined below will define where, on the continuum between these extremes, the outcome will fall. As this will be the result of negotiations, it can never be certain. However, it is clear that the probability has now significantly increased towards more decentralised governance, but one where the CMA will have some norm-setting role.

There are also some provisions that are sometimes difficult to interpret and will eventually, if not immediately, need to be addressed. For illustrative purposes, the sustainable development provision is easier to envisage in some cases of international cooperation leading to ITMOs, and more challenging to envisage in others. The operationalisation of the sustainable development (SD) provision in the Joint Crediting Mechanism (JCM) case will be somewhat familiar to many who have been part of the KP mechanisms.

Operationalising the ITMO provision in the context of linking two cap and trade systems will require, depending on the interpretation given to the issues outlined below, a potentially intrusive approach by the CMA into the design of the mechanism. Applying SD to primary issuance is something we are used to; applying SD to secondary markets is something that is new, and will need to be thought through.

Some of the issues that *may* require clarification could include the following:

1. Is there any intention, and linkage, provided in the Paris Agreement that would require/allow the CMA to develop and operationalise sustainable development and environmental integrity, as referred to in Article 6.2? As seen above, there does not seem to be any such direct linkage or provision. However, Article 4.13 of the Paris Agreement does refer to ensuring that, in accounting for NDCs, parties shall “promote environmental integrity, transparency ... and ensure the avoidance of double counting.” Paragraph 31 of the Decision details a work programme to elaborate these accounting standards. Can the argument be made that, indirectly, the mandate provides for the CMA/allows the CMA to develop standards for environmental integrity under paragraph 6.2 through the work programme in 4.13?
2. Paragraph 6.2 also requires parties to ensure “transparency, including in governance.” As above, there is no work programme under SBSTA, or any other UNFCCC body, to develop any standards or modalities and procedures for governance. There is also no mandate in Article 6 to operationalise any such M&P. However, can it be considered that there is a mandate under paragraph 13.13 that can be connected with the provision on transparency in paragraph 6.2? This mandate is then operationalised under paragraphs 92 and 93 of the Decision.
3. While Article 6.2 and paragraph 37 of the Decision require that the SBSTA develop, and the CMA adopt, M&P on accounting, there is no mention of any compliance provisions. In short, is there any check to ensure that parties do use accounting procedures consistent with the guidance that the CMA will have approved? Similarly, the question can be asked, what happens if they do not? As mentioned above, there is no compliance provision in Articles 6.2 and 6.3. Can the argument be made that there is a compliance mandate for Article 6.2 under Article 15 of the Paris Agreement, operationalised under paragraph 104 of the Decision?

3. DECISION ON A SUSTAINABLE MITIGATION MECHANISM

Articles 6.4-6.7 cover the creation of a new mechanism which will “contribute to mitigation ... and support sustainable development.” As acronyms are liked by the climate change world, and UNFCCC culture, this mechanism was rapidly baptised the Sustainable Development Mechanism (SDM). While this may sound unimportant, the ethos of the mechanism will be defined to some degree through its name. Alternative names put forward include Sustainable Mitigation Mechanism (SMM), as it emphasises its dual purpose: the contribution to mitigation and support for sustainability—but with the focus on delivering mitigation outcomes. In this paper we will refer to it as the SMM.

As in the case of the ITMO articles, Articles 6.4-6.7 have a number of provisions that are “generally accepted,” while others may become the object of discussions, interpretation and negotiations.

3.1 Provisions in SMM Articles

Some of the provisions that could be considered as “generally accepted,” or “what is known,” through institutional memory from negotiations, as well as from what is and what is not present in the Paris Agreement text, include the following:

1. The SMM is under the authority of the CMA. A body designated by the CMA will supervise it.
2. There are no restrictions on where it can produce mitigation outcomes, and this means they can be produced in both developed and developing countries. This was an important feature in the Paris negotiations.
3. There are no restrictions on who can use the mitigation outcomes resulting from SMM. Again, this also refers to the fact that both developed and developing countries can use SMM outcomes towards NDCs.
4. SMM outcomes can be used towards NDCs with very specific wording about provisions to avoid double counting. There are no provisions on complementarity.
5. The private sector can participate under the authority of the party.
6. M&P will be developed under SBSTA and would have to consider the experience of the KP mechanisms. To what degree the Clean Development Mechanism (CDM) and the Joint Implementation (JI) mechanism, or a project-based mechanism, will be the starting point of the SMM is difficult to gauge, but these mechanisms are officially at the starting line.
7. Paragraph 38(d) has text describing additionality as a basis for the development of the M&P of the SMM. This would seem to indicate that the SMM needs to be seen as a baseline and credit mechanism.
8. Article 6.6 of the Paris Agreement refers to a share of proceeds from the activities of the SMM that is to be devoted to the administration of the mechanism and to adaptation.
9. There is a reference to “overall net mitigation in global emissions.”

3.2 Issues for Clarification

As in the case of the ITMO provisions in Article 6, there are many issues that may be part of the “negotiations history” but not be specifically present in the text. In addition, there is text that

will need to be clarified. Some may urge that not too much should be read into the text, and that concentration should be on what is clearly specified. As in Articles 6.2-6.3, this is something that will need to be tested. Some of the issues that will fall into this category include the following:

1. Do Articles 6.4-6.7 refer to one, or more than one, mechanism or window? This has been a contentious issue during negotiations, and was expressed in some post-COP 21 discussions. Certain aspects in 6.4-6.7 militate for a multi-window interpretation, but that needs to be tested in formal discussions.
 - a. Some parties, based on institutional memory from negotiations, as well as their own logic, see an outcome in which the SMM would be just a CDM+ (like an enlarged and improved CDM) as being unnecessarily limiting, and contrary to what they perceive as a much broader mechanism. In this context, the relationship between Article 6 and Article 5 (land use—Reducing Emissions from Deforestation and Forest Degradation (REDD) plus) of the Paris Agreement is important to many parties, from developed as well as developing countries. Having Articles 6.4-6.7 also used for REDD+ is an option that some do not want to forego, and that would only be available in a broader interpretation. However, a REDD+ application/window is just one possibility, with many other applications/windows seen as possible.
 - b. Another aspect that has been raised is that of different M&P for different types or typologies of NDCs. NDCs will be expressed in different ways, and as such the use of the SMM in parties that have different NDCs may need to be looked at from that angle. Different M&P can be interpreted as meaning different mechanisms, or windows.
 - c. Finally, there is the issue of the objective of the SMM itself, which refers to mitigation and a broader agenda than just a CDM+.
2. Article 6.4(d) is clearly present in the Paris Agreement and talks about “overall mitigation in global emissions.” While the presence of the text is not contested, its meaning remains a contentious issue. It will need to be explained and spelled out during negotiations, and may or may not have an impact on how accounting will be done. Its origins are in the CDM debates about offsets, where certified emission reductions (CERs) were used as offsets in meeting KP compliance obligations, and, by extension, domestic obligations, such as in the EU ETS. There was dissatisfaction with the use of the CERs as one-to-one equivalency, especially given the doubts about the additionality of some projects. How this part of the text will be interpreted is something that will need to be seen. However, the current text of Article 6.4(d) refers to the mechanism having to “deliver an overall mitigation in global emissions.” The debate on this item has focused on who is to deliver the overall (net) global mitigation: the party where the SMM is implemented, and where the mitigation outcome is produced, or the party that uses the mitigation outcome from the SMM towards NDCs? Since the text refers to the mechanism (SMM) as delivering the overall reduction, one may be tempted to conclude that it is expected that this net mitigation effect would come from the originating party. This may prove to be controversial, as in spite of the SMM being operational in all parties, past practice, and current expectation, is that in most cases the SMM will primarily operate in developing countries. It may be seen as unfair for developing countries (primarily) to have to make a special contribution to the environment, through super-conservative baselines, or through a discounting factor being applied at issuance.
3. The relationship between Articles 6.4-6.7 and Articles 6.2-6.3. The SMM will create mitigation outcomes, including emissions reductions that can be transferred between parties and used towards NDCs by parties other than where they were created.

- a. One issue is the general relationship between the ITMO paragraphs and the SMM ones. Some have argued that the SMM should deal with (all) baseline and credit type activities. This would imply creating CMA-sanctioned M&P, or an SMM window/application, for issuing mitigation outcomes under the CMA, which seems to be the intent of 6.4-6.7. In addition to such a mandate, such an interpretation would also call for an SMM M&P/window to create and issue mitigation outcomes from baseline and credit type cooperation between parties. This will then leave the ITMO paragraphs with responsibility for secondary market transfers. Such an arrangement will provide centralised governance for cooperation between parties through baseline and credit type mechanisms, which we would feel is not the ethos of this agreement, and was actually strongly resisted by many parties in Paris.
- b. Another interpretation would be that there would be an initial issuance by the SMM governing body in a registry, whether central or national, under M&P for the SMM. Further transfers, which are possible but not in any way obligatory, may follow, until a party decides to use the mitigation outcome towards its NDC. Under what rules would these transfers take place? It may be that such transfers on the “secondary market” may simply take place under the ITMO Articles, 6.2 and 6.3.

4. DECISION ON NON-MARKET APPROACHES

The decision on non-market approaches is the one decision, and discussion, which is at an earlier stage of maturity, and will require more work. The institutional memory that comes from negotiations has less depth than in the case of the other two decisions. As such, “what we know” and “what we need to address” are much less differentiated than in the ITMO and SMM decisions.

One of the key elements in Article 6.8 is part (c) which provides a glimpse of what one of the desired contents of this decision may be. This paragraph begins “Enable opportunities for coordination,” which may indicate that the vision behind 6.8 and 6.9 is very much to create a framework and mechanism to coordinate all the non-market approaches under the Paris Agreement.

It is known that many of the proponents of the non-market part of Article 6 see the UNFCCC as primarily a non-market. Indeed, capacity building, the technology mechanism, loss and damage, adaptation, and the financial mechanism are in many cases seen as overlapping. Creating a framework and a mechanism to coordinate all these non-market approaches may be a grandiose vision, and one that would not be easy to realise. Paragraph 40 of the Decision seems also to confirm this vision, as it states that the objective is to “enhance linkages between mitigation, adaptation, finance, technology ...” As such, this may be the starting point of the discussion on non-market approaches. While maintaining the balance between markets and non-markets has been one of the mantras for the Paris Agreement, the expertise to operationalise the two items may be very different.

5. SOME FINAL THOUGHTS

Article 6 has a substantial amount of work ahead of it. Many concepts that appear in this article are generally accepted, but there will also be many that will require negotiations. The challenge will be to do so without going into a renegotiation of the Paris Agreement, or stalling the whole discussion around the points where the parties' visions may be substantially different at this stage.

A lot has been learned from the Kyoto mechanisms, and that knowledge will come in handy. But there will be many things that will be new, as the Paris Agreement has brought the world of markets to a new start. One of the keys to success will be not only in the substantive solution, but also in the place where the issues will be debated. Burdening Article 6 items under SBSTA with every other article that it may have a linkage to will make discussions under Article 6 unmanageable. We have seen this in the past with the FVA, another item where it felt as if every UNFCCC item was being brought into discussions.

BIBLIOGRAPHY

- Ad Hoc Working Group on the Durban Platform for Enhanced Action. 2015. “Draft Agreement and Draft Decision on Workstreams 1 and 2 of the Ad Hoc Working Group on the Durban Platform for Enhanced Action: Work of the ADP Contact Group.” Draft presented at the Bonn Climate Change Conference, Bonn, Germany 19-23 October.
- Ad Hoc Working Group on the Durban Platform for Enhanced Action. 2015. “Draft Paris Agreement.” Draft presented at the Twenty-First Session of the Conference of Parties, Paris, France, 29 November-5 December.
- Government of Bolivia. 2015. “Submission by LMDC, Arab Group and ALBA Group.” Statement submitted to the United Nations Framework Convention on Climate Change, 9 December.
- Government of Brazil. 2015. “Joint Proposal by Brazil and the European Union and its Member States.” Statement submitted to the United Nations Framework Convention on Climate Change, 8 December.
- Government of Brazil. 2014. “Views of Brazil on the Elements of the New Agreement under the Convention Applicable to All Parties.” Statement submitted to the United Nations Framework Convention on Climate Change, 6 November.
- Government of Japan. 2015. “Post-2020 Transparency System of Mitigation.” Statement submitted to the United Nations Framework Convention on Climate Change, 3 September.
- Government of The Maldives. 2015. “Statement Delivered by The Maldives on Behalf of the Alliance of Small Island States (AOSIS) SBI Opening Plenary.” Statement submitted to the United Nations Framework Convention on Climate Change, 1 December.
- Government of Panama. 2015. “Panama’s Proposal for a Climate Change Mechanism.” Statement submitted to the United Nations Framework Convention on Climate Change, 9 December.
- United Nations Framework Convention on Climate Change. 2015. “Adoption of the Paris Agreement.” Last modified 12 December. <http://unfccc.int/resource/docs/2015/cop21/eng/l09r01.pdf>.
- United Nations Framework Convention on Climate Change. 2015. “Comité de Paris.” Last modified 12 December. http://www.unfccc.int/meetings/paris_nov_2015/in-session/items/9320.php#2.

Other publications from ICTSD's Programme on Climate and Energy include:

- **Linking Emissions Trading Schemes: Considerations and Recommendations for a Joint EU-Korean Carbon Market.** By Ingrid Jegou, Sonja Hawkins, 27 March 2014.
- **Addressing Climate Change: A WTO Exception to Incorporate Climate Clubs.** By Beatriz Leycegui, Imanol Ramírez, 29 May 2015.
- **Creating a club of carbon markets: Implications of the trade system.** By Nathaniel Keohane, Annie Peterson, 12 August 2015.
- **Arctic Black Carbon from Shipping: A Club Approach to Climate-and-Trade Governance.** By Thomas L. Brewer, 13 October 2015.
- **Global Rules for Mutually Supportive and Reinforcing Trade and Climate Regimes.** By James Bacchus, 22 January 2016.
- **China's National Emissions Trading System: Implications for Carbon Markets and Trade.** By Jeff Swartz, 31 March 2016.
- **Carbon Market Clubs under the Paris Climate Regime: Climate and Trade Policy Considerations.** By Sonja Hawkins, 20 October 2016.

About ICTSD

The International Centre for Trade and Sustainable Development (ICTSD) is an independent think-and-do-tank, engaged in the provision of information, research and analysis, and policy and multistakeholder dialogue, as a not-for-profit organisation based in Geneva, Switzerland. Established in 1996, ICTSD's mission is to ensure that trade and investment policy and frameworks advance sustainable development in the global economy.