

The 5th Greenhouse Gas Inventory System Training Workshop

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Asian Development Bank
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Article 6 of the Paris Agreement The “markets Article”

- After 6 years of discussions and negotiations, Parties have agreed to the rules of Article 6 at COP 26.
- This will enable:
 - » the implementation of international Carbon Markets;
 - » linking of different ETS systems that are operating in parallel across countries;
 - » Parties, multilateral international organisations and the private sector to utilize the potential of carbon markets for achieving their climate targets/goals cost effectively.

Article 6 of the Paris Agreement

Article 6 lays the foundation for international carbon markets and allows countries to cooperate voluntarily to implement their NDCs through the transfer of mitigation outcomes:

- ✓ **Cooperative Approaches (Article 6.2)** A bottom-up approach to market mechanisms that can be designed and agreed bilaterally or multilaterally.
- ✓ **Mechanism for Mitigation and Sustainable Development (Article 6.4)** A top-down centrally-governed mechanism through which public and private entities can support GHG emission reductions and sustainable development.
- ✓ **Non-Market Approaches (NMAs) (Article 6.8)** Facilitate the implementation of the NDCs in context of sustainable development and poverty eradication

Decoding Article 6 of the Paris Agreement



A New Role for Developing Country Governments

- The existence of NDCs and national commitments implies that the logic behind taking part in international carbon trading is now different – there is an opportunity cost for transferring emission reductions out of the country
- Larger role of governments
 - » Under CDM, governments “only” needed to acknowledge the project’s contribution to sustainable development – no role in assessing their mitigation impact or the implications of that impact
 - » Under the Article 6 the transfer of mitigation outcomes directly impacts NDC goals, so the authorities in charge of NDC tracking and achievement must be part of the decision-making process



Article 6.2

Article 6.2: Transfer of mitigation outcome

- Parties can account for **transfers of mitigation outcomes** resulting in form of **internationally transferred mitigation outcomes (ITMOs)** which can be produced from any mitigation approach agreed by cooperating Parties;
- Allows Parties to create bilateral and multilateral agreements to trade ITMOs;
- Existing pilot programs that can be included in Art 6.2: Japan's joint crediting mechanism (JCM), Klik foundation etc.

Key guiding principles:

- » Bilateral or plurilateral governance;
- » Accountability;
- » Avoid double counting;
- » Maintain environmental integrity;
- » Promote sustainable development.

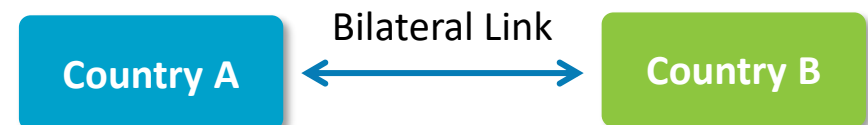
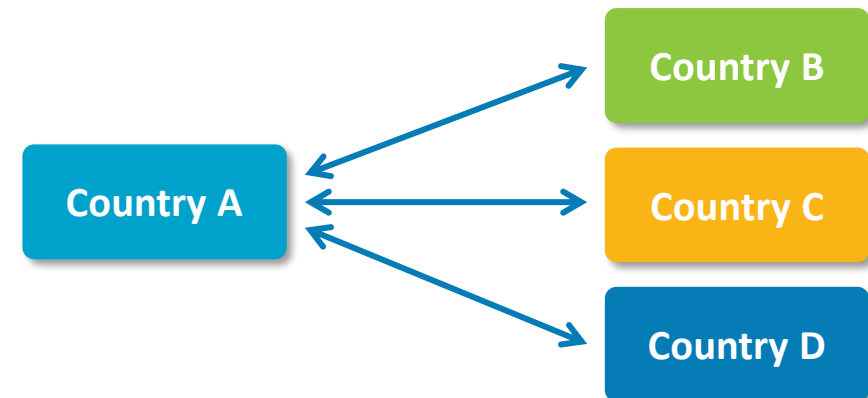
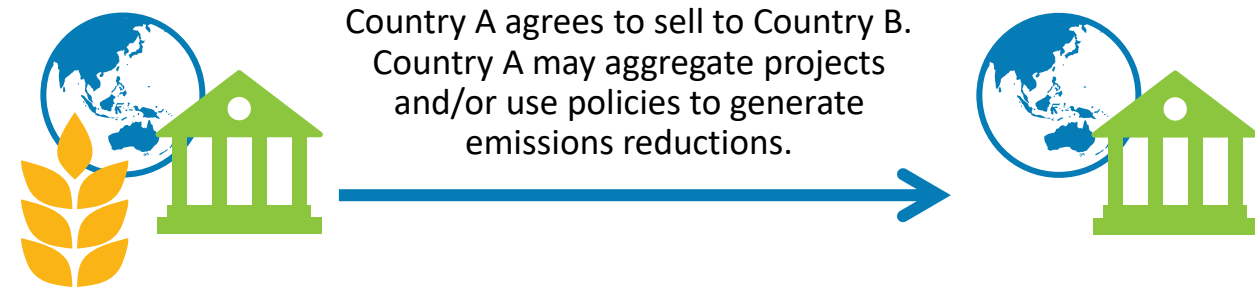
Introduction to Article 6.2

ARTICLE 6.2 enables countries to:

- trade mitigation outcomes;
- trading can be bilateral/multilateral;
- help meet their climate targets (NDCs).

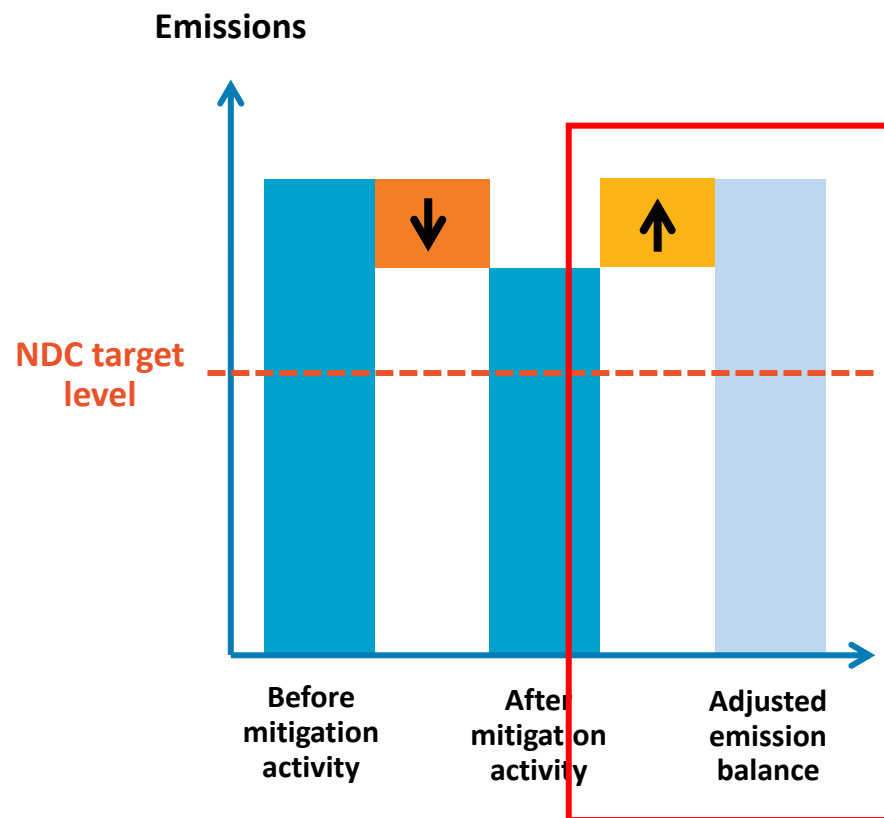
Key elements of Article 6.2:

- Corresponding adjustment
- Authorization
- Emissions balance (based on GHG inventory)
- Infrastructure (registries, recording and tracking)
- Reporting and review

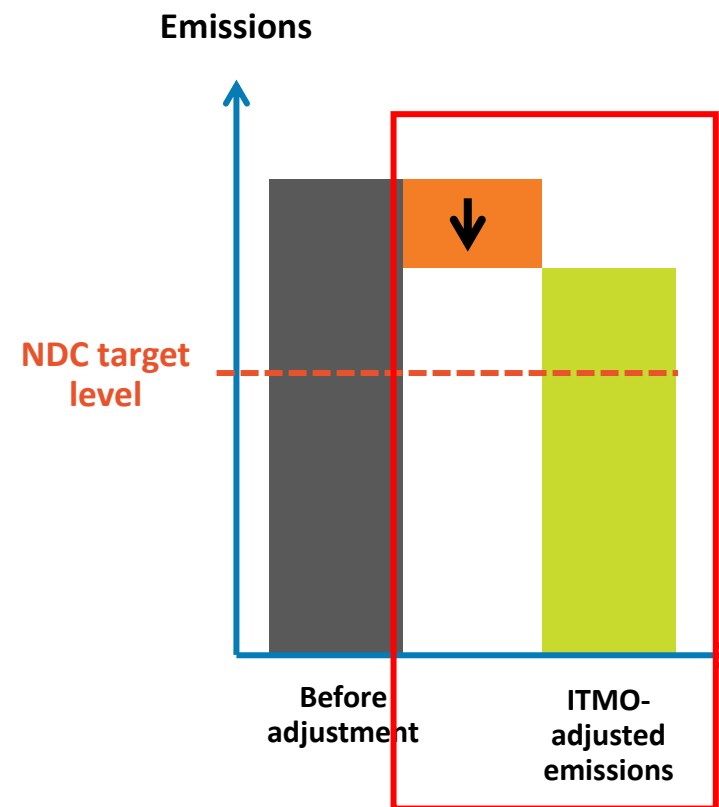


Art 6.2: Corresponding Adjustment

COUNTRY H (Host Country)



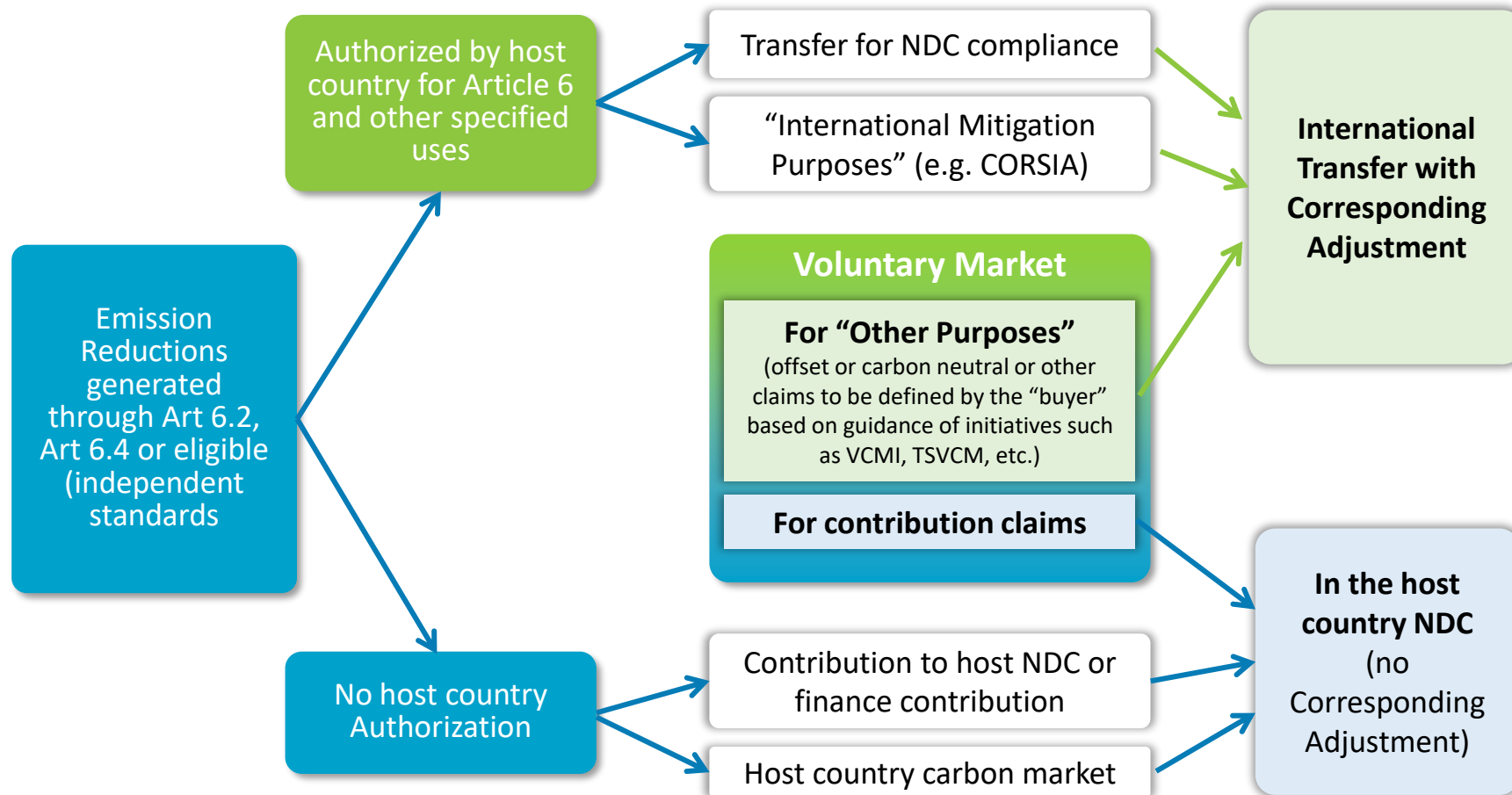
COUNTRY P (purchasing)



Art 6.2: Corresponding Adjustment

Corresponding Adjustment:

Uses and claims for Emission Reduction Credits



Requirements for a CA:

- Authorization will trigger CA
- Authorization can be made for use by another country towards its NDC or for Other International Mitigation Purposes, OIMP
- OIMP is for CORSIA and can be used for NDC accounting of voluntary market activities
- Article 6.2 does not regulate the voluntary market

Article 6 pilot programs

- Piloting initiatives are still in their initial stages;
- Planning on-the-ground implementation;

EXAMPLES (Programs)

- **Japan Crediting Mechanism (JCM)**
- **Swiss/KliK Foundation**
- **Focus on sectors such as:**

Energy supply



Japan: JCM
Sweden: SEA
Chilean pilot
Switzerland: KliK
Germany: BMU
TD-Losses' pilot
EBRD: SEMED
World Bank: SCF

Energy demand



Japan: JCM
Switzerland: CCF
Switzerland: KliK
EBRD: SEMED
World Bank: SCF

Waste



Canada-Chile:
Organic recycling
programme
NEFCO: Peruvian
pilot
Switzerland: CCF
Japan: JCM
Switzerland: KliK

Transport

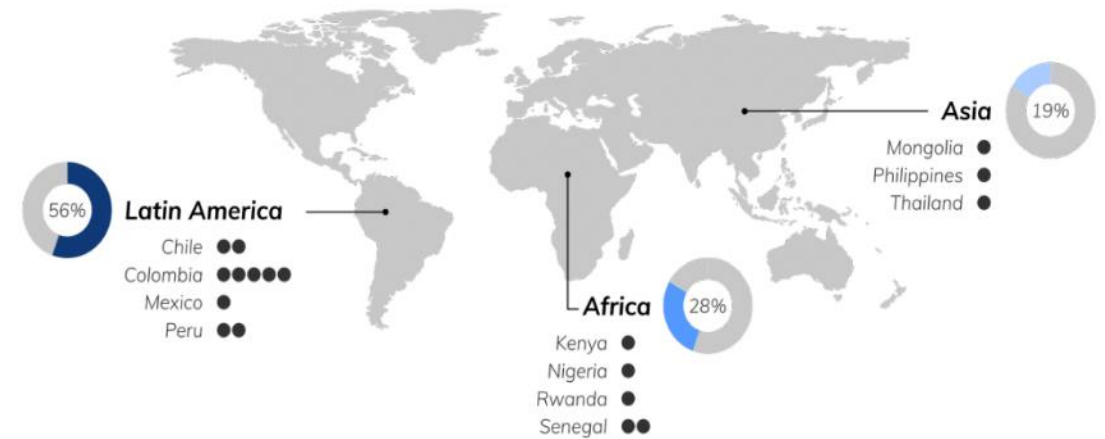


Switzerland: CCF

Land-use



AfDB: ABM
Switzerland: KliK



Source: Climate Focus

Pilot projects in Article 6 of the Paris Agreement

Article 6.4

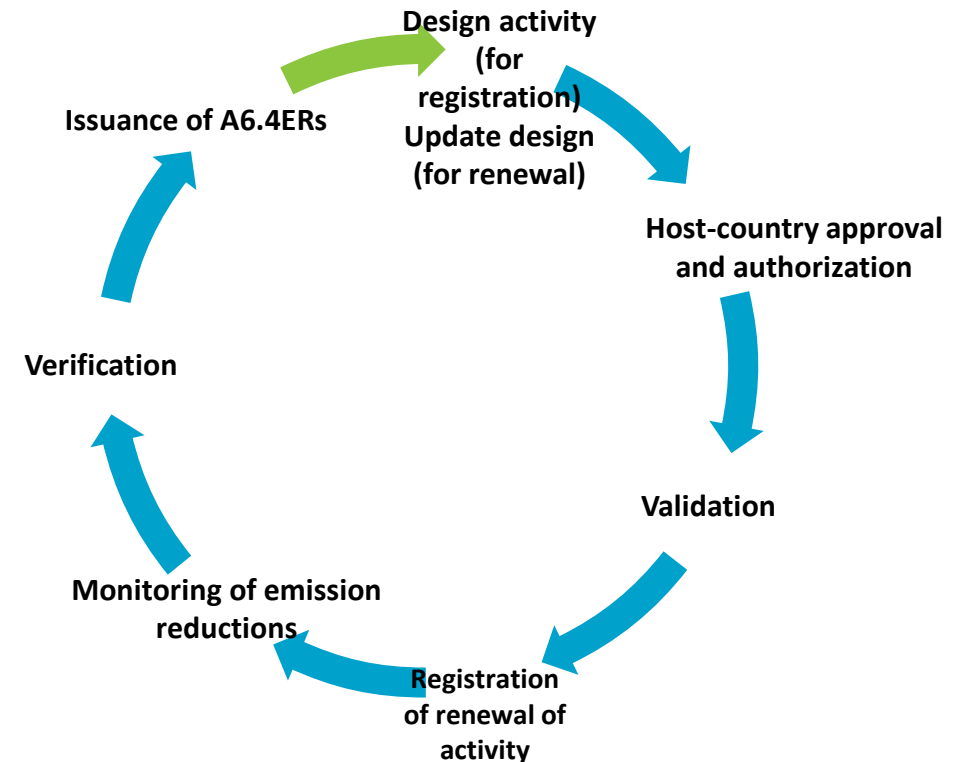
- Mechanism to contribute to mitigation and support sustainable development
- **Successor of the Clean Development Mechanism (CDM)** under the Kyoto Protocol;
- Existing methodologies can be updated and transferred to the post-2020 system.
- CDM projects can be transitioned to the Article 6.4 mechanism

Key features:

- Centralized governance (Supervisory Board elected by CMA);
- Baseline and additionality;
- Share of proceeds (SOPs);
- Overall mitigation in global emission (OMGE).

Activity cycle of Article 6.4

- **Activity cycle:** Drafting the design document with details of the project.
Key actor: Activity participant
- **Host Country Approval:** Approving the activity.
Key actor: Designated National Authority (DNA)
- **Validation:** Independent evaluation of activity design against Art 6.4 rules, modalities and procedures.
Key actor: Designated Operational entity (DOE)
- **Registration:** DOE submitting the request for registration to the SB and Share of Proceeds (SOP)
- **Monitoring & Reporting:** Monitoring and reporting of ongoing activity performance.
Key actor: Activity participant
- **Verification & Certification:** verifying the monitoring reports and claiming emission reduction.
Key actor: Designated Operational entity (DOE)
- **Issuance of A6.4ERs:** by Art 6.4 Parties & Supervisory body



Article 6.4 – CDM transition decision at COP26

Kyoto's CDM will not register, renew crediting periods, or issue CERs for post- 2020 emissions reduction activities.

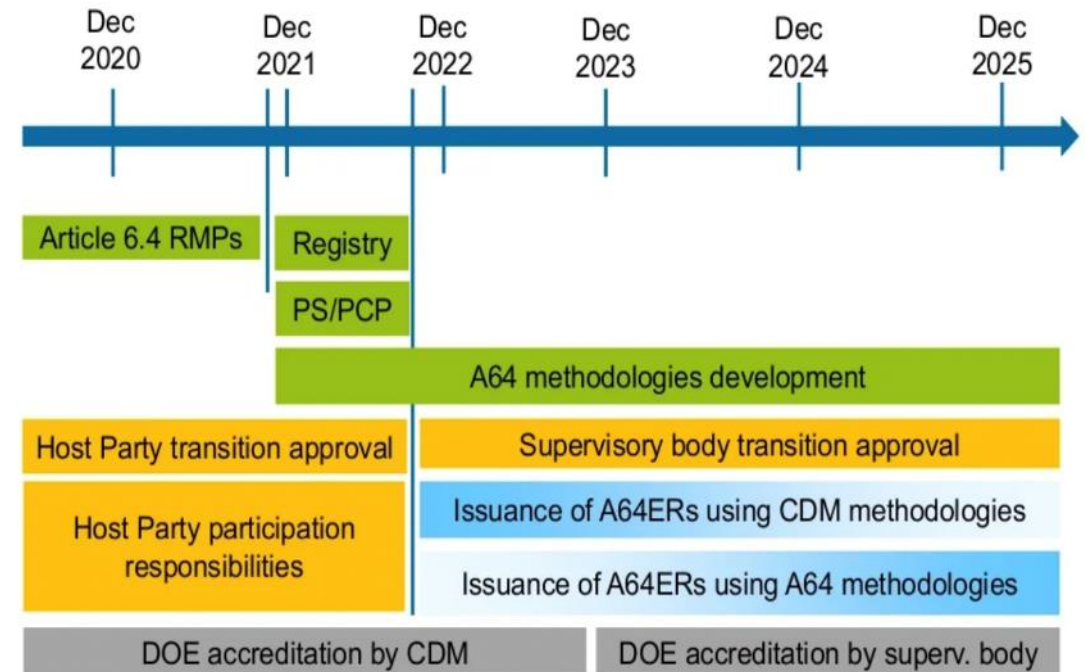
Transfer of activities to Art 6.4 mechanism:

- Request for transfer no later than Dec 2023;
- Current CDM methodology can be applied until Dec 2025 or end of crediting period.

CERs Transfer:

- CDM project activities registered on or after 2013;
- Transferred and identified as pre-2021 in Art 6.4 registry;
- Use towards first NDC only;
- Temporary CERs and long-term CERs not for use towards NDC;
- Other CERs may be considered in the future.

Potential timeline for CDM transition



Source: Oeko Institute

Article 6.8

Article 6.8: Non-market approaches (NMAs)

- Facilitate the implementation of the NDCs in context of sustainable development and poverty eradication.
- NMAs shall aim to:
 - ✓ Promote mitigation and adaptation ambition;
 - ✓ Enhance public and private sector participation in the implementation of nationally determined contributions;
 - ✓ Enable opportunities for coordination across instruments and relevant institutional arrangements.
- Promote NMAs in specific “focus areas”; for 2022 these include:
 - ✓ Adaptation, resilience and sustainability;
 - ✓ Mitigation measures to address climate change and contribute to sustainable development;
 - ✓ Development of clean energy sources.

GHG Accounting

Need for proper GHG Accounting

The national GHG inventory and the tracking of progress towards the NDC must be properly aligned

Ensure NDC achievement

- Technical reasons
 - » Mitigation Actions under 6.4 and many 6.2 require validation, registration and monitoring, which require evidenced based data and audit of a third party.
 - » Reporting requirements on Enhanced Transparency Framework
- Gain market confidence
 - » Article 6 needs to build trust of the market to be successful and contribute to scaling up ambitions.
 - » Market needs to prove that Article 6 ITMOs are reliable and based on real reduction/removals



Raising Ambition

How Article 6 contributes to raising ambition

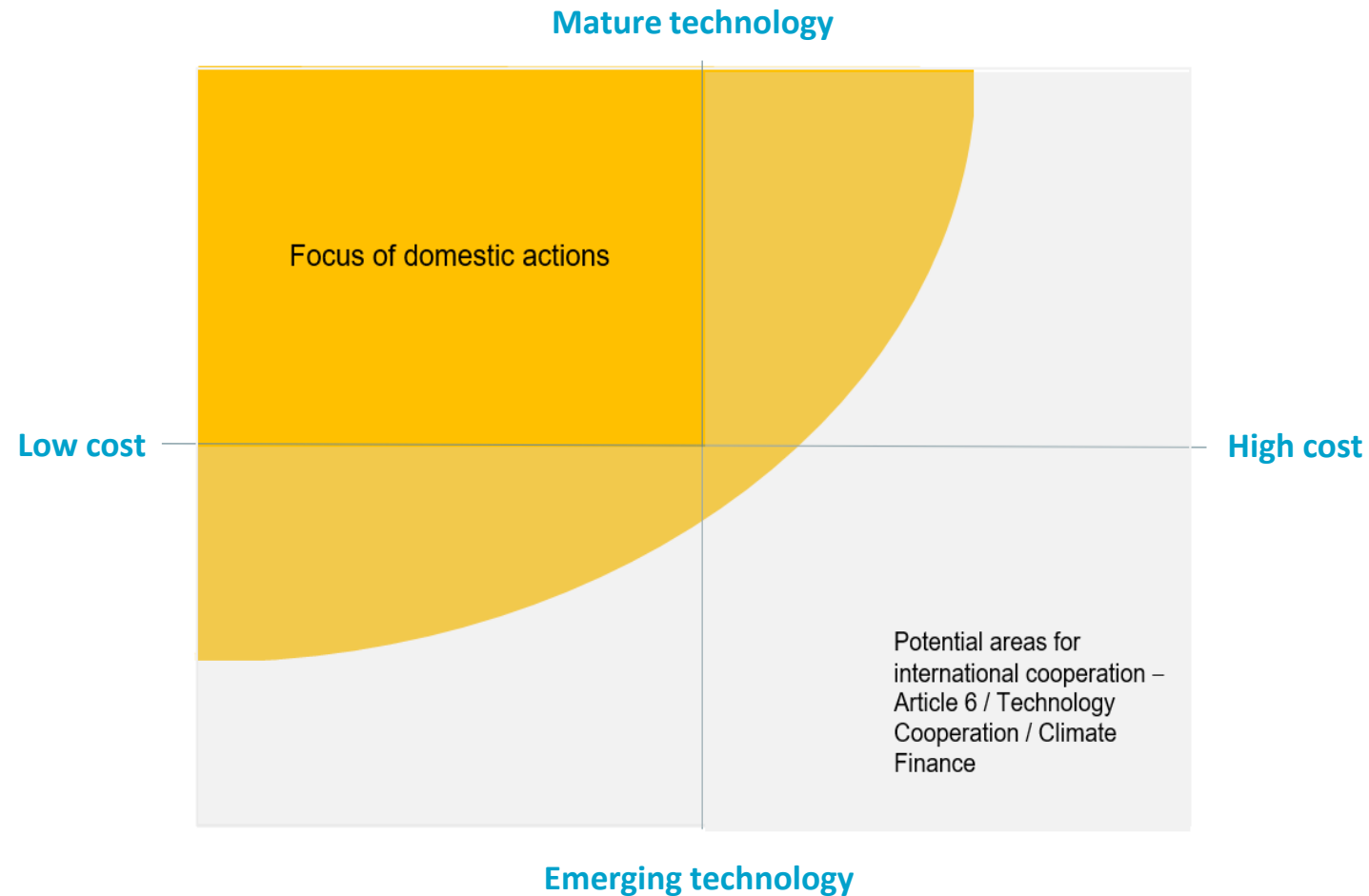
Developed countries

- Countries have different marginal cost of abatement
- Cost effectively achieve emission reductions and meet targets set in NDCs.

Developing countries

- Additional carbon finance that helps
 - Creates incentives to undertake additional Mitigation Actions
 - Generating public revenue
 - Promotes green recovery and growth
- Diffusion of advanced technologies and know-how
- Wider use of carbon pricing, which support countries to decarbonize economies
- Support energy transition and foster regional cooperation and trade
- Contribute to sustainable development

Raising Ambition using Article 6 Mechanism



Source: Warnecke, Höhne, Tewari, Day and Kachi (2018) *Opportunities and safeguards for ambition raising through Article 6. The perspective of countries transferring mitigation outcomes*. NewClimateInstitute

ADB's Carbon Market Program

ADB's Carbon Market Program 2.0

- Carbon finance
- Technical support
- Capacity building
- Knowledge support



MO = mitigation outcome

ADB's Carbon Market Program

Article 6 Support Facility

The **US\$ 6.2 Million** Article 6 Support Facility provides **technical, capacity building, and policy development support** to ADB's developing member countries to **enhance their capacity and preparedness to participate in post-2020 carbon markets** envisaged under the framework of Article 6 of the Paris Agreement.

PROVIDE TECHNICAL AND CAPACITY BUILDING SUPPORT



Policy
Development



Article 6
Pilots



Institutional
Infrastructure

In country support for - **Bhutan, Georgia, Indonesia, Mongolia, Pakistan, Philippines, Thailand and Viet Nam** (at different stages of progress)

- ❖ ADB Roundtable on Article 6
- ❖ Regional Training on Climate Policy, Carbon Pricing, Carbon Markets, and Article 6
- ❖ Regional Dialogue on Carbon Pricing (REdiCAP)
- ❖ ADB Training Piloting on Article 6
- ❖ ADB-V20 Workshop on Carbon Pricing for V20 countries and SIDS

Japan Fund for the Joint Crediting Mechanism

Overview	
Established	June 2014
Funding	\$117 million contributed by MOEJ, Government of Japan
Objective	JFJCM provides financial incentives (grants) for adopting advanced low-carbon technologies in ADB-financed and administered projects.
Support provided	<ul style="list-style-type: none"> • Grant to sovereign projects (max. \$10 million) • Interest subsidy to non-sovereign projects (max. \$10 million)
Project Portfolio	<p>\$47.68 million allocated to six JCM projects expected to reduce 347,900 tCO₂e per year</p> <ol style="list-style-type: none"> 1. An advanced battery system and energy-management system for a renewable energy project in Maldives 2. An energy-efficient transmission line for a grid expansion project in Bangladesh 3. A project for scaling up the renewable energy sector (solar PV with an advanced battery system and EMS) in Mongolia 4. Energy-efficient heating, ventilation, and air conditioning (HVAC), high-insulation windows, rooftop solar PV, and ground source heat pump for health care services in Mongolia 5. Waste-to-energy (incineration) project for Greater Male, Maldives 6. Geothermal Power Generation Project (Indonesia) 7. An advanced flow battery system, ocean renewable energy pilot (Maldives)



ADB

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