Eastern Africa Alliance On Carbon Markets And Climate Finance

COP 25 Review: Article 6 -What is in it for the Eastern African Region?

PreCOP25 Event in Dar es Salaam

COP25 in Madrid, under the Chilean Presidency, ended with matters relating to Article 6 of the Paris Agreement undecided. Once again, the remaining section of the Paris Rulebook was not finalised in an outcome similar to that of COP24. The three focus areas under the article include Cooperative approaches (Article 6.2), the new mechanism (Article 6.4) and non-market approaches (Article 6.8). Cooperative approaches involve countries working with one another using internationally transferred mitigation outcomes (ITMOs) in the achievement of their Nationally Determined Contributions (NDCs). Further to this, the Paris Agreement established a sustainable development mechanism commonly referred to as the 6.4 mechanism. It aims to mitigate greenhouse gas emissions and support sustainable development. The 6.4 mechanism of the Paris Agreement will ideally integrate lessons learned from Kyoto Protocol mechanisms such as the Clean Development Mechanism (CDM) in its design elements. Non-Market Approaches are viewed as actions and activities that address mitigation and adaptation but do not result in tradable units. One example for the non-market-based approach is the Adaptation Benefit Mechanism developed by the African Development Bank in collaboration with governments from several African countries and various stakeholders which aims to mobilizing new and additional public and private sector finance for enhanced climate change adaptation action.

Discussions at COP25 however mostly centred around market-based approaches within 6.2 and 6.4 of the Paris Agreement. The delay in agreement does not provide a strong signal to the private sector on confidence in market activities. However, it is clear that countries are not willing to jeopardise environmental integrity with weak rules that could undermine ambitious implementation of NDCs. Though some may call the outcome a failure, there has been significant progress despite the complexity of several issues. These mainly revolve around transition of activities and units from CDM into the new 6.4 mechanism, corresponding adjustments and share of proceeds towards adaptation under cooperative approaches under Article 6.2. Further to these, the negotiations include several other difficult issues such as overall mitigation in global emissions (OMGE), baselines and additionality.

Article 6 is a tool for NDC implementation to which its application can be either positive or negative. It can result in higher ambition in line with the Paris Agreement or it can lead to increased levels of emissions should the guidance and rules result in loopholes. Used properly it can increase the flow of finance and technology to the Eastern African region and increase private sector involvement in climate action.

Share of Proceeds towards Adaptation under cooperative approaches

As a long-standing priority of the African Group of Negotiators (AGN) as well as G77, the issue on Share of Proceeds (SOP) under 6.2 has not made much headway as it continues to be highly contentious and viewed as requiring political decision making. Although there is a provision for SOP under the 6.4 mechanism, the cooperation stated in Article 6 paragraph 1 allows for higher ambition in both mitigation and adaptation. The AGN has been calling for a balanced approach on SOP across Article 6. Several African countries will not be able to participate in markets due to their small size and limited capacity. They can benefit from market mechanisms through funding for adaptation, which receives significantly less funding than mitigation activities.

Under the CDM, 2% from issuance of Certified Emission Reductions (CERs) was provided as SOP and channelled towards the Adaptation Fund. The language used to refer to SOP has morphed into several terms such as a tax, adaptation financing or issuance fees on cooperative approaches under Article 6 paragraph 2. Whether the connotations attached to these terms are positive or negative it is essential that the purpose behind SOP is not forgotten, which is foremost to ensure a reliable funding source for adaptation measures in vulnerable developing countries.

Increasing ambition using Article 6 of the Paris Agreement is a two-fold affair comprising both mitigation and adaptation action. A balanced approach across Article 6 on SOP will provide predictable financing towards Adaptation which remains a priority for Eastern African countries. Unfortunately, the language in the draft text for 6.2 ‘contains weaker, voluntary language where parties using the 6.2 mechanism are “strongly encouraged” to support adaptation action. What should be presented in landing zones is how the predictability of the adaptation financing will be adequately addressed. Some parties were willing to discuss the percentages to be levied for both SOP and OMGE indicating progress and willingness to incorporate the needs of the region.

Although SOP under the new mechanism in 6.4 is explicitly mentioned in the Paris Agreement, the funds from 6.4 activities may not be enough towards the Adaptation Fund. Currently, most pilots underway focus on 6.2 indicating a preference to it over 6.4. Few countries such as Switzerland, South Korea and Japan have indicated they will use international units in their NDCs however other large economies such as the EU and the US have been clear that they will not. Perhaps their subsequent NDCs will be open to these units however they will be competing with those from several cooperative approaches. There is no limit to cooperative approaches, and they are set to increase. They are attractive to developed countries that already have established emissions trading schemes that could be linked. SOP from these various cooperative approaches would provide the predictability required where SOP from 6.4 activities, though confirmed in the Paris Agreement, is dependent on demand which is taking a more ‘wait and see’ approach.

Transition of Clean Development Mechanism activities and units

Uneven geographical distribution in the issuance of CERs was a significant problem for the African continent under CDM and it is important that it be avoided under the Paris Agreement. On global project issuance of CERs, only 4% is attributed to Africa when compared to countries such as China, India, Brazil, Mexico and Korea. The introduction of CDM Programme of Activities (PoAs) that simplified methodologies had a significant uptake from African countries. In the Eastern Africa region distribution of issuance of CERs across PoAs is more evenly distributed than across project issuance. Transition of existing CDM project and PoA activities is of importance for the countries with engagement in carbon market mechanisms.

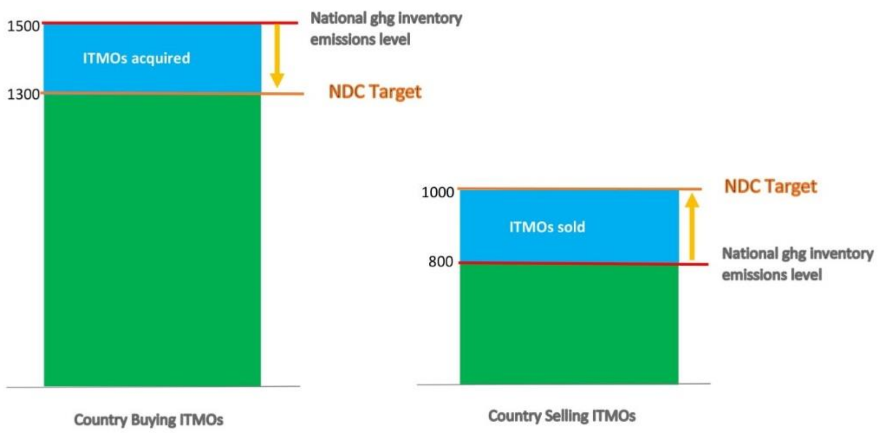
It has been the position of the African Group that pre- 2020 CERs not be transitioned into Article 6.4. A landing zone proposed is to have transition of units however to protect the market and price there should be limits to the quantity. This could be done through having a vintage year cut off linked to project registration with discussions around the year range of 2013 -2016. For the Eastern African region, however, no transition of pre-2020 CERs, in line with the Africa Group of Negotiator’s (AGN) position, would be more beneficial as CERs will flood the market, provide an uneven playing field and compete in price with units from the 6.4 mechanism. It is likely that the 6.4 units will be viewed as of higher quality in that they will have higher environmental integrity and result in significant sustainable development benefits to differentiate them from CERs.

On CDM activities, discussions and the resulting text indicated a landing zone in that there could be transition of projects by 2023 subject to approval from the Host Party for re-registration. The Supervisory Body would approve methodologies setting out the requirements to demonstrate additionality and determination of baselines for the calculation of emission reductions. For the projects that could transition there is a proposal to continue using CDM methodologies until 2023 after which they will apply the new methodologies. This is a lengthy task as there are currently over 200 methodologies.

Should the stringent requirements under 6.4 be met by the large CDM portfolio, with thousands of projects in Asia, issuance of 6.4 units will still be uneven as the portfolio of some countries will already be significantly larger. In the past when the EU Emissions Trading Scheme was flooded with CERs they put a restriction that only allowed buying of CERs from Least Developed Countries (LDCs). There is a good chance that special circumstances of LDCs and SIDs will be taken into consideration in the transition of projects and PoAs. It is important to note that not all countries in the region are LDCs. Should restrictions, such as those imposed in 2013 limiting CERs into the EU ETS be applied, or exemptions say in the transition of PoAs only towards LDCs and SIDs, countries like Kenya, will be impacted negatively.

Corresponding adjustments
Although the term corresponding adjustments is not directly referenced in the Paris Agreement, Parties agreed that its application is necessary to avoid double counting of ITMOs and ensure transparency (paragraph 36, Decision 1/CP.21).
It is based on the accounting concept of double entry in that the buying and use of ITMOs by one country would result in a subtraction to the buyer country's reported emissions and a corresponding positive entry to the selling country's emissions. This uses a balance sheet approach in reporting without changing the country's national greenhouse gas inventory.

Figure 1: Application of corresponding adjustment



There has been progress in discussions on the methods with several countries supporting the use of two methods– multiyear trajectory and averaging. The former approach requires calculating a multiyear trajectory with emission caps for the years during NDC implementation which would enable transparency throughout the period. Parties would then purchase or sell ITMOs to meet the annual caps. Although viewed as presenting technical difficulties by some countries single year countries do not have to update their NDC if they apply this. Averaging is a method suitable to single year NDCs. An average of ITMOs transferred over the NDC period is calculated and applied annually. This method is not accurate in that a country can transfer ITMOs higher or lower than the average. Should they buy more than needed to achieve the NDC target ambition can be raised however if they purchase less then target may not be achieved. It also can lead to delayed participation in the markets as clarity on ITMOs needed for selling/buying occurs towards the end of the NDC.

There needs to be clarity on the metric in which Corresponding Adjustments can be done. This is linked to the ITMO metric, an issue that is still under debate as to whether it can only be in tCO2e or can also factor non ghg metrics. Most countries in the region have single year NDCs and use tCO2e for their NDCs. The timing of the corresponding adjustment is also linked to the reporting as required under the guidance on cooperative approaches. Currently, in the text, it would be reported in the annual report to be submitted to the Article 6 database as well as part of the Biennial Transparency Reports.

Sectors and gases outside the NDC
Some developing countries lack data on certain sectors and do not include them in their NDC's. This applies to Eastern Africa with most of the region not operating in economy wide NDCs. The use of Article 6 is towards NDC

implementation and is the reason as to why some parties do not consider activities from sectors outside as viable sources of ITMOs. It also provides a perverse incentive to engage in Article 6 without bringing in these sectors into the NDC and this keeps ambition low. Although it would be best to exclude activity outside the NDC, it is important for countries in the region to have as much opportunity as possible to engage in carbon market activities. The application of a corresponding adjustment to activities in sectors outside the NDC ensure transparency as the countries work towards including the sectors in the next NDC period.

2020 is an opportune time to undertake strategic assessments on the level of potential activity in all sectors, both inside and outside of the NDCs, and for Alliance members to develop Article 6 project pipelines in these areas.

ITMOs for other purposes.

The International Civil Aviation Organization (ICAO)developed the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) to lower greenhouse gas emissions in the aviation sector. CORSIA will create an offset demand of 3 billion tCO2e in the aviation industry through to 2035 . The UNFCCC system provides potential supply of offsets through units from the Kyoto Protocol mechanisms such as CERs as well as ITMOs under the Paris Agreement. Should ICAO allow the use of these units the two independent bodies will need to combine their efforts to avoid double counting through the application of corresponding adjustments.
There is a clear potential linkage between the two institutions and not addressing it will jeopardize the environmental integrity of Article 6. Currently, Kenya is participating in CORSIA and Kenya Airways will be taking part. There is opportunity for Ethiopia and Ethiopian Airways to take part. In the negotiating rooms Parties are still divided as some believe ICAO issues should not be discussed under the UNFCCC.

Way Forward

The San Jose Principles were released towards the end of the negotiations on December 14th led by Costa Rica and Switzerland and supported by 30 additional countries. The principles agreed on are based on ensuring high environmental integrity and robust markets under Article 6. For the Eastern African countries, the principles are highly aligned to the AGN position and would be of benefit should parties agree and incorporated them into the guidance and rules, modalities and procedures. As to becoming signatories to the San Jose Principles the member countries of the EAA need to evaluate if the principles align to their country positions on Article 6.

Parties have shown agreement on issues to do with the 6.4 mechanism in the definition of 6.4 Emission Reductions as ITMOs, the activity cycle on validation, registration, monitoring and issuance and on its governance. Under 6.2 there is clarity on the role of the secretariat, reporting and review and the participation responsibilities of Parties. Infrastructure and tracking, Safeguards and limits, Host party role under 6.4 are still to be agreed on but not too contentious. In the lead up to COP26 Parties decided not to lose the progress made by using the three draft position texts prepared by the Chilean Presidency as a basis for negotiations during the 52nd Subsidiary Bodies session (June 2020) in Bonn. In 2020 the Alliance member countries should set up the institutional frameworks as soon as possible not only to be ready once the Article 6 is adopted but also to allow the authorization of pilot activities that will provide insight into implementation.