Options for enhancing international cooperation to implement Article 6 of the Paris Agreement

German and international perspectives

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Publisher
German Emissions Trading Authority (DEHSt)
at the German Environment Agency
Bismarckplatz 1
D-14193 Berlin
Phone: +49 (0) 30 89 03-50 50
Fax: +49 (0) 30 89 03-50 10
emissionstrading@dehst.de
Internet: www.dehst.de/EN

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Authors
Julia Melnikova
Emily Wright
Dennis Tänzler

adelphi consult GmbH
Alt-Moabit 91
10559 Berlin

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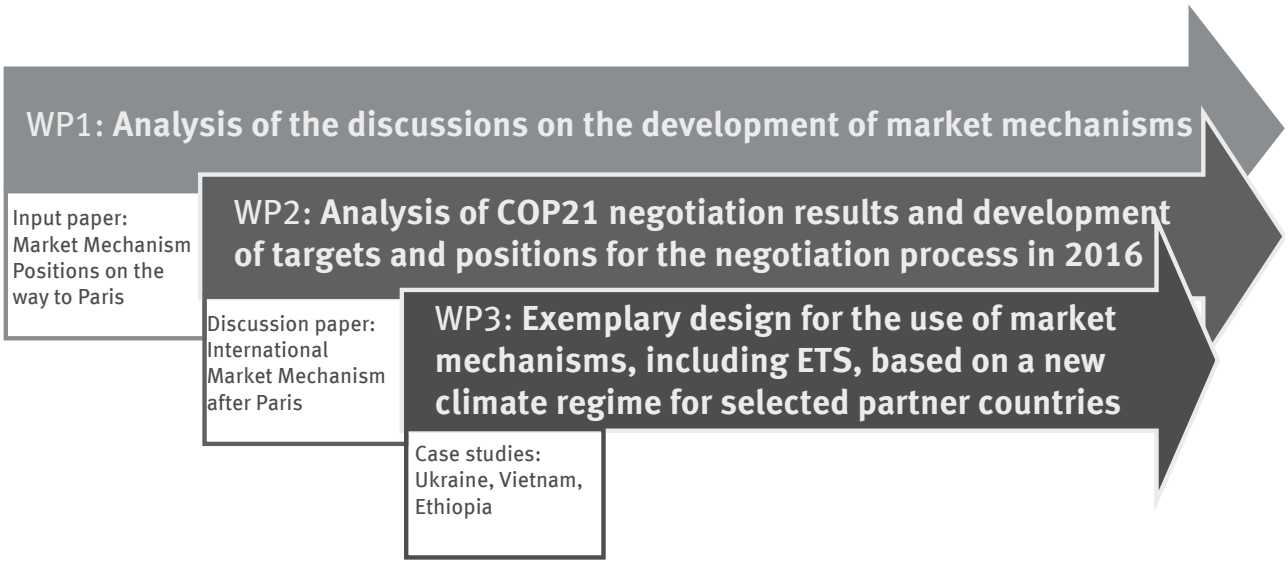
I Welcome and Introduction

Dr. Karsten Karschunke from the German Environment Agency (UBA) and Dennis Tänzler from adelphi welcomed the workshop participants on behalf of the project team and introduced the research project "Analysis of interactions between new market mechanisms and emissions trading systems" (FKZ: 3714 41 506 0). The project is being conducted by adelphi, Öko-Institut and NewClimate Institute for the German Environment Agency from 2015 to 2017. The content of the workshop was outlined, starting with an overview of the results from Work Package 2 with a focus on Article 6 provisions followed by a presentation of the methodological approach and preliminary findings from the three country case studies for Work Package 3.



II Presentation of Progress on Market Mechanisms since Cop 21 and Main Issues and Options for Design and Operationalisation

Sean Healy, Researcher Energy & Climate, Öko-Institut

Sean Healy presented the findings from the second work package, giving an overview of the various insights from the resulting discussion paper, which focused on the analysis of the provisions of Article 6 of the Paris Agreement (PA) as well as recent developments in the UNFCCC negotiations. An overview of the content of the presentation is provided below and then outlined in more detail in the subsequent sections of the workshop minutes.

Overview

There has been a paradigm shift in international climate policy away from the targets and timetables under the Kyoto Protocol (KP) towards the pledging and review of nationally determined contributions (NDCs) under the PA. The role of market mechanisms has therefore been redefined primarily as a means of 'raising ambition' among the Parties. However, the use of market mechanisms to enhance levels of NDC ambition also poses risks for the environmental integrity of the PA (refer to Section 1). As a consequence, the presentation mainly focused on the various design options for the market mechanisms under Article 6.2 and 6.4 to ensure high levels of environmental integrity (refer to Section 2). The presentation concluded with Sean Healy raising issues regarding the expected use of both market mechanisms (refer to Section 3), current progress in the Article 6 negotiations (refer to Section 4) and how the International Civil Aviation Organisation (ICAO) may influence the Article 6 negotiations in the near future (refer to Section 5).

1 Risks to Environmental Integrity in the Paris Agreement

The PA includes several provisions that aim to ensure the environmental integrity of international market mechanisms. Although the term environmental integrity is not defined within the PA, it is commonly considered to mean that the use of international transfers does not result in higher global GHG emissions than if the NDCs had been achieved only by domestic action. Four factors may undermine the environmental integrity of international market mechanisms: a) the environmental integrity of mitigation outcomes may be at risk if additionality is not ensured under a crediting mechanism; b) low ambition of NDCs could lead to the transfer of hot air; c) a lack of robust accounting of international transfers could lead to the double counting of emission reductions; and, finally, d) the incentives for future mitigation action and raising ambition may be insufficient.

2 Main Design Considerations for the two Market Mechanisms under Article 6

2.1 Cooperative Approaches (Ca) under Article 6.2

The discussion on Cooperative Approaches was divided into three areas, based on recent negotiation topics from Marrakesh.

2.1.1 Nature and Scope of Itmos

Cooperative Approaches (CA) enable Parties to use Internationally Transferred Mitigation Outcomes (ITMOs) to achieve their NDCs and require parties to apply robust accounting. With regard to the nature and scope of ITMOs under Article 6.2, several open issues were presented (see table below):

Metric	ITMOs require a measuring unit, either one common metric (t CO_2eq) or several metrics (e.g. renewable energy capacity/ generation).
Accounting unit	The same number of units that are added in one country need to be deducted in another country. An open question is how these transfers should be recorded (one option is a unit that is issued as a certificate, which can be issued, cancelled and surrendered, and which may also be transferred many times by Parties; another option would be a pure accounting unit that only exists in the GHG accounts of the Parties involved in the ITMO transfer).
Relation of ITMOs to the scope of the NDC of the transferring country	ITMO transfers could either be limited to within the transferring country's NDC or also include transfers beyond NDCs. The first option would have the advantages that it is simpler for accounting, gives an incentive to ensure environmental integrity and encourages countries to move towards economy wide targets.
Use of ITMOs by the acquiring country	Parties could define ITMOs in at least two different ways: either only as mitigation outcomes that are both internationally transferred and used by acquiring countries towards their NDCs, or as mitigation outcomes that are internationally transferred and that may be used for different purposes such as voluntary cancellation.
Mechanism type	These could include trading mechanisms (i.e. linking emissions trading schemes (ETS)), crediting mechanisms or other types of government to government transfers.
Fungibility of ITMOs	How ITMOs are defined could have impacts on their fungibility (i.e. whether they could be mutually substituted in place of one another). Full fungibility would only be assured if Parties agreed that ITMOs are an international compliance unit. In practice, it is expected that groups of countries may apply different scopes, rules and standards under Article 6.2., which means that full fungibility is unlikely.
Relationship to Article 6.4	It depends on both the definition of ITMOs and the scope of the market mechanism under Article 6.4. Several options exist, e.g. that emission reductions under Article 6.4 could either be considered as ITMOs whenever they meet ITMO definition (i.e. international transfer/used to fulfil NDC) or always/never be considered as ITMOs.

2.1.2 Corresponding Adjustments

Article 6.2 requires countries to apply "robust accounting to ensure, inter alia, the avoidance of double counting, consistent with guidance adopted by the CMA". Paragraph 36 of decision 1/CP.21 specifies that the guidance under Article 6.2 should ensure that double counting is avoided on the basis of "a corresponding adjustment by Parties for both anthropogenic emissions by sources and removals by sinks covered by the NDC". Different options for making corresponding adjustments include the application of corresponding adjustments to inventory emissions (where Parties with a net purchase of ITMOs subtract this amount from their inventory while sellers of ITMOs would add them to their inventory), and the application of corresponding adjustments to NDCs (where Parties with a net purchase of ITMOs add this amount to their NDC while sellers of ITMOs would subtract them from their NDC).

2.1.3 Diversity of NDCS

The diversity of NDCs represents a challenge to making the necessary corresponding adjustments under Article 6.2. In the presentation, Sean Healy illustrates this challenge by showing the difficulties associated with completing a corresponding adjustment between a country with a single year target (i.e. representing a commitment for the target year only, with no specific ambition for the years prior to the target) and a country with a target trajectory (i.e. representing a commitment to limit cumulative emissions over a continuous period). Sean Healy argues that if targets are not determined as a trajectory, it will be challenging to enable the flexibility in terms of which year emissions reductions may be achieved by. The diversity of NDCs can be broadly addressed in two ways:

Ensuring the compatibility of NDCs	This could be done by restricting eligibility (e.g. excluding countries that do not provide a clear target trajectory) or setting requirements for conversion (e.g. requesting that countries convert their NDCs / adopt common methodologies (i.e. to convert target years into a trajectory)).
Conversion of corresponding adjustments	If the mitigation targets of two countries involved in CA are not expressed in the same way, corresponding adjustments could be converted. Challenges of this approach include GWP values (i.e. from different IPCC assessment reports), non GHG mitigation targets (i.e. RES or EE targets) as well as reference levels (i.e. BAU / emission intensity / historical base year).

2.2 Mitigation and Sustainable Development Mechanism (MSDM) under Article 6.4

The MSDM should enable parties to implement GHG mitigation activities whose results can be used to fulfil NDCs / support sustainable development. Although there are many similarities between MSDM and the market mechanisms under the Kyoto Protocol (KP), a number of important differences were identified. While the Clean Development Mechanism (CDM) distinguishes the roles of Annex I Parties (acquire certified emissions reductions (CERs)) and non-Annex I Parties (host mitigation projects), this distinction has been entirely dropped from the MSDM. The CDM is project-based (later redefined by the Executive Board (EB) as programmes, which can include a number of similar projects), whereas the MSDM does not specify the scope of the mitigation activities but requests that the eligible scope be further specified. The CDM is essentially an offset mechanism, which, from a global perspective, does not directly contribute to reducing global GHG emissions. By contrast, the MSDM is subject to a provision stating that it shall aim to mitigate global emissions overall. Several open issues regarding the design of the MSDM were also presented:

Scope	In addition to project and programme-based mitigation activities, the scope of MSDM could be extended to entire sectors or even to policies. That would raise a number of questions, e.g. how a sector or policy could be clearly distinguished from another sector or policy.
Strengthening the NDC	It could be an additional challenge to MSDM implementation as the shape of the baseline may be uncertain at the start of the activity. Possible solutions include limiting the crediting periods for MSDM activities to the NDC period or adapting baselines for MSDM activities after a new NDC.

Governance	Article 6.4 mentions supervision by a body under the guidance of the COP/CMA. Whether this body will be similar to the EB of the CDM or what the competences of the body will be are examples of issues that have yet to be agreed on.
Existing CDM/JI projects under the MSDM	The two extreme positions at either end of the spectrum are no continuation and quasi automatic continuation. Further options include continuation for certain projects or certain countries, the adjustment of baselines or the re-registration of projects under MSDM.

3 Key Similarities and DifferencesbBetween CA and MSDM

Both CA and MSDM allow for the international transfer of international carbon market units among UNFCCC Parties. However, several key differences were presented (see table below). The substantial differences between the two market mechanisms may result in considerable distortion of competition. The provisions for the MSDM are significantly more stringent and perhaps more burdensome than those for CAs. Parties may thus prefer CAs over the MSDM, and in the end it may be that only one of the market mechanisms forms the basis for the international carbon market. To ensure a somewhat level playing field between both market mechanisms the guidance for CA should ensure that the CA contributes both to raising global mitigation ambition and sustainable development, and is equally stringent in terms of environmental integrity.

	Art. 6.2	Art. 6.4
Raising of ambition	**Neither** explicity mentioned in Art. 6.2-3 **nor** in the respective decision paragraph (36 of 1/CP.21)	Art. 6.4(d) requires that the market mechanism shall "deliver an **overall mitigation on global emissions**"
Bindingness: guidance versus rules, modalities and procedures	Parties are mandated to develop **guidance** for the implementation of the market mechanisms	Parties are mandated to elaborate more comprehensive and binding **rules, modalities** and **procedures** for under Art. 6.7
Promotion of contribution to sustainable development	Just speaks of **promotion** of sustainable development	Speaks more strongly of a **contribution** to sustainable development
Governance	Absolutely **silent** on any governance	A **body** to supervise the implementation of mechanism is established
Share of Proceeds (SoP)	**No** such provision	Activities under the MSDM shall provide a **share of proceeds** to cover administrative expenses and support adaption on particularly vulnerable countries

4 Update from Marrakesh and Prospects for Future Negotiations

Marrakesh outcomes included procedural conclusions for mechanisms under Article 6. In particular, submissions are due on 17 March 2017 in response to the discussions undertaken in the three sub-items of the Article 6 negotiations. Following the submissions, the Secretariat will organise a roundtable discussion amongst the Parties at SBSTA 46 in May 2017. The issues raised will continue to be under consideration at SBSTA 46. COP 22 resulted in purely procedural conclusions, and little progress was made because submissions may be somewhat more structured. No agreement on a work plan towards adoption of rules, modalities and procedures (RMP) by 2018 was reached.

5 ICAO'S Influence on the Article 6 Negotiations

In October 2016, ICAO adopted its resolution on a global market based measure (GMBM). With this resolution, ICAO created the CORSIA as a high level framework for the mechanism. A key element of CORSIA that has not yet been finalised is the eligibility criteria for programmes and project types. Aggregated demand from CORSIA (2021-35) is expected at 2.7 Gt, compared to 1.7 Gt issued under the CDM from 2001 to 2017. Demand from aviation is thus likely to be an important driver of carbon markets post 2020. Additional demand is important as almost a quarter of countries stated that they do not intend to use market mechanisms to fulfil their NDCs.

III Q&A and Open Discussion with the Participants

The presentation was followed by a discussion of selected key themes:

- The relationship between the mechanisms under Article 6.2 and Article 6.4
- The environmental integrity of market mechanisms in view of the NDCs' diversity
- The transition from the CDM and JI to the mechanisms under Article 6
- How financing will work under the new mechanism
- The role of the ICAO process to define the offset units under CORSIA

Summary of the discussion

The relationship between the mechanisms under Article 6.2 and Article 6.4

The question of transfer of units was one major element of the discussion. One participant stated that it might be better to limit transfers under CAs to within the scope of the transferring country's NDC, but this could lead to an issue if units were generated under 6.4, became ITMOs and were then later transferred under 6.2. The presenter replied that it would indeed be important to consider the scope of the mechanisms under both articles. It might be better to limit the use of the CAs under Article 6.2. to transfers within the scope of NDCs, as Parties themselves would have an incentive to ensuring environmental integrity in those cases. In contrast, Article 6.4 could potentially cover reductions both inside and outside the scope of the NDCs, with UNFCCC oversight ensuring environmental integrity. This debate is, however, still open in the negotiations.

Another participant stated that Article 6.4 was generally targeted at developing countries, but is also the mechanism that potentially imposed the tougher accounting rules and requirements on countries. It could thus be both difficult and crucial to strike a balance here. The issue of linking the two mechanisms was especially important for countries to transition from the mechanisms under Article 6.4 to 6.2 at some point. The presenter noted that Article 6.4 put more emphasis on the private sector and third party engagement, which could result in some capacity building that would gradually allow the countries to later move towards CAs. Also the question of whether Article 6.4 would cover one or more mechanisms came up. The presenter said that there were different views on that within the negotiation process, and that having bottom-up, fragmented carbon market approaches in the future was not excluded.

The environmental integrity of market mechanisms in view of the NDCs' diversity

Another participant raised the issue of dealing with different NDC types. He asked, as example, how nesting would happen in the case of an activity under Article 6.4 taking place within the scope of a more "shady" NDC (e.g. one with a relative intensity target or per capita target). Considering such cases could have implications for the mechanisms' design. The presenter suggested that one strategy to deal with the diversity of NDCs could be to start trading within "carbon clubs", groups of countries with a similar level of ambition and a common understanding, in the hope that these would expand over time. It could be important at some point to make a choice between having a diversity of NDCs and constrained use of market mechanisms (e.g. within carbon clubs), or having a standardized structure for compiling NDCs and broader use of market mechanisms. Creating a compromise could require a methodology that could make adjustments between the different types of NDCs without compromising environmental integrity.

Transition from the CDM and JI

One participant asked if a specific end-date for the CDM (e.g. the moment when the mechanism under Article 6.4 becomes operational or the end of the true-up period of the KP) was envisaged. Another participant expressed the concern that multiple mechanisms could lead to double counting as well as a doubling up of effort and said that it should be our upmost aim to bring all international transfers within the framework of Article 6 to ensure environmental integrity. He admitted that there would need to be a transitional period at least up until the end of the true-up period of the KP.

Another participant noted that, based on the World Bank's experience, a major issue was the lack of clarity on the eligibility criteria for the different mechanisms, which is important to move forward. Once the rules for the mechanism under 6.4 became clear, the transition from the CDM would happen naturally. Another participant made the point that CERs were used to fulfil the commitments under the KP, and when the commitments were no longer valid after 2020 there would be little point in using CERs unless there was a transformation rule. The presenter also referred to ICAO as probably the key demand in the post 2020 era. ICAO's decisions on credibility criteria could have some impact on the Article 6 discussions. It would thus be important to ensure compatibility between ICAO's offset mechanism and Article 6.4. With regard to CORSIA, the CDM could be stopped as long as there was another mechanism in place that ICAO could use and which matched its eligibility criteria. The presenter added that ICAO could also potentially use offsets from the voluntary market.

How financing will work under the new mechanism

One participant said that the discussion had focused on technicalities so far, whereas financing would also have a huge influence on the design of the new mechanisms. It was therefore important to consider who will pay (demand) and who will generate mitigation outcomes (supply): the private sector (e.g. the aviation industry), which would be more in favour of direct transfers and a CDM-style system, or individual governments, which would want to trade in order to meet their NDCs and increase ambition. Different groups would favour different mechanisms. The presenter noted that some countries capable of generating high demand had already indicated in their NDCs that they would not be using market mechanisms (e.g. the EU, and the US if they still decide to participate in the PA), which is another reason to look at aviation as a key generator of demand. However, he added that the aviation industry could come under pressure to lobby for lower standards.

Another participant emphasised that it was important to look at money flows, as markets provided a cheaper way to achieve mitigation. Triggering private sector investment would be key to achieving transformational change, as government funds were insufficient. Once clear eligibility criteria, rules and procedures for Article 6.4 were in place and the financial flows were clear, project developers would move over to the new mechanism. One participant responded that Brazil had suggested speeding up the transition by incorporating a lot of the CDM methodology into the new mechanism. The question was what should be kept in from the CDM and what needed to change. Another participant said that the transition issue was on the table in Marrakesh, but it was hard to discuss it without having defined the destination – i.e. MDSM. The question of how to deal with existing projects under the new mechanism should thus be discussed in the final stages of the negotiations.

The role of the ICAO process to define the offset units under CORSIA

One participant mentioned that there would most probably be no immediate demand from CORSIA in 2021 and that he disagreed with the demand projections that ICAO was putting out. He said that a large proportion of demand was due to come from the US, and that this would depend on the cooperation of the US administration. It was also still an open question as to whether India and China would participate, as both had already stated that they did not respect ICAO authority to impose unit criteria. The participant therefore surmised that many of the predictions regarding future demand for the mechanisms under Article 6.2 and 6.4 were on shaky ground. Another participant mentioned the current pressure on project participants, due to the financial uncertainty with regard to where new demand will come from. It would be simpler for project developers if CDM just continued until a new mechanism was up and running. Another participant warned that the danger of such a suggestion was that it would remove the impetus for the transition to the new mechanism.

IV Presentation of International Cooperation on the Development of Carbon Markets and Market-Based Mechanisms

Marie-Jeanne Kurdziel, Climate Policy Analyst, Newclimate Institute

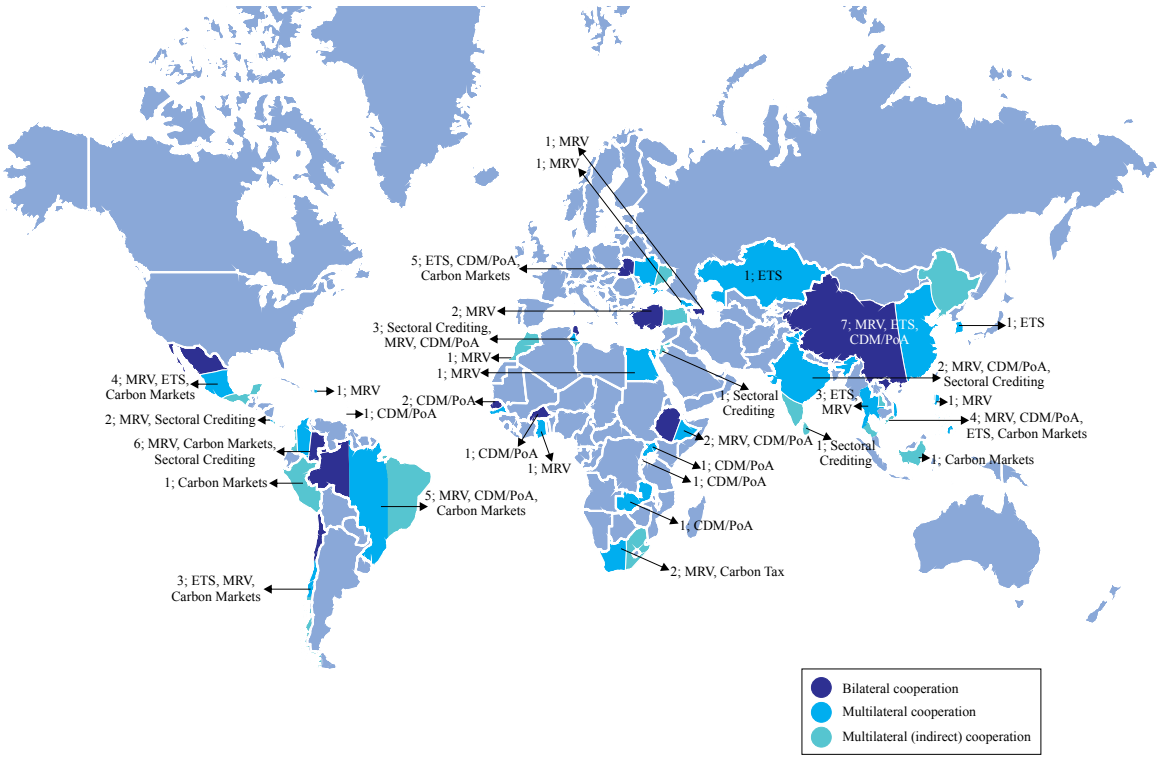
Marie Kurdziel presented the initial results from the research project's third work package, which is focusing on the prospects for German cooperation on the development of carbon markets in line with Article 6. The central question for the work package is how international cooperation in general, and German cooperation in particular, can contribute to a rule-consistent and well-integrated use of market instruments in a post-Paris world.

Overview

To analyse future prospects of German and international carbon market cooperation after Paris, the research team applied a three-step approach for the third work package: (1) German carbon market cooperation (providing an overview on German carbon market cooperation in the form of a comprehensive carbon market inventory); (2) Country selection process (Selecting three candidates for case studies that represent a spectrum in terms of carbon market readiness and options to make use of Article 6); (3) Case studies (Analysing selected candidates to deliver case-based recommendations).

1 German Carbon Market Cooperation

Cooperation activities were included in the carbon market inventory created by the researchers in case they fulfilled the following selection criteria: (1) Germany was directly or indirectly involved in the cooperation activity; (2) the focus of the cooperation activity was on markets or related issues; (3) the cooperation activity took place in the past five years; and (4) the information on the cooperation activity was publicly accessible. The data was collected on a country-by-country basis in a comprehensive Excel spreadsheet and comprises 34 countries and 81 projects and initiatives. It contains information about factors such as the scope, type, focus, status, funding source, volume and timeframe of the cooperation activities. The research team also visualised the results of the German carbon market cooperation inventory on a world map:



2 Country Selection

To select three countries for in-depth case studies, the research team defined criteria and categories that reflected the spectrum of carbon market related expertise across countries and helped classify the countries into three categories (advanced, medium and early). These qualitative criteria were used to underpin categorisation from expert discussions. The table below shows examples of the criteria that were used:

Exemplary criteria	Advanced	Medium	Early
Position on carbon markets	positive	open	open
Participation in international initiatives	yes	yes	possibly
Experience with international market mechanisms	yes	yes	possibly
Experience with national market instruments	one or more instruments at national or sectoral level exist	instruments at national or sectoral level exist / are planned	do not exist / are planned
Legal and institutional framework for market mechanisms	exists / is being established	is being established	does not exist / is planned
MRV system	exists / is being established	is being established	does not exist / is planned
GHG inventory	recent and high quality	exists	exists
Options for linking market instruments	explored (short-term)	considered (medium-term)	not ruled out (long-term)
...			

The team drew up long and short lists of countries for each category, and selected three countries for the case studies: Ukraine (advanced group), Vietnam (medium group) and Ethiopia (early group). The different categories may have the following implications for the use of Article 6:

Advanced stage:	▸ Potentially more interested in the options provided under Article 6.2, e.g. with a view to linking emissions trading systems (ETS); ▸ Countries interested in participating in Article 6.2 must have the necessary legal and institutional arrangements at domestic level to safeguard environmental integrity; ▸ Article 6.2 may potentially be more attractive than Article 6.4 for countries at a more advanced stage of carbon market development.
Medium stage:	▸ Potentially more interested in using Article 6.2, e.g. to reflect bilateral mechanisms; ▸ Countries must have the necessary legal and institutional arrangements at domestic level to safeguard environmental integrity; ▸ The bilateral mechanism could be more attractive for countries at a medium stage of carbon market development that have not (yet) established a domestic ETS.
Early stage:	▸ Possible interest in using Article 6.4; ▸ Countries with limited domestic capacity can benefit from the centralised governance approach and CDM experience; ▸ The question remains open as to whether the early-stage countries will be able and willing to fulfil the more stringent requirements of Article 6.4.

It was highlighted that countries will likely look into options for using both Article 6.2 and 6.4, or use the mechanisms in a different way than expected. As long as no rules for Article 6 have been established, there is a lot of room to interpret how markets may be used.

3 Introduction To Selected Case Countries

In this part of the workshop, the research team presented their initial observations on the three selected case study countries.

3.1 Ukraine

Ukraine plans to establish a national ETS in line with the obligations under the 2014 UA-EU Association Agreement. In 2015, Ukraine's government adopted the "Concept of ETS Development", which outlined the main steps required to establish a national ETS. The country has accumulated extensive, although mixed, experience with international market mechanisms in the past, having hosted 321 Joint Implementation (JI) projects, which is the largest number of Track 1 projects and the second largest number in Track 2 (after Russia). Ukraine has the largest number of issued emission reduction units (ERUs). It also participated in the Green Investment Scheme (GIS). Although an ETS is to be developed, the relevant stakeholders lack understanding and support, and the political and economic situation in the country remains challenging.

Ukraine has capacities for international reporting, having issued six National Communications and annual National Inventory Reports (last in 2016). The country experienced major institutional changes in 2014, including the closing of the State Environmental Investment Agency (SEIA), which used to be a major focal point for international activities, and centralisation under the Ministry of Ecology and Natural Resources. Some experts have expressed concerns regarding Ukraine's NDC ambition level and the quality of its reporting under the UNFCCC. Ukraine has cooperated with Germany on four recent projects, with one still ongoing, and the main focus has been on monitoring, reporting and verification (MRV) and ETS development. Types of cooperation include capacity building and technical support. On a multilateral level, Ukraine has been active in the Partnership for Market Readiness (PMR). The main PMR focus was the design of a roadmap for ETS implementation and the development of MRV as a first step towards the ETS.

In its NDC, the country stated its willingness to participate actively in the development of existing international market mechanisms and the implementation of new ones. SBSTA submissions do not specify which mechanism Ukraine intends to use. However, they mention several lessons learned from the KP, such as the need for a clear and simple way to determine the measurement and legal meaning of mitigation outcomes from flexible mechanisms. Ukraine is in favour of a common metric for ITMOs ("...shall be quantifiable and measurable in Metric Tons of CO_2eq of already achieved or future mitigation of GHG"). Overall, Ukraine fulfils the criteria of an "advanced" country within the project. It could potentially use both Art. 6.2 and 6.4 (if environmental integrity and transparent reporting were guaranteed).

3.2 Vietnam

Vietnam hosted 255 registered CDM projects generating 16,353 kCERs. Since 2013 it has been a Signatory of the Joint Crediting Mechanism, actively developing NAMAs, and a member of the Partnership for Market Readiness (PMR). GIZ has been working in Vietnam for more than 20 years. An example of cooperation in relation to carbon markets is the project "Creation of an overarching framework for NAMAs and MRV in Viet Nam" (2014-2018), commissioned by BMUB and implemented by the Vietnamese Ministry of Natural Resources and Environment. Through the International Climate Initiative (IKI), Germany contributes to the PMR, which is helping to finance the implementation of an ETS pilot scheme. Another IKI-funded project aims to strengthen capacities for the preparation of high quality Biennial Update Reports (BURs) and/or National Communications in Vietnam and other selected countries.

Vietnam's NDC states that the country intends to apply market instruments. Vietnam participates in the Like Minded Developing Countries (LMDC) negotiation group and has actively been engaging in Article 6 negotiations:

Vietnam's position on Article 6.2	▸ It supports 'broad' guidance for Article 6.2 on accounting and use of ITMOs; ▸ ITMO use to achieve NDCs shall be voluntary and only authorised by Parties; ▸ Avoidance of double counting and transparency of governance must be guaranteed; ▸ Sustainable development should be facilitated in a 'bottom up' manner.
On Article 6.4 Vietnam considers it necessary to:	▸ Deliver overall mitigation in global emissions / complement NDC efforts; ▸ Define the scope of activities under the mechanism; ▸ Facilitate access for the participation of small and medium projects; ▸ Establish a regular review process of the outcomes from the mechanism.

Vietnam appears to be in the medium stage of carbon market development with a range of experience in both international market mechanisms (i.e. Vietnam is ranked fourth internationally for the number of CDM registered projects; JCM participation) and there has been German cooperation on various aspects of MRV and development of market mechanisms (i.e. pilot ETS scheme planned based on PMR funding). Vietnam's NDC states that the country has experienced difficulties with the establishment of a national GHG inventory system, and an MRV system at all levels.

Overall, in the medium to long term, the implementation of a proposed ETS could be reflected under Article 6.2. However, in the shorter term, the crediting mechanism under Article 6.4 may be more accessible for Vietnam whilst improvements to the domestic inventory system are ongoing.

3.3 Ethiopia

Ethiopia has hosted nine registered CDM projects (three CDM and six POAs), and has signed a bilateral agreement to participate in the Joint Crediting Mechanism in 2013. However, no projects have been registered yet. It is not a member of the PMR. German support has been mostly channelled through UBA and BMUB with the main focus on MRV and CDM/POA. The types of cooperation included capacity building (e.g. for monitoring systems, GHG inventories and institutional capacities) and scientific guidance (on emission reduction accounting, etc.). Ethiopia's INDC is assessed as 'sufficient' on ambition and fairness (by the CAT analysis). Ethiopia explicitly identifies itself as a 'seller of emission reduction units' in the INDC. It has been actively engaging in Article 6 negotiations. Ethiopia is currently open to using both Article 6.2 and 6.4:

Ethiopia's position on Article 6.2*	▸ ITMOs need to be GHG reduction units; ▸ All NDCs need to be quantifiable in terms of their GHG impact; ▸ ITMO transfers can be bilateral or multilateral or both; ▸ Supports 'broad' guidance on accounting and use of ITMOs to avoid any double counting; ▸ Discusses potential situations that risk environmental integrity of ITMO transfers due to varied nature of NDCs, e.g. 'encouraging ambition from lax contributions… and then wishing to participate as sellers of ITMOs', 'encouraging to enhance inadequate information from ITMOs', 'long term targets without short term balance sheets'.
Ethiopia's position on Article 6.4*	▸ Draws on African CDM experience to discuss design aspects of 'fresh' Article 6.4 modalities and procedures; ▸ Inclusiveness in accounting approaches and methodologies; ▸ Reflection on specific circumstances in Africa; ▸ Suggests checking baselines at the plant level (with peers), national level (with NDC) and global level (no double accounting) to ensure 'overall mitigation and 'long term benefits'.

* As drawn from Ethiopia's submission to SBSTA 45

All in all, Ethiopia is open to exploring carbon pricing instruments. Ongoing efforts on developing domestic institutional arrangements for MRV could be a useful basis for facilitating the design of the instruments in future. Germany is cooperating with Ethiopia on various aspects of MRV. Currently, there are many opportunities for deepening cooperation on the design and implementation of market-based mechanisms under the PA, especially for mechanisms under Article 6.4.

Q & A

One participant asked whether the presenters could go into more detail about the different issues the three countries faced with regard to cooperation on MRV. The presenters noted that existing institutional capacity was likely to be a key factor in determining what kind of MRV challenges each country faced. For example, whereas in Ethiopia cooperation activities focused on issues such as the creation of institutional capacities for MRV, Ukraine already had significant capacities and was looking into ways of addressing gaps in the existing infrastructure.

V Plenary Discussion on Prospects for Cooperation on Market-Based Mechanisms with Selected Partner Countries

Guiding Questions for Input Statements:

- What key lessons have been learned with regard to countries' participation in international cooperation activities on market mechanisms (CDM/JI experience, capacity building for ETS, etc.)?
- What main opportunities do you see for countries' future participation in international market mechanisms after the Paris conference? What are the major capacity gaps and challenges that need to be addressed by international cooperation?
- What specific implications do you see for German cooperation activities in the future?

Frank Wolke, German Environment Agency (UBA)

Frank Wolke stated that Article 6 should allow countries to factor their cooperation with other countries into meeting their emissions reduction commitments, and therefore to increase the number of mitigation outcomes and the ambition of climate action. Cooperative approaches also have the potential to increase the cost effectiveness of CO_2 reduction. However, creating the right incentives for cost-effective CO_2 reduction will very much depend on the guidance and the rules developed for the implementation of Article 6. He also mentioned that Article 6.2 does not only refer to ETS, and that Article 6 should be understood in a much broader sense, in which any kind of cooperation on projects to reduce CO_2 could fall within this framework. This could be a big challenge, especially given the issues with conversion of outcomes. Moreover, promoting ETS does not automatically lead to mitigation outcomes. There could be a number of outcomes that cannot be traded via ETS and these types of cooperation should also be considered.

Ivan Gaidutskiy, Parliament Committee Of Ukraine

Ivan Gaidutskiy agreed that we need wide range of instruments to face the challenges ahead. He said there had been a lot of discussion in Ukraine about the development of an ETS, as well as about environmental taxes. He emphasised that the country was very open to cooperation with Germany and other countries to attract investment and new ideas. He stressed that there was increasing political will within the Ukrainian parliament and the government to develop a national ETS, given the longer term goal of joining the EU ETS, which will be an essential element for closer economic association with the EU. Earlier, there was a lack of understanding of market mechanisms among stakeholders and only weak political and economic support. Although there remains much room for improvement, the country is now increasingly looking into ways of actively participating in international cooperation activities. Since the adoption of the PA, private sector actors have been increasingly interested and engaged in the topic.

Aki Kachi, Carbon Market Watch

Aki Kachi said that there were many relevant actors engaged in the process apart from the SBSTA negotiators. He claimed that the reason for the lack of progress on markets was neither that countries did not know whether to buy or sell nor the differences in the Parties visions' of Article 6.2 and 6.4. Rather, he said that the interdependency of the market provisions with Article 6.8 and climate finance were more important. Countries did not want the market mechanisms' track to prejudge other negotiating tracks, such as loss and damage, and accounting. Until there was progress in these other tracks, the negotiations on markets would not move forward. He

also remarked that it was a miracle that we even have Article 6 in the PA, as it was a last-minute compromise between the EU and Brazil that others bought into. He said that this willingness to compromise had broken down since Paris, and many negotiating blocks were moving further apart in their positions. He said what was needed was renewed focus on transformational change and decarbonisation. The CDM had not been successful in achieving this, which was why the CDM could not be adopted by the PA.

Felicity Creighton Spors, World Bank

Felicity Creighton Spors said that the approaches under Article 6 should kick-start sustainable and ongoing change. She stated that trillions of dollars were needed and it was thus important to catalyse private sector investment. She said it was not possible to solve climate change without markets, as they would significantly bring down the costs of mitigation. It was therefore important to consider why financing was not flowing into the countries. She said the new mechanism design had to address the political, technical and financial barriers to markets functioning properly, as the CDM was not effective in this regard (e.g. low participation due to lack of trust). In her view, the question of additionality received too much attention, whereas the real problem was ambition and the clarity of baselines. Long-term baselines were what the private sector needed, and would allow markets grow. She stressed the importance of supporting countries that are low ambition due to a lack of institutional capacity or data, or due to political tensions. She also noted that there was uncertainty in many countries about when to buy and sell, and that aid could help develop these markets and create the track history that would incentivise investors to invest. She mentioned several examples, e.g. the World Bank's PMR that aims to pilot measures and then share that knowledge or the World Bank's Carbon Initiative for Development, which supports Least Developed Countries (LDCs). She said Article 6.4 might be targeted at LDCs, but it was more difficult to use in practice, and that was where support and finance was most needed.

Q & A

One participant argued that uncertainty in the countries about when to buy and sell was not the main problem. The level of ambition was on the table and needed to be improved. He therefore said the real question was how the mechanisms could best support the ratcheting up of ambition. He also remarked that it would be too optimistic to assume that additionality checks would become superfluous. Germany had accumulated a lot of experience with this. The additionality checks were put in place to show that the country that got the money really needed it. He stressed that maximizing "value for money" and "value for many (people)" was crucial. Felicity Creighton Spors conceded that additionality was important. However, she questioned whether "additional" additionality was necessary if there were strong baselines and a high level of ambition. She highlighted that she was first and foremost referring to sectoral mechanisms. If the objective was to achieve a lot in a short time at an achievable price, it was important to accept a certain amount of freeriding. The criteria had to be simple if the private sector was to get on board.

VI Wrap-Up of the Discussions and Concluding Remarks

By looking at German cooperation and selected case study countries, the research team follows two main objectives: to give recommendations to Germany on how to adapt its existing cooperation approaches and to use the case studies to examine practical examples of how to prepare for Article 6 implementation. As many Article 6 elements are still undefined and countries have diverging views, giving recommendations will be challenging. While the countries are trying to move forward from very different starting points, identifying current capacity gaps is a useful approach.

Article 6 of the PA has two main objectives. On the one hand, it should ensure environmental integrity and, on the other hand, it should be usable and foster international cooperation. It is crucial to find a balance between a perfectly designed mechanism that nobody would use and would therefore be useless, and a popular mechanism that would have numerous loopholes and thus be useless as well. The focus of the negotiations should lie in searching for a compromise between these two extremes, which would at the same time fit into the framework of the PA.

Annex I: Agenda

Workshop Agenda

13:00-13:15	**Welcome and introduction** **Dr. Karsten Karschunke**, Emissions Reduction Projects – CDM (DNA)/JI (DFP), German Environment Agency (UBA/DEHSt) **Dennis Tänzler**, Director International Climate Policy, adelphi
13:15-14:00	**Presentation of progress on market mechanisms since COP 21 and main issues and options for design and operationalisation** **Sean Healy**, Researcher Energy & Climate, Öko-Institut ‣ Article 6 negotiation update and reflection ‣ Main issues of the two approaches in Article 6 ‣ Relationship between the provisions, incl. synergies and conflicts ‣ Prospects for future negotiations and 'rule book' design
14:00-14:30	**Q&A and open discussion with the participants**
14:30-14:45	*Coffee break*
14:45-15:30	**Presentation of international cooperation on the development of carbon markets and market-based mechanisms** **Marie-Jeanne Kurdziel**, Climate Policy Analyst, NewClimate Institute ‣ Inventory of Germany's carbon market cooperation ‣ Initial analysis of selected countries – Ukraine, Vietnam and Ethiopia
15:30-16:30	**Plenary discussion on prospects for cooperation on market-based mechanisms with selected partner countries** Participants will discuss together with experts working in national contexts and on behalf of international initiatives (e.g. World Bank, GIZ, KfW): ‣ Relevant carbon market updates including prospects of Article 6 engagement (domestic and international experiences and plans) ‣ International as well as bilateral cooperation with Germany including a reflection and outlook
16:30-16:45	**Wrap-up of the discussions on the dynamics and prospects for cooperation on markets, and the future outlook** **Carsten Warnecke**, NewClimate Institute
16:45-17:00	**Concluding remarks and closing** **Dr. Karsten Karschunke**, UBA/DEHSt **Dennis Tänzler**, adelphi

Annex II: List Of Participants

List of Participants

Last Name	First Name	Organisation
Börner	Matthias	KfW
Creighton Spors	Felicity	World Bank
Gaidutskiy	Ivan	Parliament Committee of Ukraine
Garcia	Rocio	AILAC Negotiator
Gläser	Anne	GIZ
Greiner	Sandra	Climate Focus
Hausotter	Tobias	GIZ
Healy	Sean	Öko-Institut e.V.
Hunzai	Tobias	Climate Focus
Kachi	Aki	Carbon Market Watch
Karschunke	Karsten	German Environment Agency (UBA)
Kleinschmidt	Julia	Ecologic/BMUB
Kreibich	Nicolas	Wuppertal Institute
Kurdziel	Marie-Jeanne	NewClimate Institute
La Hoz Theuer	Stephanie	Independent Consultant
Martin-Rodriguez	Emilio	German Environment Agency (UBA)
Melnikova	Julia	adelphi
Pauly	Nadine	German Environment Agency (UBA)
Raeschke-Kessler	Konrad	German Environment Agency (UBA)
Ryfisch	David	GIZ
Schmidt	Volker	GIZ
Tänzler	Dennis	adelphi
Tewari	Ritika	NewClimate Institute
Warnecke	Carsten	NewClimate Institute
Wolke	Frank	German Environment Agency (UBA)
Wright	Emily	adelphi

German Emissions Trading Authority (DEHSt) at the German Environment Agency
Bismarckplatz 1
D-14193 Berlin

www.dehst.de/EN | emissionstrading@dehst.de