



CLIMATEFINANCEINNOVATORS

LINKING CARBON MARKETS WITH CLIMATE FINANCE IN AFRICA

Webinar: Next Generation Carbon Markets

Update on Article 6 negotiations and observations from pilot landscape

September 9th, 1:00-2:30pm CEST

Supported by:



Federal Ministry
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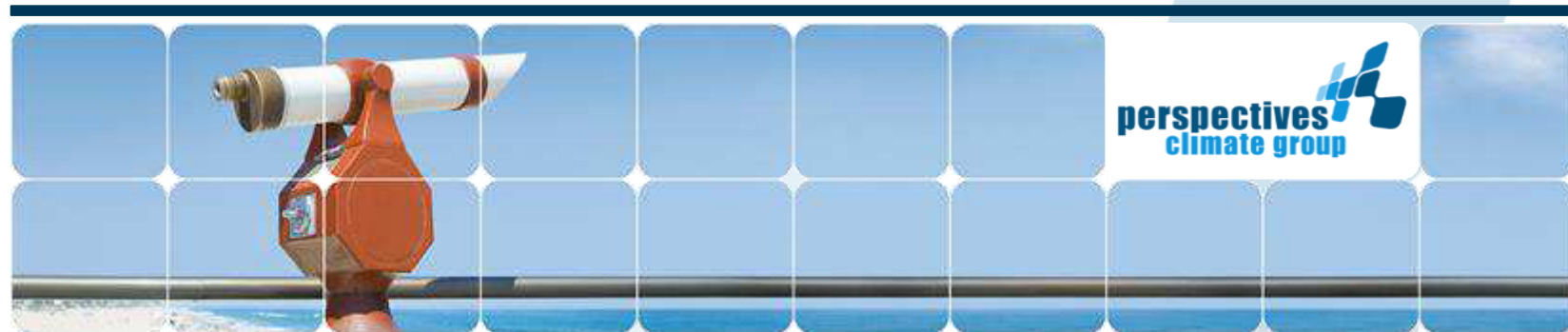


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LINKING CARBON MARKETS WITH CLIMATE FINANCE IN AFRICA

Agenda

- **Introduction** Lydia Ondraczek (BMU) and Stephan Hoch (Perspectives)
- **Negotiating the Article 6 Rulebook: Update after Bonn and Outlook for COP25** Aglaja Espelage (Perspectives Climate Group)
- **Observations from Article 6 Piloting** Sandra Greiner (Climate Focus)
- **Q&A and Discussion**



Negotiating the Article 6 rulebook-update after Bonn and outlook at COP25

Aglaja Espelage

Perspectives Climate Group

Webinar Next Generation Carbon Markets

09 September 2019

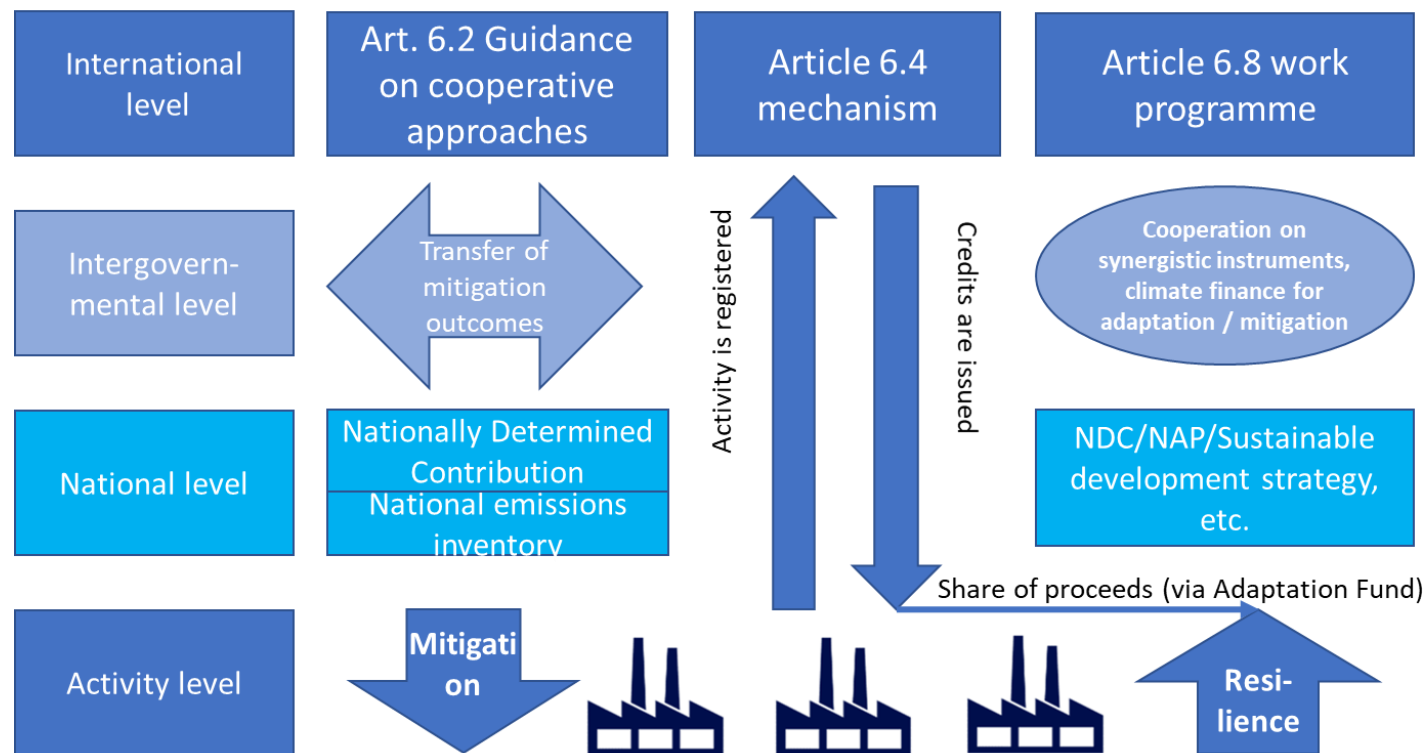


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Agenda

- Article 6 of the Paris Agreement
- Emerging features of market-based cooperation under the PA
- Key crunch issues
- Outlook at COP25- process and expectations

Article 6 of the Paris Agreement



Article 6 of the Paris Agreement



Emerging features (from the negotiations)

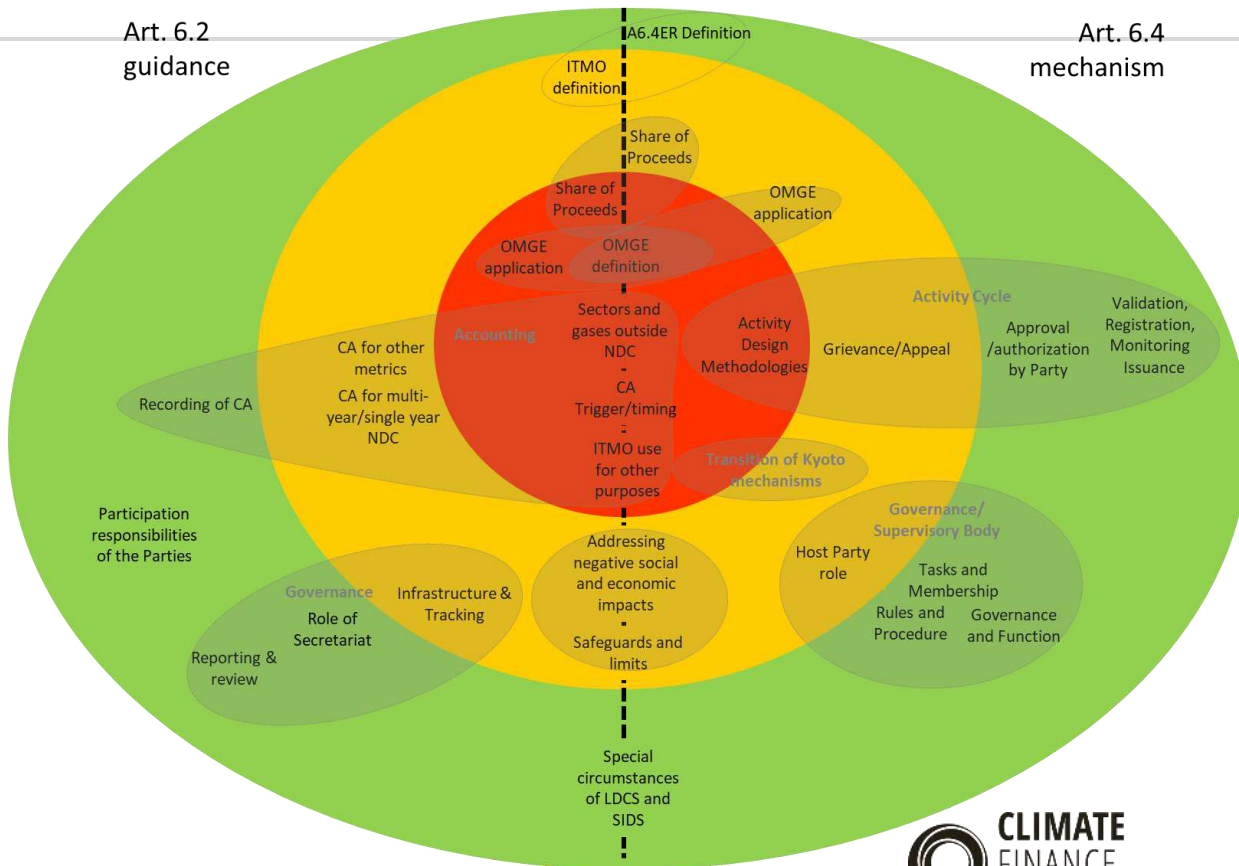
- **Guidance on cooperative approaches (Article 6.2)**

- Guidance for transfer of ITMOs (and creation?)
- Accounting (i.e. corresponding adjustment) to be done with respect to an „emissions balance“ (unclear for non-CO2e metrics, if eligible)
- International oversight likely through a reporting and review cycle (A6TER)

- **Article 6.4 mechanism**

- UNFCCC mechanism, under authority of CMA, governed by Supervisory Body administrated by UNFCCC Sec, with new host Party responsibilities
- Building on experiences with Kyoto mechanisms (e.g. activity cycle); transition provisions unclear

Key crunch issues



Key crunch issues

- **Common issues**

- The eligibility of mitigation units/amounts expressed in **other metrics** and resulting accounting challenges
- **Overall mitigation in global emissions** (interpretation, applicability to 6.2)
- **Share of proceeds** (implementation, applicability to 6.2)

- **Article 6.2**

- Applicability of corresponding adjustments to activities/mitigation **outside NDC** and to mitigate on outcomes used for **other purposes**

- **Article 6.4**

- Baselines & additionality
- **Transitioning** from the CDM

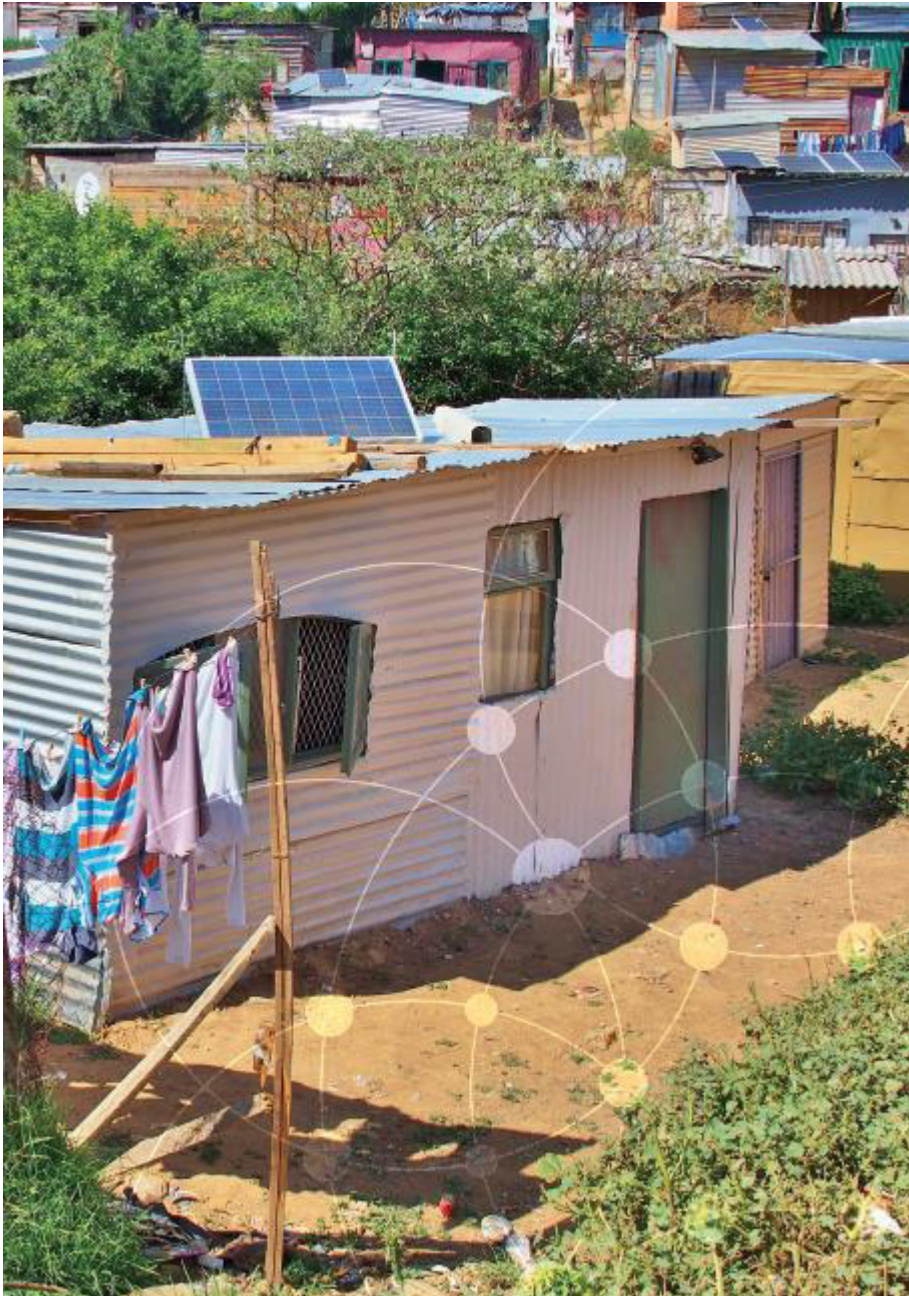
Outlook





Thank you!

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Observations from Article 6 Piloting

Dr. Sandra Greiner, Climate Focus

Webinar: Next generation carbon markets

9 September 2019, 1:00-2:30pm CEST





New updated Study (June 2019)

Moving towards next Generation Carbon Markets

Observations from Article 6 Pilots

- First comprehensive overview of about a dozen ongoing Article 6 pilots
- Analysis of emerging trends and early experiences
- In-depth look at response to new challenges posed by the Paris Agreement

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Some key findings from pilots

- While rules have yet to be finalized, **Article 6 is already real**
- Around **USD 345Mio** have already been committed to kick-start Art 6 pilot initiatives
- **Diverse set of initiatives** ranging from projects and programmatic initiatives to sector and policy level interventions
- **Initiatives anticipate Article 6 design elements** and differ from the CDM in many respects



What constitutes an Article 6 pilot?

Definition of a pilot: To test a concept, scheme or project before it can be implemented on a wider scale

Article 6 pilots: Are those initiatives that have the potential to align themselves with, or qualify under Art. 6.2, 6.4 or 6.8 of the PA.

Indicators to help categorize pilots:

- framing” as a pilot
- activity will be governed by Article 6 rules
- intention of Parties to exchange ITMOs

ARTICLE 6 PILOT INITIATIVES

African Development Bank
The Adaptation Benefit Mechanism

Canada-Chile
Program to reduce emissions in the waste sector

EBRD
Integrated Carbon Programme for the Southern and Eastern Mediterranean

Japan
The Joint Crediting Mechanism

NEFCO
Peru Cooperative arrangement pilot in the solid waste sector

Swedish Energy Agency
Virtual Pilot Studies

Switzerland
Pilot activities of the Climate Cent Foundation

Switzerland
ITMO purchase program of the KliK Foundation

World Bank
The Standardized Crediting Framework

World Bank
The Transformative Carbon Asset Facility

OTHER RELEVANT INITIATIVES

Asian Development Bank
Article 6 Support Facility

World Bank
Carbon Partnership Facility

REDD+ Initiatives

World Bank
The Warehouse Facility

Linking Emissions Trading Schemes

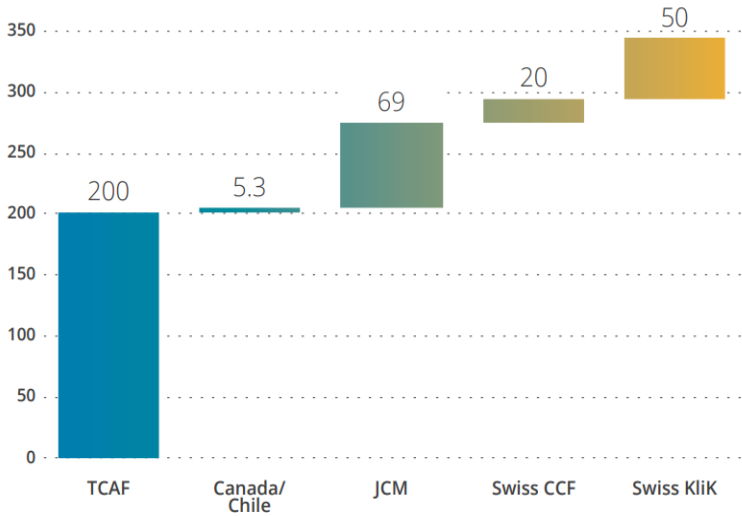
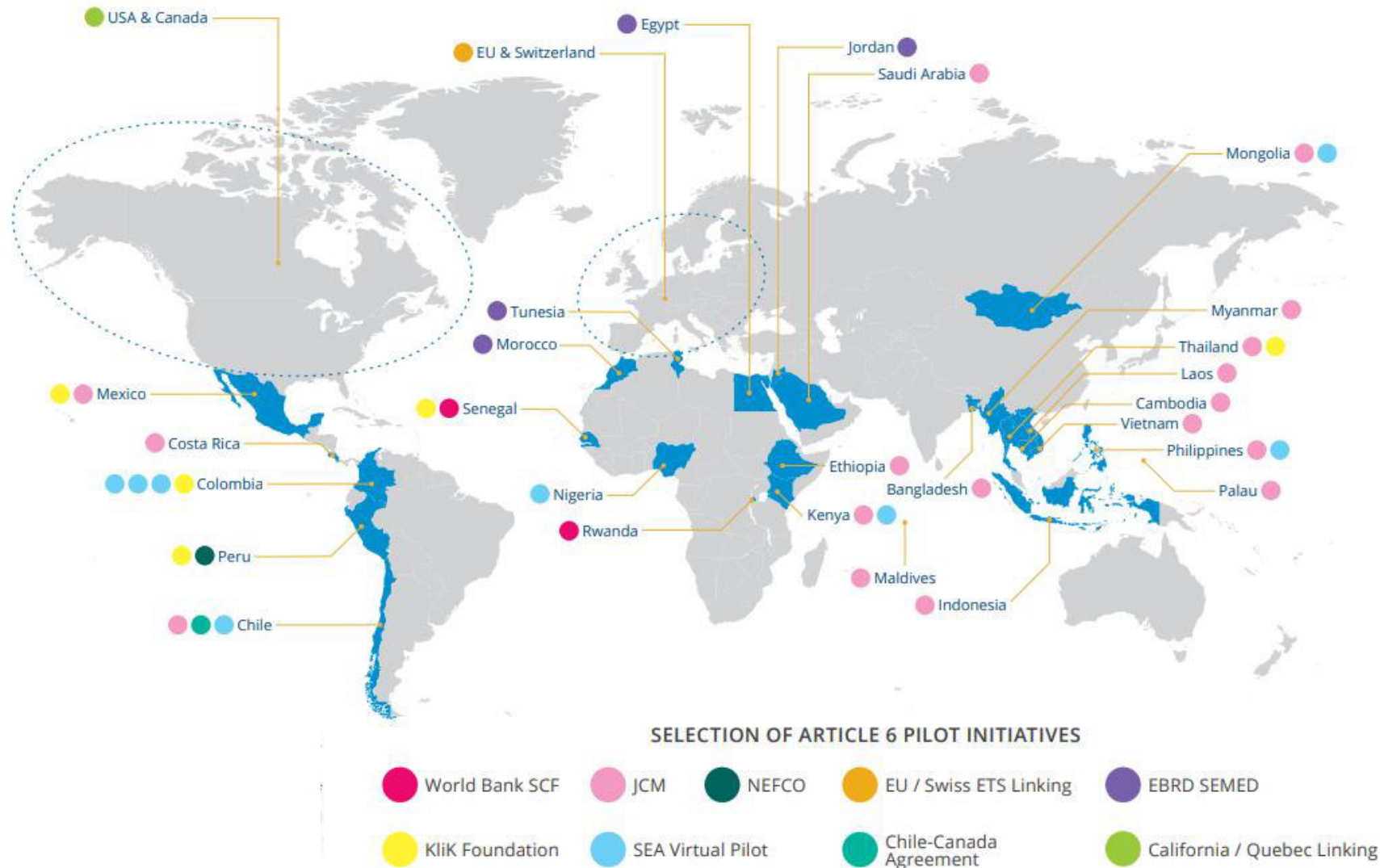


Figure 3: Indicative financial resources committed to Article 6 pilots (in Mio USD)

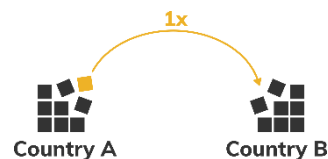
Article 6 pilot landscape



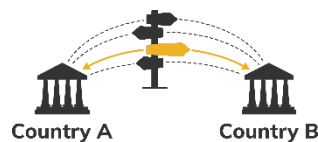
- Low-income countries and Africa relatively well represented
- KLIK tender May 2019: 12 of 31 proposals from Africa, 8 from Latin America



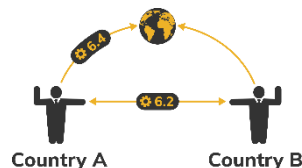
New challenges arising under Article 6.2/6.4?



Avoidance of double counting, reporting and accounting of ITMOs



Define cooperation approach



Increased role of governments



Sector oriented baselines



Overall mitigation in global emissions



Contribution to sustainable development goals

How do pilots respond to the changing context of carbon markets under the PA? Here are some selected observations:

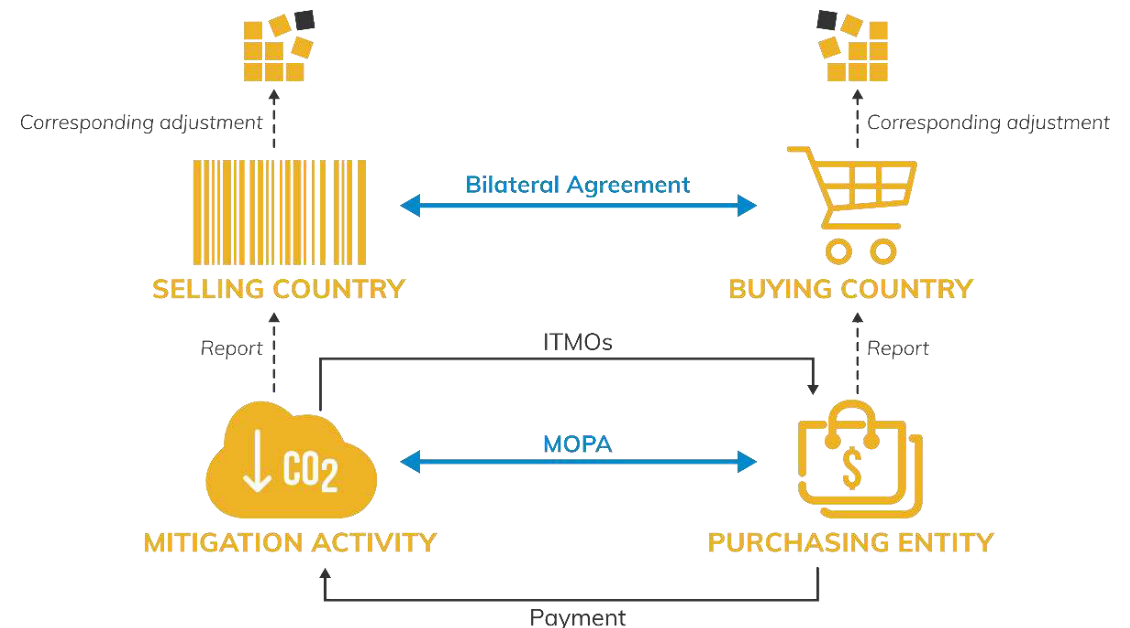
Observation #1:

Governments play an active role in the Article 6 pilot transactions

Role of governments

- Authorizing transfers (emission reductions are a national asset!)
- Reporting and accounting of ITMOs, performing corresponding adjustments (not yet started)
- Governments are part of the pilot transactions

Example: transaction structure based on KliK



Observation #2:

Pilots seek to define relationship with host country's NDC

Several approaches can be observed, e.g.

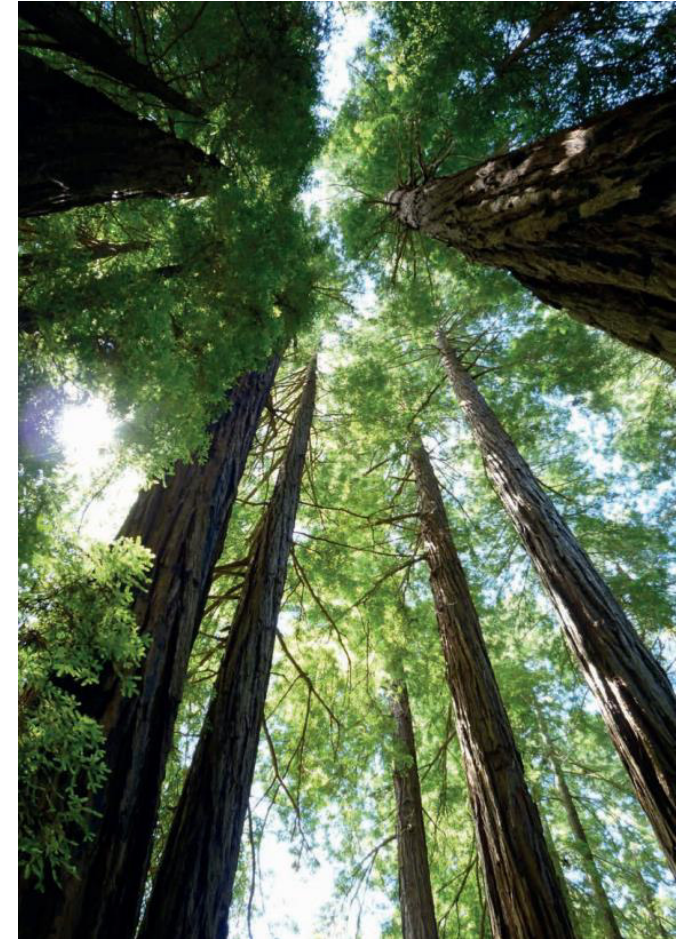
- Local committees to evaluate contribution of the activity to the sector and the country's overall climate targets (SCF, JCM)
- Transfers contractually linked to the achievement of NDC goals (Nefco-Peru, SEA virtual pilots)
- Sharing of mitigation outcome between buyer and seller (JCM)
- Only transactions inside NDC or beyond conditional pledges targeted



Observation #3:

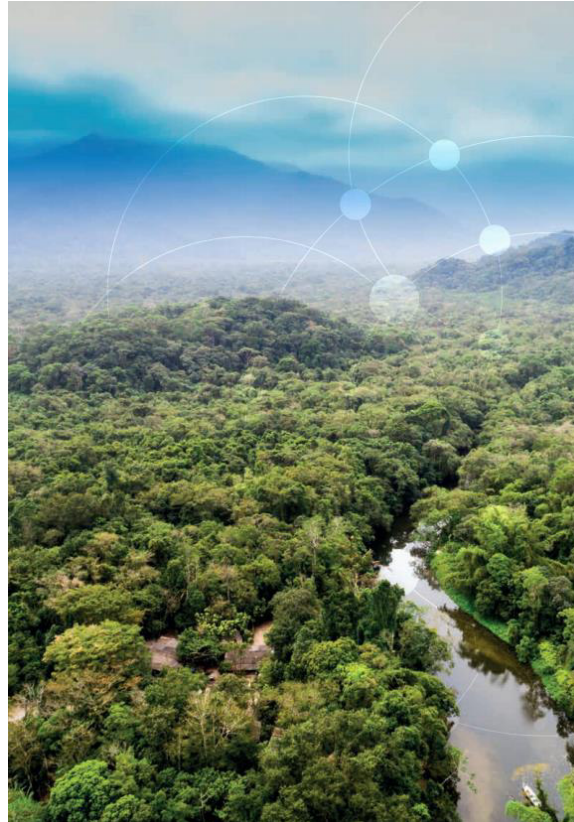
Baselines and additionality are being redefined

- CDM methodologies are starting point for most pilots
- Attempt to simplify their application (JCM, SCF)
- Move to sectoral baselines (TCAF, FCPF, Nefco-Peru)
- Some pilots take NDC targets as starting point and employ modelling to define a trajectory and crediting baseline (TCAF)



In a nutshell

- Pilots are seeking to raise to the challenge and anticipate Art 6 regulations
- Innovative solutions are being devised (baselines, contracting structures, registries)
- But: number of pilots too small for robust results
- Relationship with NDCs is the main challenge
- Accounting for ITMOs still at its infancy



Thank you!



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Download the study at:

www.climatefinanceinnovators.com



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We look forward to the discussion!

The recording of the presentation will be available on the CFI You Tube channel:

<https://www.youtube.com/channel/UC7bsd61VnnKMH5FSQanyhKQ>

The presentation slides will be available on the CFI website:

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