Ensuring additionality of mitigation outcomes transferred through Article 6 of the Paris Agreement

Options for negotiations and cooperating Parties in the context of varying degrees of international oversight

Background paper commissioned by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH on behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).

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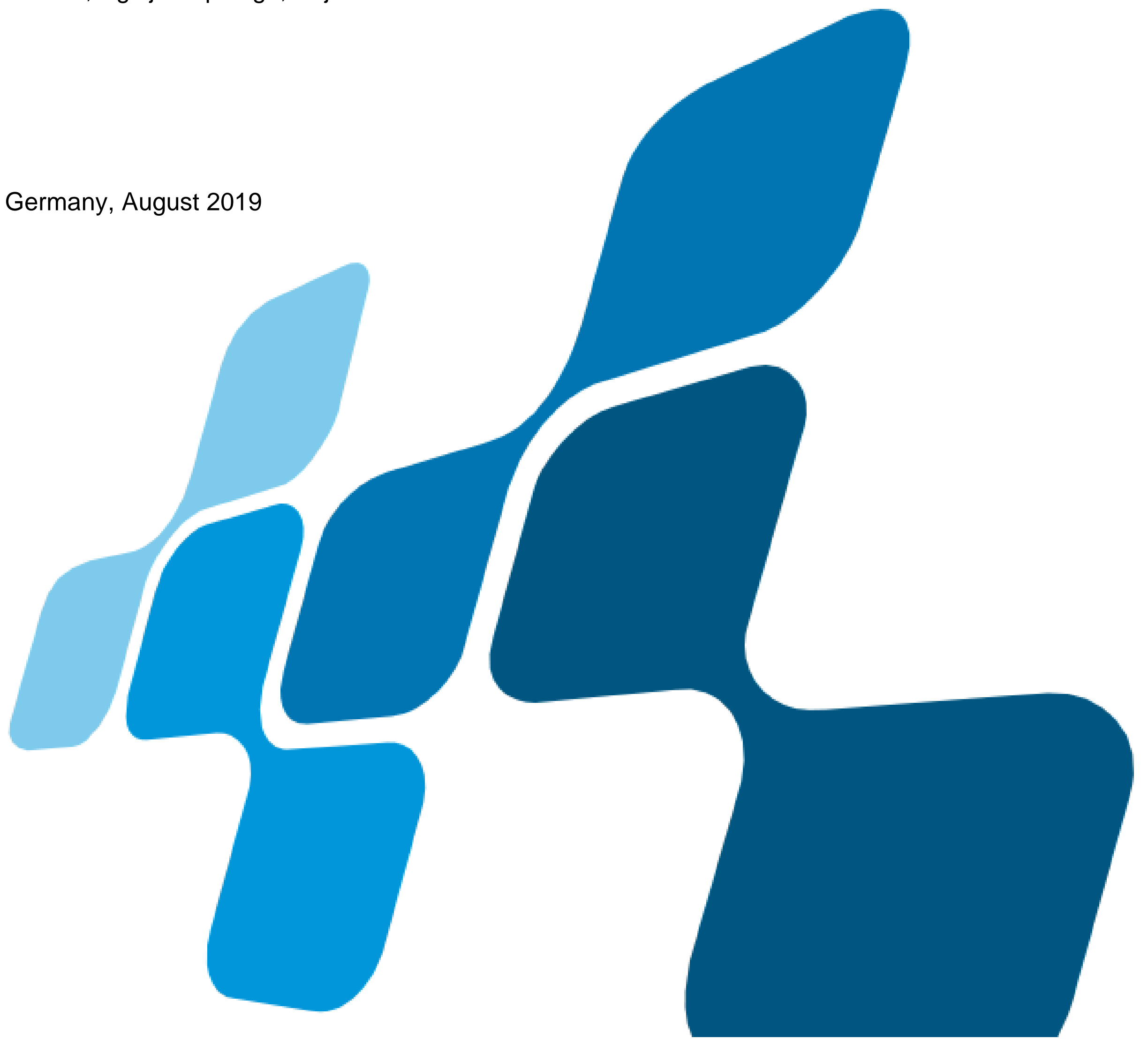
Freiburg, Germany, August 2019



On behalf of:

Federal Ministry
for the Environment, Nature Conservation
and Nuclear Safety

of the Federal Republic of Germany

Implemented by

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Impressum

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Date:	09 August 2019

This paper has been commissioned by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH on behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).

Disclaimer

The analysis, results and recommendations in this paper, funded by the Federal Ministry of the Environment, Nature Conservation and Nuclear Safety (BMU), represent the opinion of the authors and are neither necessarily representative of the position of the funder nor of the Gesellschaft für Internationale Zusammenarbeit (GIZ GmbH).

Acknowledgements

The authors wish to thank the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) and the Gesellschaft für Internationale Zusammenarbeit (GIZ) for their contribution in defining specific trends and topics of analysis and for sharing their insights and experiences. Needless to say, this does not imply that they endorse the analysis or recommendations included in the publication.

The authors want to thank Dennis Tänzler from adelphi and Igor Shishlov for their review and inputs to this paper.

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Editorial

On 4 November 2016, the Paris Agreement (PA) entered into force less than eleven months after its adoption in December 2015. The record speed with which countries ratified the agreement and met the double threshold of 55 Parties and 55% of global emissions is largely unprecedented in international policy in recent years. The approach of the PA, including its treatment of Nationally Determined Contributions (NDCs) and cooperative approaches among Parties under Article 6, is one that is fundamentally decentralised in nature. Its provisions set out parameters within which countries are to take climate action and ratchet up ambition over time, but are neither prescriptive of the actions those countries are to undertake nor the particular approaches to cooperation.

In relation to carbon markets, future guidance to be adopted by the Parties to the Agreement will have to consider the nexus of NDCs, accounting and the various mechanisms for implementing the voluntary cooperation that countries will engage in. It will need to cover in particular the avoidance of double counting, additionality issues of Art. 6 mechanisms and other issues that could jeopardise environmental integrity in the generation and transfer of mitigation outcomes, as well as ensuring transparency, good governance and the necessary institutional infrastructure. It will also need to consider the key role that carbon markets can have in enabling and encouraging greater mitigation ambition and in bringing about sectoral transformation. In particular the question of how overall ambition of the PA can be increased over time will become an increasingly important and contradictory topic.

This study aims at making a step toward a better understanding of the above mentioned issues covered by Art. 6. as well as an enhanced usage of its scope. It is supported by a grant from the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU). The analysis, results and recommendations in this paper represent the opinion of the authors and are not necessarily representative of the position of the BMU

Executive Summary

Under the current international climate policy regime, market mechanisms are to play a key role in helping countries to achieve their Nationally Determined Contributions (NDCs) and to support an increase of mitigation ambition over time. The principle of additionality in this context is crucial, as it requires that emission credits are only granted for mitigation activities that are not undertaken in a business-as-usual (BAU) situation. Additionality determination has been highly contested in the context of the Kyoto Mechanisms, especially under the CDM where selling countries did not have any emission targets. Under the Paris Agreement (PA), all countries have defined NDCs. At first glance, this seems to solve the additionality problem under international carbon market mechanisms, as any sale of a non-additional emission reduction credit means that a country would have to "make up" for this sale through emission reductions equivalent to the non-additional credits sold in order to reach its NDC. However, this argument no longer holds in the case the NDC target is less stringent than the BAU development of national emissions, with the NDC then creating "hot air". In that context, additionality testing is necessary.

A topic often confused with additionality and even using the same terminology in the COP 25 negotiation text is the issue which mitigation outcomes can be considered as "complementary" to or "going beyond" seller countries' own NDC commitments. This is important for countries wanting to be sure that they comply with their NDCs. Considering the PA's long-term target to reach net zero emissions, an even more stringent approach would be required where only those policy interventions are deemed additional that achieve an emissions reduction beyond a net-zero target compatible national emissions path, far below BAU. The negotiations on the Article 6 ruleset will therefore have to address three different concepts linked to the quality of the mitigation outcome to be transacted that should not be confounded:

1) The assurance that the mitigation outcome respects the principle of additionality.
2) The assurance that the transfer does not jeopardize NDC achievement of the host country
3) The assurance that the mitigation intervention goes beyond the emissions reduction required to be in line with the long-term PA target

The cooperative approaches under Article 6.2 and the Article 6.4 mechanism address the principle of additionality in a different manner. While it is included only implicitly as an objective under Article 6.2, it is formally defined as a criterion for Article 6.4. Given that the level of international oversight for Article 6.2 is likely to be rather limited, additionality requirements can only be brought into the reporting requirements and the international review process. Thus, negotiators should strive to achieve full transparency of the type of additionality determination undertaken, and task international reviewers under the technical expert review (TER) to identify non-additional transactions. This would allow buying countries to avoid acquisition of non-additional credits but cannot prevent "rogue" transactions between governments that do not care about international criticism. Seller countries can "signal" strong additionality by voluntarily applying stringent additionality testing.

Under Article 6.4, the Supervisory Body can define additionality tests. For projects and programmes, the investment test refined through many years of use under the CDM can be applied directly. For policy instruments and sectoral level activities, first the ambition of the NDC needs to be checked, preferably by the Supervisory Body. If the NDC target is more stringent than BAU, in the short term no dedicated policy additionality test would be required. In the long term, the additionality test could only be skipped if the policy achieves an emission reduction beyond a net zero compatible emissions path. Additionality testing of policies

would have to be differentiated according to policy instrument types and operate using payback periods for regulatory instruments, minimum carbon price thresholds for carbon pricing policies, and a proof of absence of overallocation for emissions trading systems.

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Abbreviations

A6.4ER	Article 6.4 Emission Reduction
A6TER	Article 6 Technical Expert Review
AIE	Accredited Independent Entity
BAT	Best available technology
BAU	Business-as-usual
CDM	Clean Development Mechanism
CDM EB	CDM Executive Board
COP	Conference of the Parties
DNA	Designated National Authority
DOE	Designated Operational Entity
ETS	Emission trading scheme
ITMO	Internationally transferred mitigation outcome
JI	Joint Implementation
KP	Kyoto Protocol
LDC	Least Developed Country
LEDs	Long-term low emissions development strategy
NDC	Nationally Determined Contribution
PA	Paris Agreement
SB	Meeting of the subsidiary bodies of the UNFCCC
SBSTA	Subsidiary Body for Scientific and Technological Advice
SIDS	Small Island Developing State
UNFCCC	United Nations Framework Convention on Climate Change

1. The importance of ensuring additionality for environmental integrity of international market mechanisms

Environmental integrity is a key requirement that applies to all approaches under Article 6 of the Paris Agreement (PA Art. 6.1). One key aspect of environmental integrity in the context of global market-based approaches is to ensure that credits are additional, i.e. that activities generating the credits would not have happened under "business as usual" (BAU). If NDC objectives were sufficiently ambitious (i.e. clearly below BAU and thus not generating "hot air") – there would be no need for additionality checking as the acceptance of non-additional activities would simply lead to the need to spend money to reduce emissions elsewhere. In such a situation, lacking additionality of specific activities would just be a waste of taxpayer resources and thus lead to economic inefficiency for selling countries rather than jeopardize environmental integrity[1]. However, in a current situation where many NDCs are not sufficiently ambitious and generate "hot air" it becomes crucial to ensure additionality (see Michaelowa et al. 2019; Michaelowa and Butzengeiger 2017). In principle, the concept of additionality requires that a credited activity would not have occurred in the absence of the revenue from the crediting of this activity. If non-additional credits were sold and used towards the mitigation obligation of another Party, this would lead to an overall increase in emissions. Despite this crucial role of additionality for global market approaches, the concept is not defined in a universally accepted manner. While different understandings and approaches for determining additionality were introduced under the market mechanisms of the Kyoto Protocol (KP), the context for additionality determination changes with the bottom-up nature of the PA, (re-)raising questions for additionality determination.

The objective of this paper is to analyze the implications of different interpretations of additionality for the market-mechanisms under Article 6 and options how to anchor further additionality provisions in the negotiation text. First, we describe the history of the additionality concept (section 1.1), followed by a section on the interpretation of additionality in the context of the PA (section 1.2). Based on the assessment of the current status of negotiations (section 1.3), the following chapters discuss options for anchoring additionality provisions in the guidance for cooperative approaches under Article 6.2 (chapter 2), as well as for the Article 6.4 baseline and credit mechanism (chapter 3).

Chapter 2 will present reflections on preserving the "bottom-up" or "country-driven" character of cooperative approaches while anchoring international oversight on additionality of the resulting mitigation outcomes (section 2.1). Options to introduce different degrees of oversight on additionality

[1] This was the case for JI projects in countries with a tight carbon budget under the Kyoto Protocol, such as France and Germany. In contrast, countries with non-binding emissions targets such as Russia and Ukraine could sell non-additional carbon credits without having to make up for this through reductions elsewhere. For a succinct explanation of the problem, see: Shishlov and Cochran (2015).

will be discussed first at an international level (section 2.2) and then with regard to safeguards that might be implemented by the cooperating Parties themselves (section 2.3).

In chapter 3, approaches for determining the additionality of activities will be presented (section 3.1), before discussing options for standardization of additionality testing (section 3.2). This chapter will also reflect on the role of the Supervisory Body for the Article 6.4 mechanism and host country responsibilities (section 3.3).

For both Article 6.2 and Article 6.4, options for including additionality provisions in the negotiation text are presented in Annex A. Finally, Chapter 4 gives an outlook on the upcoming negotiations on additionality and further work needed beyond the adoption of the rulebook which is complemented by a proposal for an international work programme on additionality presented in Annex B.

1.1. A short history of rules for additionality determination in the international climate policy regime

In the context of the Clean Development Mechanism (CDM) and Joint Implementation (JI), the market-based mechanisms of the KP, the understanding of additionality between the mechanisms varied slightly. This was due to the different implications of non-additional credits for each mechanism, given that under JI only countries with emission reduction targets were trading credits, whereas under the CDM host countries did not have an emission reduction target and thus did not have to mobilize emission reductions elsewhere for the volume of credits sold.

Under the CDM, additionality was determined on a project level and against a baseline scenario. In 2004, the CDM Executive Board (CDM EB) approved an Additionality Tool which includes different kinds of additionality tests (investment, regulatory, barrier and common practice tests) as well as combinations of these approaches. After being criticized for the lack of a standardized reporting framework which led to subjective outcomes of additionality testing, the additionality tool was revised and refined, the activities of project developers made more transparent and the CDM EB developed guidance on the assessment of investment analysis (CDM EB 2008). While this led to a decrease of the share of non-additional projects (Michaelowa 2009), stakeholders put pressure on regulators to reduce subjective elements of the analysis. At the same time, due to the price crash of CDM credits, there were attempts to reduce the complexity of additionality testing procedures. Under these influences, CDM additionality guidelines were simplified and standardized by the introduction, from 2011 onwards, of positive lists and technology diffusion rate thresholds. Furthermore, some micro-scale projects were automatically considered additional, in order to avoid an administrative burden for example for Least Developed Countries (LDCs).

Under the two tracks of JI, different rules applied for the determination of additionality: Under Track 1, determined by national rules and procedures of the participating countries with emission reduction targets, it was assumed that additionality was automatically ensured by the incentive for host countries to achieve emission reduction in an economically efficient way. Experience showed, however, that this

incentive only works when countries have stringent emission reduction targets. Countries with lenient targets can "launder" their exceeding emission allowances ("hot air") by approving non-additional JI projects, thereby imposing risks for environmental integrity (Kollmuss et al. 2015). Under Track 2 of JI, additionality could be demonstrated in either accordance with the criteria of an approved CDM methodology, or by providing transparent and traceable information on the conservativeness of the assumptions. Additionality could also be demonstrated by showing that a comparable project is likely to result in additional emission reductions by an Accredited Independent Entity (AIE).

1.2. Defining additionality in the context of the Paris Agreement

As different approaches to ensure the quality of mitigation outcomes in the context of Article 6 are often confused, we stress the need to differentiate between

a) the additionality of a mitigation outcome,

b) an assessment of the relationship between a mitigation outcome and the NDC of the host country,

c) and the compatibility of a mitigation activity with the PA target to achieve a net balance between emissions and sinks by the second half of the century.

Regarding a), the additionality of a mitigation outcome, with all Parties now committing to targets in different forms and time frames under their Nationally Determined Contributions (NDCs), the context for market-based approaches changes significantly compared to the world of the Kyoto Protocol. Some argue that the existence of NDCs makes any form of internationally supervised additionality testing obsolete, as countries have an incentive to only export additional mitigation outcomes not to jeopardize NDC achievement. However, this is only true if one assumes a perfect world in which all countries strive for ambition in climate action. Provided all NDCs had an emission reduction target below a BAU baseline, an Article 6 activity covered by the NDC could be deemed automatically additional to "anything that would otherwise occur". Not being BAU thus can be considered a first and important safeguard to environmental integrity. If a country would sell mitigation outcomes, it would need to reduce emissions elsewhere, as it was the case for JI in countries with stringent emission reduction targets under the KP. However, not all NDCs have such stringent baselines, thus creating a risk for 'hot air' comparable to the situation under Track 1 of JI. As it is unlikely to be agreeable that the stringency of nationally determined mitigation pledges may be assessed by an international body, additionality of Article 6 activities cannot be assessed solely with regard to the NDC of the host country, as this could jeopardize the environmental integrity of the international carbon market. Independent assessment of additionality can be of benefit for seller countries in interest of safeguarding NDC achievement, in particular given the interest of domestic stakeholders to "game" parameters in order to maximise carbon revenues that could be restricted if less carbon credits could be exported to investing countries. Furthermore, NDCs do not cover all sectors and emission sources. Mitigation outcomes achieved outside of the NDC could also be deemed "additional" to host country efforts, much like mitigation outcomes that are achieved in the context of "conditional" NDC targets. While going

beyond governmental pledges, the absence of more stringent additionality testing of investment and other barriers would establish a perverse incentive for host countries to keep their NDC targets low in ambition and to limit sectoral coverage of their NDC.

In short: we argue that the presence of NDCs does not shield the international market-based cooperation from the need to do additionality testing. But even if one does not take into account the risk of jeopardizing overall environmental integrity, independent, internationally supervised additionality determination will be beneficial for both exporting and acquiring Party:

- For the exporting Party, independent assessment of additionality can provide the assurance that it is investing the limited available funds in an activity that supports transition beyond its own efforts.
- For the acquiring Party, independent assessment of additionality can provide the assurance that is not running the risk of acquiring 'hot air' and thus is investing its (public) funds prudently.

Stating the fact that additionality assessment must go beyond setting NDC-equivalent baselines, a simple continuation of CDM methodologies is also not adequate in the context of the PA. While under the CDM mitigation policies were not taken into account for additionality determination[2], the NDCs are a framework for mitigation policies that cannot be ignored. This first raises the question on how to take these policies into account for additionality determination. Secondly, market approaches under Article 6 will likely allow for crediting of sectoral scale activities or of newly introduced mitigation policy instruments. In this regard, new tools and methods for determining additionality of these upscaled activities will need to be developed.

Regarding b), in order to assist Parties in achieving their NDCs and shield seller countries from the risk of overselling, international rules can be established to assess if a mitigation intervention and thereby resulting mitigation outcomes are going beyond the mitigation interventions necessary for the host Parties' NDC achievement. This is often referred to as being "additional to the NDC". However, in our view this creates confusion with the principle of additionality. In the following, we will use the term "exceeding NDC-related mitigation". This is a quality criterion of mitigation outcomes that proves that the cooperation is contributing to the overall ambition of climate action.

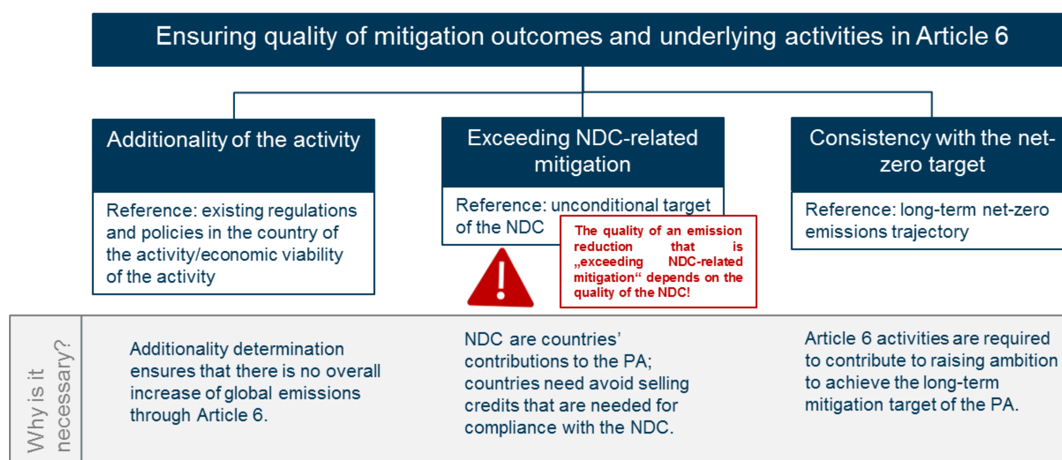
Regarding c), while under the CDM a BAU approach has been used for determining baseline scenarios, the PA includes a requirement for increasing ambition of NDCs over time with the objective to achieve

[2] To avoid a perverse incentive for host country governments not to implement mitigation policies in order to protect revenues from sales of emissions credits, the so-called "E+/E-" rules were adopted by the CDM EB. When assessing additionality and establishing baselines, policies that provide a comparative advantage to more emission-intensive technologies (E+) were only taken into account if their adoption predated the adoption of the Kyoto Protocol in 1997. Policies that provide a comparative advantage to less emission-intensive technologies (E-) were only taken into account if adopted prior to the adoption of the Marrakech Accords in 2001. The application of this rule however created loopholes for the stringency of additionality assessment that the CDM EB was never able to fully resolve (for a detailed discussion, see Shishlov and Bellassen 2012, p.22f.)

a balance of emissions and sinks by the second half of the century. Following a stringent interpretation of this provision of the PA, the criterion of additionality would only be met for activities that lead to emission reductions beyond a reasonable and independently defined long-term trajectory towards net zero emissions - at least for upscaled crediting approaches at a sectoral or policy level. This could be done in the context of host Party long-term low emission development strategies (LEDS) -if available-. For example, a new policy instrument aiming at Article 6 crediting would have to be assessed whether it would be likely to drive emissions to a level consistent with both the LEDS and a net zero trajectory. Only then the policy would be deemed additional. In the absence of country specific LEDS, region- and/or country-specific benchmark values for emission intensity of technologies consistent with a net zero trajectory or implicit carbon price thresholds could be applied that would get more stringent over time. For a purely illustrative example, in the first half of the 2020s, a policy might be deemed additional if it generates a carbon price exceeding 30 USD/t CO_2e while in the second half the threshold might increase to 50 USD.

The three issues are illustrated below

Figure 1: Quality criteria for mitigation activities under Article 6



Source: authors

1.3. Negotiations on additionality under Article 6 of the Paris Agreement and reflections in the current texts

Additionality was negotiated as part of the "Paris Agreement Rulebook" that should have been agreed at COP 24 in Katowice. Ultimately, negotiations failed to reach consensus among Parties and the adoption of guidelines, rules, modalities and procedures was deferred to COP 25 in December 2019. Although additionality determination and baseline setting were not the issues that caused the failure of negotiations, several groups of Parties expressed concern with the wording included in the final negotiation texts presented by the COP 24 Presidency. In consequence, both the first text published by SBSTA in the first week of COP 24 negotiations and the last iteration of the text prepared by the Presidency were retained as basis for the finalization of negotiations. At the 50th meeting of the subsidiary bodies (SB 50) in June 2019, Parties progressed by identifying key issues for further

discussion and addressed them in informal negotiations. This resulted in the adoption of three texts, for each sub-article (6.2, 6.4 and 6.8, respectively) that combined the two texts and added new proposals and wordings.

Additionality was raised as an issue of concern by several groups of Parties. In the negotiations on Article 6.4, the principle of additionality is enshrined in the PA text and therefore its operationalization is one of the central issues. Parties disagreed on whether to take into account mitigation policies beyond the NDC of the host country. While some Parties made proposals including more stringent provisions than stated in the consolidated text by the COP presidency, other Parties seek to define all activities outside of the NDC or included as conditional target as automatically additional. With regard to the additionality of activities under Article 6.2, additionality was not as prominently discussed. This is partly due to the fact that including any form of requirements on the underlying "quality" of mitigation activities is contested, so negotiations on including specific requirements for activities are usually held at a more generic level.

The question of unambitious NDC targets was not brought up explicitly in the negotiations, however the risks associated herewith could be avoided if the rule was to be established that additionality assessment must both take into account what would otherwise occur and the NDC targets.

In sum, many open questions relating to additionality in Article 6 are currently still wide open in the negotiations:

- The necessity to include specific requirements on additionality in the guidance on cooperative approaches (Article 6.2) and possibilities to ensure oversight on its assessment, through the reporting and review process or other modalities
- The definition of additionality in the rules, modalities and procedures for Article 6.4
- The responsibilities of host countries for additionality assessment in the context of the Article 6.4 mechanism
- The determination of additionality for activities outside of the scope of countries' NDC
- The re-assessment of additionality methodologies and of additionality of CDM activities in the transition of Kyoto mechanisms towards the Paris mechanisms, in case the definition of additionality changes.

1.4. Scope and objectives of the analysis

The objective of this paper is to reflect on implications of currently discussed concepts for additionality in the context of the Article 6 market-based approaches to cooperation and to analyze options to further include the concept in the finalization of the ruleset at COP 25. Furthermore, the paper seeks to provide an outlook beyond COP 25 to the work programme implemented by SBSTA and Article-6-institutions and bodies, such as the Supervisory Body of the Article 6.4 mechanism.

The paper is based on previous work of the authors with regard to additionality assessment in Article 6 (Michaelowa et al. 2019, Michaelowa and Butzengeiger 2017) and the ongoing academic debate on this topic (see for instance Schneider and La Hoz Theuer 2019). It expands the analysis through a specific link to the options currently discussed in negotiations and presented in the negotiation texts (SBSTA 2019a, b) and is informed by ongoing informal exchanges with negotiators, project developers and climate policy experts at the margins of the SB 50 in June 2019.

2. Additionality in cooperative approaches (Art. 6.2)

The simplest and safest way to safeguard Article 6 market-based cooperation from 'hot air' would be to exclude any country with non-ambitious NDCs from trading internationally transferred mitigation outcomes (ITMOs) and to refine the scope of activities to those covered by these ambitious targets. However, any form of international assessment of NDCs is highly unlikely to be agreeable in negotiations, especially where international oversight is limited as likely for cooperative approaches under Article 6.2. Furthermore, it would not resolve the host country risk of overselling of mitigation outcomes.

The possibilities to secure international oversight on additionality determination depend on the degree and modalities of international oversight on cooperative approaches as a whole (section 2.1). In this context the paper discusses options to secure additionality through the guidance itself (section 2.2), as well as within the cooperation of participating Parties (section 2.3).

2.1. Degree of international oversight

The design of additionality assessment is linked to the degree of international oversight. In this regard, cooperative approaches under Article 6.2, for which oversight is delegated to the participating Parties, differ substantially from the internationally governed Article 6.4 mechanism. It must also be noted, contrarily to the Article 6.4 mechanism, that additionality is only an implicit objective of Article 6.2 approaches contained in the requirement for environmental integrity.

As Article 6.2 refers to bilateral and multilateral cooperation, several negotiating Party groups oppose an internationally established organ to exercise oversight. Other Parties pushed for an "Article 6 body" to safeguard the mechanism. Currently, it seems that a feasible compromise could be the enhancement of reporting and transparency provisions, possibly linked to some compliance measures to be taken in presence of "systemic issues" that affect all Parties. In this context, a reporting and review process complementary and intertwined with the enhanced transparency framework is currently the governance cornerstone of the draft text for the international guidance (see SBSTA 2019a). Furthermore, transparency is to be ensured through an international database on Article 6 transactions. The process will likely comprise the submission of initial and regular reports by Parties that are assessed by a Technical Expert Review (A6TER) and fed into the database by the UNFCCC Secretariat.

In this context, the degree of international oversight on cooperative approaches, and therefore potentially for additionality (if introduced as a requirement) strongly depends on:

- The reporting requirements for both exporting and acquiring Party
- The scope of the review mandate given to the A6TER
- The operationalization of the international tracking infrastructure and the type of information that is recorded in the Article 6 database.

The challenge consists in striking a balance between the "bottom-up" nature of cooperative approaches, and ensuring environmental integrity as well as avoiding an overall increase in global emissions that would jeopardize reaching the targets of the PA.

2.2. Options to secure international oversight on additionality

The concept of additionality can be anchored in different ways in the international guidance that is currently elaborated by the Parties to the PA. A first entry point is the definition of ITMOs as "additional". This qualifier is pushed for in particular by the Alliance of Small Island States and the LDC group that demand that ITMOs shall be "real, measurable, verified, permanent and additional". Such a definition could be interpreted to introduce a reporting requirement for Parties on their respect of this principle. Potentially, such a definition could also entail a review of the requirements by the A6TER and thus ensure that concerns regarding additionality of certain ITMOs are made public.

Secondly, requirements on transparency on additionality of mitigation outcomes can directly be enshrined in the reporting and review process. Most strongly, if additionality is not explicitly included in the definition of ITMOs, additionality reporting can be included as a reporting requirement in the guidelines. The draft guidelines that serve as a basis for negotiations at COP 25 already set out the requirement for participating countries to report on the environmental integrity of their engagement in cooperative approaches, particularly on:

"[…] the quality of mitigation outcomes, including through stringent reference levels, baselines set in a conservative way and below 'business-as-usual' emission projections (including by taking into account all existing policies and addressing potential leakage)" (SBSTA 2019a).

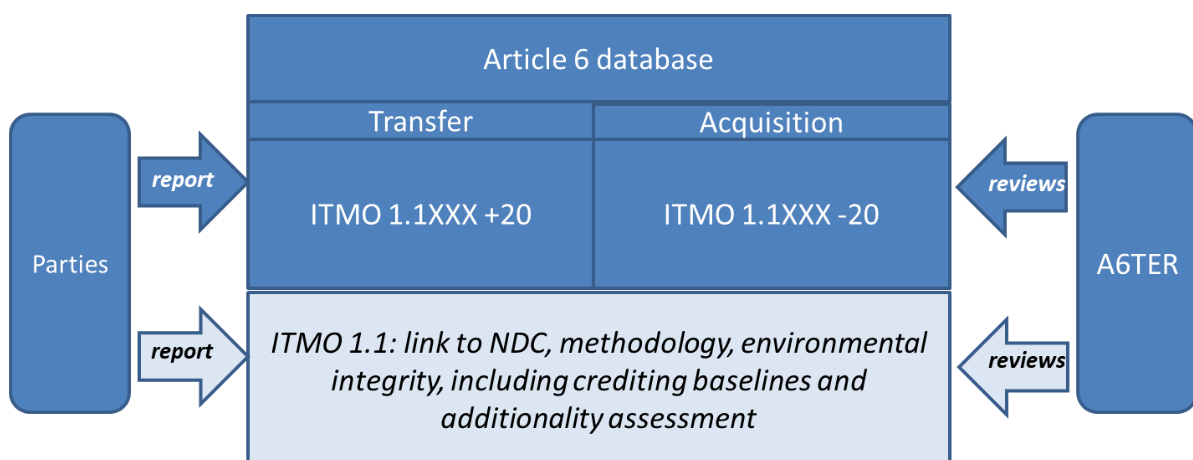
Given the fact that additionality is a key requirement to ensure environmental integrity, this provision can be operationalized to also include the need to assess the additionality of the mitigation activity against "stringent reference levels" and taking into account existing policies. However, such an interpretation could only be secured if more specific wording was to be introduced. Another option would be to operationalize this in reporting templates, however, their use would be unlikely to be mandatory if it is no specific provision in the guidelines.

A complementary option for including additionality provisions in the reporting requirements consists of anchoring the concept in the mandate of the A6TER. For this, the central question is whether the

mandate will be limited to reviewing the correctness of reported quantitative information on transfer. In case the A6TER would be mandated to review qualitative information on the cooperative approaches, this would encompass reporting on additionality of action. However, the devil would be in the detail. Further work would be needed to ensure the A6TER has the necessary tools and guidelines to effectively assess additionality in different contexts and for different types of mitigation interventions. In particular, for upscaled crediting approaches this could be a costly and time-consuming process. For linkages of emission trading schemes (ETS), however, the stringency of the emissions cap could be a very simple criterion of assessment of environmental integrity.

As an A6TER review that flags concerns with additionality or other aspects of environmental integrity is unlikely to be linked to any form of country-specific compliance procedures, additionality of Art. 6.2 transactions can only be enhanced at an international level through increased transparency that flags transfers of non-additional ITMOs and allows civil society to put pressure on the participating governments. While it would not be able to prevent non-additional ITMOs from ‘contaminating’ international carbon trading, a tagging of underlying reports and review reports to specific ITMOs in the international Article 6 database would allow observers to identify “black sheep” and publicly label them as non-additional. This is of particular relevance in the context of secondary trading of ITMOs. We would like to stress that a bad reputation of only a subset of ITMOs could erode the trust in the integrity of the whole system of international carbon markets.

Figure 2: Reporting, reviewing and tracking of information on additionality



Source: authors

The weakest option for ensuring additionality beyond the guidance for Article 6.2 is to agree on voluntary guidelines on additionality assessment. For instance, Parties could mandate SBSTA and/or the Article 6.4 Supervisory Body to develop further guidance based on lessons learned under the Article 6.4 mechanism and to consider these lessons in the next revision and update of the Article 6.2 guidance, currently planned for 2024.

2.3. Options for cooperating Parties to secure additionality of action in a situation of lacking international oversight

As explained in section 1.2, Parties cooperating under Article 6 that have ambitious domestic climate policies and strategies have an intrinsic motivation to ensure additionality of mitigation outcomes to be exported or to be acquired. In case of secondary trading on the international carbon market, such Parties would have an interest in transparency on the underlying mitigation interventions that lead to the creation of certain ITMOs. Seller countries with ambitious NDC targets have an interest in simple but convincing means for additionality assessment identifying action that is in line with the long-term target of the PA and signaling to potential buyers that their approach is stringent. Depending on the type of mitigation intervention, this requires carbon pricing / technology-specific emissions intensity benchmarks or the compatibility with net-zero emission pathways as discussed in section 1.2 above.

For ambitious acquiring countries, a key priority in Article 6.2 transactions is to ensure the quality of ITMOs they are acquiring. First and foremost, governments are accountable for their spending of public funds. Subsidies for non-additional mitigation outcomes could easily attract heavy criticism. Past experiences have shown that NGOs and civil society organizations monitor international carbon markets and call out activities with insufficient standards. At worst, this could lead to ambitious Parties refraining from entering into cooperative approaches. Experience has also shown that lost trust in the integrity of carbon markets is difficult to restore, even if reform efforts are undertaken. While the quality of ITMOs can cover a broader range of aspects, such as raising ambition and social integrity, environmental integrity and additionality are a key feature of a 'good quality' ITMO. Thus, additionality can be strengthened by more extensive requirements of acquiring Parties when entering transfer agreements under Article 6.2, applying dedicated additionality tests differentiated according to the scale of the intervention generating the credits. Acquiring Parties can join so-called 'buyer's clubs', i.e. associations of buyers who set more far-reaching standards for ITMOs then enshrined in the guidance for Article 6.2.

In addition to safeguarding additionality, ambitious seller countries have an interest in ensuring that transferred ITMOs are exceeding NDC-related mitigation requirements. Depending on the type of mitigation intervention, this requires translating NDC –possible economy-wide- targets into sectoral or even project-specific baselines. However, macro-level outcomes are not easily broken down to intervention level effects, probably resulting in highly conservative baselines or baselines that require frequent updates (so-called dynamic baselines).

Alternatively, selling countries could decide only to export ITMOs at the end of the NDC implementation period, when it becomes clear if the NDC can be achieved. However, this could be challenging to accept for the investing partner country that relies on these exports to achieve its own NDC. Possible, the cooperating Parties already entered transfer agreements and the investing country already disbursed funds for the implementation of additional mitigation outcomes.

Parties could decide to develop methodologies to assess the relationship between mitigation outcomes and NDC targets. This would then result in a two-stage process:

1. The seller country would determine which mitigation interventions and/or the share of mitigation outcomes from specific interventions exceed NDC-related mitigation requirements.
2. The set of authorized mitigation interventions would be subject to additionality assessment prior to the transfer of ITMOs

2.4. The "black zone" - if cooperating Parties do not care about additionality

Unfortunately, under the PA the emergence of rogue buyers and sellers is likely. A buyer country that just cares about reaching its NDC formally, but not willing to allocate sufficient resources will be happy to acquire non-additional ITMOs at a low price. This might be the case for large emerging economies with non-democratic governance systems but some interest not to be seen as completely rogue actors. A seller who has set an unambitious NDC target has an interest to find a buyer even if the price is low – given that he will get a revenue for a commodity whose creation has not cost anything..

The bottom-up PA system does not provide the tools to fully prevent emergence of such behavior. Especially under Art. 6.2, "naming and shaming" will have its limits. The million-dollar question is whether this "black zone" can be limited to a volume of transactions that is insignificant compared to the global total. Therefore, we argue it is necessary to establish references to additionality in the guidance on Article 6.2 in the manner discussed summarized below:

Box 1: Anchoring additionality provisions in the guidance on Article 6.2

Options to anchor additionality under the cooperative approaches of Article 6.2 *Key Messages*
Risks: • Unambitious NDC targets can lead to trading of "hot air" credits. • While transparency on the generation and accounting of ITMOs is a crucial precondition for environmental integrity, it does not guarantee additionality. • Absence of or rather limited international oversight facilitates transactions of non-additional credits, especially in the case of participating countries that do not care strongly about their international reputation
Options to ensure ITMOs exceed NDC-related mitigation requirements
• Translate NDC targets in sectoral or project-based baselines for additionality assessment • Export ITMOs after the NDC has been achieved, i.e. only at the end of the NDC implementation period.

Options to ensure additionality through international oversight	Options for participating countries to ensure additionality
• Assessment of NDCs and exclusion of NDCs with "hot air"-risk from Article 6.2 approaches. • Agree on a qualitative definition of ITMOs as "additional". • Introduce wording explicitly referring to additionality in the reporting and review guidance. • Include additionality in the mandate of A6TER and develop tools and guidance for expert reviewers on additionality assessment in the context of Article 6.2. • Develop voluntary guidelines on additionality assessment beyond the reporting and review cycle.	Selling countries: • Apply stringent additionality tests to project and program-based activities • Apply stringent carbon pricing thresholds for credited policy instruments • Calculate net-zero emissions compatible emissions paths that policy instruments need to be compatible with if deemed additional Acquiring countries: • Control quality of acquired ITMOs and apply specific additionality requirements depending on the scale of the activity.

3. Additionality under the Article 6.4 mechanism

The determination of additionality for activities under the Article 6.4 mechanism can draw on experience and developments from the CDM. However, the changes under the PA framework (as described in section 1.3) introduce new challenges for additionality determination. Options to adapt additionality assessment to the PA context are discussed in section 3.1. Section 3.2 addresses the pitfalls and benefits of standardizing additionality assessment and section 3.3 finally discusses implications of additionality assessment for the responsibilities of the Supervisory Body and the host countries, depending on different possible governance modalities for the Article 6.4 mechanism.

3.1. Options to determine additionality of Article 6.4 activities

The guidance on additionality of Article 6.4 activities is likely to refer to both additionality to "any activities that would otherwise occur" as well as the necessity that mitigation exceeds NDC-related mitigation requirements. Furthermore, some negotiating groups push for the consideration of all policies and regulations in additionality assessment, beyond those included in the NDC.

For project- and programme-based activities under Article 6.4, additionality testing can draw on extensive experience from additionality testing under the CDM. These additionality tests provide options for determining additionality of Art. 6.4 activities: In an investment additionality test, the (project)

activity needs to prove that it is less profitable than a realistic alternative. In the early years of the CDM, also a so-called barrier test was used that assessed whether any prohibitive non-monetary barriers existed that prevented implementation of the activity and that would be overcome by the CDM. This test however suffered from perceived subjectivity how to define the prohibitive nature of the barriers and thus fell out of use. Thus, under Article 6.4 the investment test in its most recent form under the CDM should be applied.

In contrast to project or programmatic approaches, additionality testing for the crediting of policy instruments or sectoral mitigation approaches is much less developed, given that the CDM did not allow such crediting. Michaelowa et al. (2019) provide recommendations regarding such additionality testing, differentiated according to the type of policy instrument. For regulatory policies such as efficiency standards, they suggest applying a pay-back period threshold regarding the mandated technology that should be around 3-5 years. For carbon pricing policies, they propose the use of a minimum carbon price level threshold for the policy to qualify as additional, whereas for emissions trading schemes an absence of over-allocation would have to be proven. They also suggest to differentiate such thresholds according to country categories and to increase them over time.

When could such policy additionality assessments be skipped? Following the discussion in section 1, this would be possible in the short term if the NDC target is proven to be more stringent than BAU. In this case, it would be sufficient to ensure that mitigation exceeds the NDC targets to ensure the quality of A6.4ERs. The consistency with a net zero emissions path would of course not be guaranteed by such an approach.

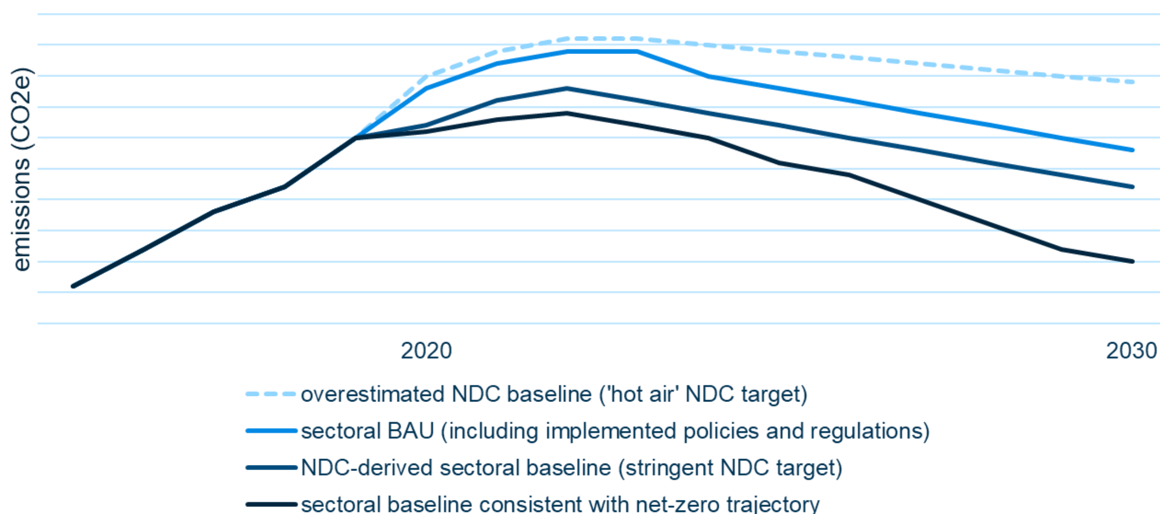
3.1.1. Baseline setting in order to prevent the “hot air” risk

In order to address the “hot air” risk described above, ideally the Supervisory Body would check whether an NDC of an Art. 6.4 activity host country is ambitious. If such a check is not possible due to sovereignty concerns, rules on national level baseline determination are necessary. In order to prevent an unplanned emergence of hot air, like the one happening in the EU after the economic and financial crisis of 2008, dynamic sectoral or economy-wide baselines should be applied where the core parameters such as energy prices or GDP values that enter the calculation are updated frequently.

These baselines could be developed according to a standardized methodology or directly by the Supervisory Body itself. This would limit the burden on the host countries, as these complex baseline constructions are resource intensive and would also ensure that the calculation of the baseline is not biased through politically determined parameters (for instance, overstating or understating GDP growth, depending on the political context). In the current negotiation text, there is the option to mandate the Supervisory Body to establish standardized baselines for countries at the highest level of aggregation possible which principally would allow the establishment of dynamic country-level baselines.

The current draft rules, modalities and procedures include the wording that Article 6.4 activities should be "additional" or "complementary" to the NDCs of host countries, what we here refer to as "exceeding NDC-related mitigation" in order to avoid confusion with the principle of additionality of the activity. This principle- while being an important safeguard for ambition- does not address the 'hot air' risk of the underlying NDC.

Figure 3: Possible baselines to assess whether a sectoral activity needs a separate additionality determination



Source: authors

The difference between the blue dashes and the light blue line would fulfil the wording of the negotiation text, but still lead to "hot air" being credited unless a distinct additionality test for the specific policy instrument is undertaken. Such a test could be skipped in the short term if the NDC is below the light blue line. In the long term, only if the policy instrument manages to reduce emissions below the black line consistent with the long-term target of the PA the additionality test could be skipped; and the credit volume would be calculated as the differential between the black line and the emissions level post policy implementation.

3.2. Options to standardize additionality testing

Standardizing additionality determination can lower transaction costs and increase comparability. It was pursued under the CDM and is likely to continue to play a role for the implementation of the Article 6.4 mechanism. However, standardization also brings risks, in particular if the parameters are not revised regularly. In the following, options for standardized additionality determination will be presented and discussed with regard to the risks and options for addressing them.

Standardized activity parameters have been utilized in the CDM since COP 16. For project activities these standard parameters replace actual project data and thus reduce the data collection efforts for

additionality determination. Under the CDM two kinds of approaches exist to develop standardized parameters: bottom-up approaches, in which stakeholders estimate default values for parameters such as hurdle rates for the internal rate of return that could be applied for different projects in the same country or regional context. In contrast, top-down standards are developed by the UNFCCC Secretariat as support structure for the CDM EB that are applicable for a specific type of activity. These could be positive lists for activities that are automatically deemed additional. Also, the Supervisory Body could make use of benchmarks such as emission intensity or technology diffusion rates below which activities would be automatically deemed additional. These would need to be derived from some sort of economic modelling. Such benchmarks currently have been only used for a small subset of sectors and technologies, and never for policy instruments. It is probably impossible to develop globally applicable benchmarks that would not lead to perverse effects for certain activities in certain countries (Fuessler et al. 2019). Thus, the Supervisory Body should be tasked to check for which activities which level of aggregation of benchmarks would be appropriate. Such a dual approach to standardization could be retained for the Article 6.4 mechanism.

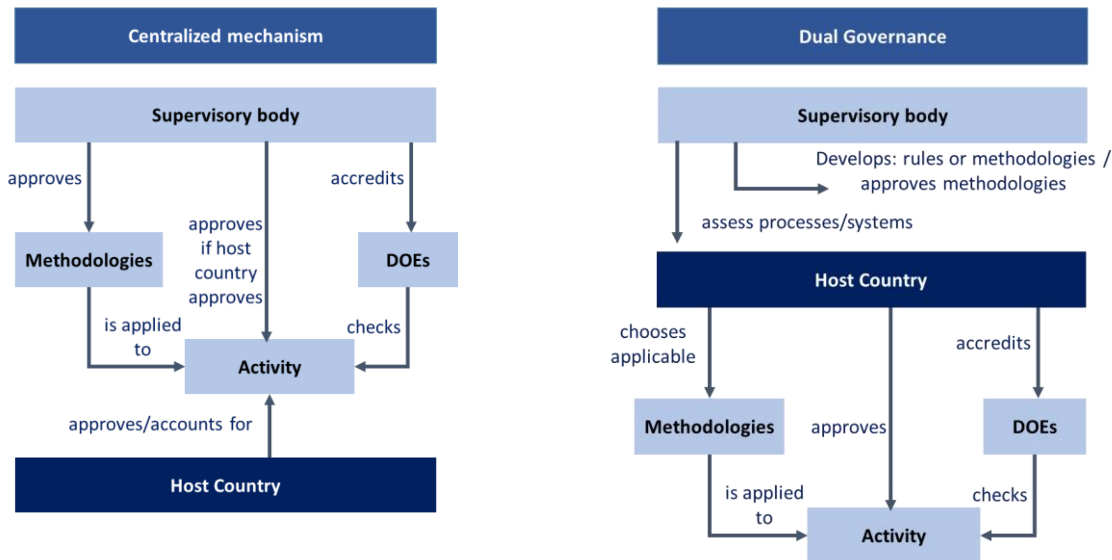
Any form of standardization of parameters needs to be either highly conservative or adapted regularly (for instance every 2-3 years) to account for regional and global economic or technological shifts. For instance, under the CDM, some positive lists got “sticky” over time and their non-revision led to the crediting of non-additional renewable energy projects, after costs for the deployment of renewable energy had fallen substantially.

3.3. Supervisory Body and host country responsibilities

Up to now, there is no agreement on the role and position of the Supervisory Body in the governance of the Article 6.4 mechanism. There is the option to pursue the centralized governance model, in which the Supervisory Body – much like the CDM Executive Board - has a central role in approving activities under the Article 6.4 mechanism and defining additionality tests and accredits Designated Operational Entities (DOEs). Here, the host country would be mainly responsible to approve activities, communicate how these relate to the NDC and state how they promote sustainable development. Possibly, the host country would separately also authorize transfer of A6.4ERs outside of the country.

Some negotiating groups and Parties prefer to give the host country a stronger role and therefore propose a more decentralized governance model, with less Supervisory Body responsibilities.

Figure 4: Centralized vs. decentralized governance approaches for the A6.4mechanism



Source: authors

The choice of a decentralized vs. a centralized governance model has implications for additionality determination. In a decentralized model, a significant responsibility for determining which activities are eligible under Article 6.4 and which criteria and additionality tests apply would lie with the host country. While such an approach would possibly strengthen host country ownership in the design of the mitigation activity, it will also place significant burden on the administration of the host country and lead to the risk of emergence of rogue players like discussed above in the context of Article 6.2. It is not certain whether all countries have the necessary capacities to participate in such a mechanism. Furthermore, there is a significant risk for gaming of tests and parameters, particularly in the absence of compliance safeguards.

A centralized governance model, in which additionality rules are defined by the Supervisory Body would avoid these risks. However, the maintenance of the Supervisory Body is costly, in particular if this body is tasked with developing and regularly updating standardized additionality tests to reduce transaction costs for developing countries. This would require a higher administrative share of proceeds. In the absence of a seller's market, meaning if prices for carbon credits remain as low as currently the case, this would increase the burden on project developers and raise transaction costs in particular for developing countries that are expected to primarily engage with the Article 6.4 mechanism.

Ensuring a stringent additionality of credits is crucial when credits are traded on the international level. There is the option to reserve credits under the Article 6.4 mechanism for usage for domestic purposes. In this approach, countries would only register an activity under Article 6.4 and not authorize the credit transfer. Market participants from within the country, e.g. from the private sector could then buy these credits. For such domestically traded credits, additionality would not really be relevant. If countries sold credits designated for domestic trade internationally, e.g. if they foreseeably overachieve their NDC, the risk for additionality would remain. In this case a retrospective additionality determination would need to be ensured.

Box 2: Options to ensure additionality of Article 6.4 activities

<table>
<tr><th colspan="2">Options to anchor additionality under the mechanism under Article 6.4

Key Messages</th></tr>
<tr><td colspan="2">Risks:
Unambitious NDC targets can lead to trading of “hot air” credits.
The negotiation text constrains regulators (Supervisory Body) in applying sufficiently stringent additionality tests.
Allocating regulatory tasks to host countries increases the risk of insufficiently stringent additionality tests
Additionality testing of activities cannot be replaced by specifying how the baseline will be set against the NDC, as otherwise quality of the A6.4ERs would be jeopardized
Approaches for standardization of additionality testing parameters such as positive lists bear the risk of creating loopholes for non-additional activities, especially if not updated frequently.</td></tr>
<tr><td colspan="2">Options to ensure A6.4ERs exceed NDC-related mitigation requirements</td></tr>
<tr><td colspan="2">Translate NDC targets into sectoral or project-based baselines for additionality assessment, while regularly updating the core parameters of the baseline calculation</td></tr>
<tr><td>Options to ensure additionality through appropriate methodologies and baselines</td><td>Options to ensure additionality in the governance of the mechanism</td></tr>
<tr><td><u>For project-/programme based activities</u>:
Ensure continuity of the investment test from the CDM.
Apply conservative assumptions for standardized investment parameters or update such parameters frequently.
<u>For activities on sectoral/policy-instrument level</u>:
Develop differentiated additionality tests according to policy instrument. These tests can be skipped if the host country accepts that the Supervisory Board tests and confirms that the NDC does not contain “hot air”</td><td>Mandate the A6.4SB to establish dynamic baselines.
Maintain a centralized governance model for the Article 6.4 mechanism in order to avoid overly burdening the host country.
In a decentralized governance model, ensure the capacities of host countries to assume the responsibilities and introduce safeguards against the gaming of parameters.
Ensure that the additionality of activities designated for domestic purposes is assessed if they are transferred</td></tr>
</table>

○ Payback period threshold test for regulation ○ Minimum carbon price threshold for carbon pricing ○ Test for absence of overallocation for emissions trading schemes • Develop a standardized methodology for additionality assessment.	international (i.e. when the NDC target is overachieved).

4. Outlook for international discussion on additionality

At COP 25, the rulebook for Article 6 is expected to be adopted by the CMA. This would be crucial to ensure that market-based cooperation is properly safeguarded from integrity risks to contribute to the implementation of the PA and mobilize the private sector at scale. Additionality is unlikely to be – ultimately- the key stumbling block of negotiations, as it is overshadowed by more contentious issues such as the accounting for international trade of mitigation outcomes through “corresponding adjustments”. However, as detailed in this paper, it is a key feature to ensure environmental integrity and trust of acquiring Parties in the market. Therefore, at least anchors to the concept should be established in both the Article 6.2 guidance for cooperative approaches and the rules, modalities and procedures of the Article 6.4 mechanism. In order to ensure stringency in additionality determination, it would be ideal to include specific additionality requirements, as well as strong governance elements under both. For the former, etailed rules and methodologies can then be developed through an international work programme and lessons learned can feed back into the international rule setting process under the CMA. Introducing an explicit reference to additionality in the Article 6.2 guidance would enable checks by the Technical Expert Review, and also provide a basis for the formation of “acquisition clubs” of “highly additional ITMOs”. Under Article 6.4, the supervisory body should be tasked with elaborating rules for the need for additionality determination on the basis of NDC ambition assessment. It should specify tools for additionality determination for sectoral and policy instrument-based activities in line with the long-term target of the PA.

Ambitious Parties can assume an important leadership role for anchoring strong additionality rules, by prioritizing the concept in the negotiations and assuring that the additionality concept is clearly separated from other elements referring to the quality of credits under Article 6 such as complementarity to activities under the NDC or baseline stringency. A precondition for a credible approach regarding additionality is that Parties engaged in Article 6 piloting apply stringent additionality tests. Ideally, all Article 6 pilot developers would jointly declare that they are looking only for “highly ambitious ITMOs” and publish joint additionality test, differentiated according to activity types.

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SBSTA (2019b): Draft text on SBSTA 50 agenda item 11(b)- Matters relating to Article 6 of the Paris Agreement: Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement. Version 2 of 26 June 15:30 hrs (edited)

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Annex A: Options for the negotiation text

A.1 Guidance on cooperative approaches (Article 6.2)

Current wording in the draft negotiation text	Language imposing guidance on additionality of ITMOs	Language establishing international reporting/review of additionality	Language safeguarding environmental integrity risks
Decision text			
4. [*Requests* the SBSTA to undertake the following work, on the basis of the annex, to develop a draft decision on the [remaining] guidance on cooperative approaches referred to in Article 6, paragraph 2, for consideration and adoption by the CMA at its third session, as an integral part of the guidance: (e) Further elaboration of the information to be reported by participating Parties, as referred to in the annex, section VII (Reporting), including the agreed tabular format referred to in annex, section VII (Reporting) and the agreed electronic format referred to in section IX (Recording of corresponding adjustments); (f) Elaboration of guidance for the Article 6 technical expert review;	NA	(f) Elaboration of guidance for the Article 6 technical expert review; *including on the assessment of key principles for environmental integrity such as baseline setting approaches, additionality determination and avoidance of double counting*	NA

Current wording in the draft negotiation text	Language imposing guidance on additionality of ITMOs	Language establishing international reporting/review of additionality	Language safeguarding environmental integrity risks
Guidance (annex to the decision)			
1. The following definitions apply to this guidance: (a) "Internationally transferred mitigation outcomes ("ITMOs")" are [to]: (i) [Be] [real] [verified] [additional] [and permanent] [and has a system to [ensure][address] permanence, including addressing reversals]{based on text from 8 December SBSTA text, paragraph 28(h)(iv);	NA	NA	1. *The following definitions apply to this guidance:* *(a) "Internationally transferred mitigation outcomes ("ITMOs")" are:* *(i) Mitigation outcomes that are proven to be real, verified and additional*
38. For each NDC communicated or updated, each participating Party shall, [at the outset of the NDC implementation period][prior to or at the time of first transfer or acquisition of ITMOs[, including units from the mechanism established in Article 6, paragraph 4]], submit an initial report containing comprehensive information to: […]	38. For each NDC communicated or updated, each participating Parties shall, *at the outset of the NDC implementation period*, submit an initial report containing comprehensive information to: (x) Communicate which type of activities it considers to be exceeding mitigation required to achieve its NDC targets and to be additional to a business-as-usual scenario including implemented policies and regulations.	(f) The initial report shall also include the information *in relation to each cooperative approach* referred to *in paragraphs B.39, B.40, B.41 and B.42* below, as applicable.	Already addressed by options presented on the left

Current wording in the draft negotiation text	Language imposing guidance on additionality of ITMOs	Language establishing international reporting/review of additionality	Language safeguarding environmental integrity risks
(f) The initial report shall also include the information [[in relation to each cooperative approach] [that participating Parties intend to participate in] referred to in paragraphs B.39[, [B.40], B.41 [and B.42] below, as applicable. *{Some Parties identified a need for refinement through incorporating elements from regular reporting}*	Parties shall provide information on the methodologies employed to determine the mitigation outcomes necessary for NDC achievement and to assess additionality of the mitigation outcomes.		
40. Each participating Party shall also submit[, as part of its biennial transparency reports pursuant to decision 18/CMA.1] the following [qualitative] information in relation to how the cooperative approaches in which it participates: (a) Support(s) the mitigation of greenhouse gas emissions and the implementation of its NDC; (b) Ensure environmental integrity, such that there is no increase in global emissions, through robust, transparent governance and the quality of mitigation outcomes, including through stringent reference levels, baselines set in a	(b) Ensure environmental integrity, such that there is no increase in global emissions, through robust, transparent governance and the quality of mitigation outcomes, including through stringent reference levels, baselines set in a conservative way and below 'business-as-usual' emission projections (including by taking into account all existing policies and addressing potential leakage) for *both additionality determination and crediting of mitigation outcomes* and ensuring the compensation of any material reversals;	Already addressed by option presented on the left	Already addressed by option presented on the left

Current wording in the draft negotiation text	Language imposing guidance on additionality of ITMOs	Language establishing international reporting/review of additionality	Language safeguarding environmental integrity risks
conservative way and below 'business-as-usual' emission projections (including by taking into account all existing policies and addressing potential leakage) and ensuring the compensation of any material reversals;			
44. The Article 6 technical expert review pursuant to section II (Governance) shall review the information contained in the initial report of the Party pursuant to section VII.A (Initial report) for consistency with this guidance.	NA	44. The Article 6 technical expert review pursuant to section II (Governance) shall review the information *and methodological approaches* contained in the initial report of the Party pursuant to section VII.A (Initial report) for consistency with this guidance.	
46. The Article 6 technical expert review may make recommendations to the participating Party on how to improve its consistency with this guidance, including how to address inconsistencies in quantified information. The Article 6 technical expert review shall forward its reports for consideration by the technical expert review process under decision 18/CMA.1.		46. The Article 6 technical expert review may make recommendations to the participating Party on how to improve its consistency with this guidance, including how to address inconsistencies in quantified information *and to improve methodological approaches to determine additionality and calculate baselines*. The Article 6 technical expert review shall forward its reports	

Current wording in the draft negotiation text	Language imposing guidance on additionality of ITMOs	Language establishing international reporting/review of additionality	Language safeguarding environmental integrity risks
		for consideration by the technical expert review process under decision 18/CMA.1.	
47. [The Article 6 technical expert review may forward its report to the committee referred to in Article 15, paragraph 2, if the review reveals a [systemic issue] [significant inconsistencies].] [Following the review, the committee referred to in Article 15, paragraph 2, shall consider the review in accordance with its modalities and procedures. *{second sentence is text from 8 December SBSTA text, paragraph 35)}]*	NA	NA	47. The Article 6 technical expert review may forward its report to the committee referred to in Article 15, paragraph 2, if the review reveals a systemic issue of cooperating approaches, *including with regard to environmental integrity in calculating baselines and determining additionality*. Following the review, the committee referred to in Article 15, paragraph 2, shall consider the review in accordance with its modalities and procedures. *SBSTA shall consider the outcomes of the review and decide whether a revision of the guidance is necessary to address systemic issues.*

A.2 Rules, modalities and procedures for the Article 6.4 mechanism

Current wording in the draft negotiation text	Language for a detailed international ruleset on additionality determination	Language on guidelines for host country responsibilities	Language safeguarding environmental integrity risks
Decision text			
7. [Requests the SBSTA to undertake further work to develop the [remaining] provisions of the rules, modalities and procedures for the mechanism with regard to the following elements, for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) at its third session (November 2020) as an integral part of the rules, modalities and procedures for the mechanism: […] (c) Further responsibilities of the Supervisory Body and the host Parties that may be required for the mechanism to operate with a more host Party led/decentralized model;	NA	(c) Further responsibilities of the Supervisory Body and the host Parties that may be required for the mechanism to operate with a more host Party led/decentralized model, *including:* *(i) the responsibilities of host countries to determine that the emission reductions expected from an activity exceed mitigation needed for NDC implementation, following guidance by the Supervisory Body* *(ii) the responsibilities of the Supervisory Body to assess additionality of an activity*	NA
8. [Also requests the SBSTA to develop recommendations on the implementation of the initial provisions of the rules, modalities and procedures for the	Instead of paragraph 8c: X. Requests the Supervisory Body to develop additionality tests for different	(c) Demonstration of additionality, as set out in section VI.B of the annex (Methodologies) *for activities at different levels of intervention,*	NA

Current wording in the draft negotiation text	Language for a detailed international ruleset on additionality determination	Language on guidelines for host country responsibilities	Language safeguarding environmental integrity risks
mechanism in relation to the following, for a draft decision for consideration and adoption by the CMA at its third session: […] (c) Demonstration of additionality, as set out in section VI.B of the annex (Methodologies);	types of interventions and policy instruments in different regional and economic contexts, including, but not limited to: (i) Additionality tests for regulations based on technology payback periods (ii) Additionality tests for carbon pricing instruments based on minimum carbon price thresholds (iii) Additionality tests for emission trading schemes based in the assessment of the stringency of allocation of emission permits	*including the responsibilities of the Supervisory Body and the coordination with the host country*	
Rules, modalities and procedures (annex to the decision)			
46. Standardized baselines may be developed by the Supervisory Body at the request of the host Party, or may be developed by the host Party and approved by the Supervisory Body. Standardized baselines shall be established at the highest possible level of aggregation in the relevant sector of the host Party.	46. Standardized baselines may be developed by the Supervisory Body at the request of the host Party, or may be developed by the host Party and approved by the Supervisory Body. Standardized baselines shall be established at the highest possible level of aggregation in the relevant sector of the host Party. *Standardized baselines shall be regularly updated to*	NA (as long as wording in para 46 remains the same)	Already addressed by option presented left

Current wording in the draft negotiation text	Language for a detailed international ruleset on additionality determination	Language on guidelines for host country responsibilities	Language safeguarding environmental integrity risks
	reflect economic and technological shifts as well as introduced policies and regulations. Standardized baselines may be used in methodologies to determine mitigation interventions that exceeds the NDC-related mitigation of the host country.		
47. Each mechanism methodology shall specify the approach to demonstrating the additionality of the activity. The activity is additional where: (a) Emission reductions achieved by the activity are additional to any that would otherwise occur, [taking into account all relevant national policies, including legislation][and represent mitigation that exceeds any mitigation required by law, regulation, or legally-binding mandate, at the national and subnational levels]; (b) [Emission reductions are [complementary][additional] to the policies and measures [implemented][needed] to achieve the NDC of the host Party.]	(a) Emission reductions achieved by the activity are additional to any that would otherwise occur and represent mitigation that exceeds any mitigation required by law, regulation, or legally-binding mandate, at the national and subnational levels; (b) Emission reductions exceed those from policies and measures needed to achieve the NDC of the host Party.	NA, current wording is sufficient	NA

Current wording in the draft negotiation text	Language for a detailed international ruleset on additionality determination	Language on guidelines for host country responsibilities	Language safeguarding environmental integrity risks
48. [The Supervisory Body may waive additionality requirements for any least developed country or small island developing State at the request of that Party.]	NA	NA, current wording is sufficient	NA

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Annex B: Elements for an international work programme on additionality 2020-2021

Timeline	SBSTA /CMA	UNFCCC Secretariat	Article 6.4 Supervisory Body (and support structure)	Cooperating Parties/ international piloting actors
Until the end of SB 52 in June 2020	Draft of the reporting templates for initial and regular reporting of Parties under Article 6.2 guidance Draft text on the guidance for the A6TER, including guidance to assess additionality First draft of the procedures to assess additionality in coordination of Supervisory Body and host country	By the end of March 2020: Technical paper summarizing international experience with additionality determination for project and programme-based activities By the end of April 2020: Technical paper presenting options for coordination between host country and Supervisory Body in the context of additionality determination (including flow of information) By the end of April 2020: Summary paper of submissions received.	-	By the end of March 2020: Submissions on options to assess additionality in the context of Article 6.2 and Article 6.4
Between SB 52 until the end of COP 26 in November 2020	Adoption of the reporting templates for initial and regular reporting of Parties under Article 6.2 guidance Adoption of the initial guidance for the A6TER Adoption of the remaining guidance on the process to follow in the determination of additionality	By the end of September 2020: Technical paper summarizing international experience with additionality determination for sectoral and policy – based activities	Elaboration of the rules of procedure for: - Setting standardized baselines at the request of the host Party and regular updates thereof - Standardizing additionality determination through benchmarks and positive	By the end of September 2020: Submissions on options to assess additionality of sectoral and policy based activities

Timeline	SBSTA /CMA	UNFCCC Secretariat	Article 6.4 Supervisory Body (and support structure)	Cooperating Parties/ international piloting actors
	Adoption of further rules of procedure of the Supervisory Body		lists, including regular updates hereof Development of tools for additionality determination for project-and programme- based activities	
Between COP 26 and SB 54 in June 2021		By the end of April 2021: Technical paper on options for additionality determination for sectoral and policy activities in line with the long term targets of the PA	Development of tools for additionality determination for sectoral and policy crediting activities, taking into account the long term targets of the PA	By the end of March 2021: Submissions on implemented institutional arrangements to coordinate with the Supervisory Body/ the A6TER
COP 27 in November 2021	Adoption of revised guidance for the A6TER taking into account the results from the process to develop additionality tools for sectoral and policy approaches under Art. 6.4	Report on initial reports received for Article 6.2 activities, report on first outcomes of A6TER process	Development of tools for additionality determination for sectoral and policy crediting activities, taking into account the long term targets of the PA (contd.)	

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