INTERNATIONAL CHAMBER OF COMMERCE
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BUSINESS VIEW ON MARKET MECHANISMS - ARTICLE 6 (1) – (7) OF THE PARIS AGREEMENT

Implementing NDCs and achieving the long-term goals of the Paris Agreement through the use of Market Mechanisms*

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Business View on Market Mechanisms - Article 6 (1) – (7) of the Paris Agreement

Implementing NDCs and achieving the long-term goals of the Paris Agreement through the use of Market Mechanisms

Business strongly supports the use of market-based approaches under the Paris Agreement. After promising experiences with trading of emissions through the CDM[1] and JI[2] under the Kyoto Protocol[3], we look forward to contribute to this second phase of market mechanisms and emissions trading under the PA. With only few years left until the first period of NDCs are to be implemented, we urge parties to progress with guidance and to adopt rules, modalities and procedures at CMA1[4] as provided for Article 6 paragraph 7 of the PA.

Introduction

Voluntary cooperation and the use of market mechanisms are an integral part of the new international climate change regime established through the Paris Agreement (PA) at the UNFCCC twenty-first session of the Conference of the Parties (COP21). Article 6 of the PA provides the opportunity for countries to cooperate on a voluntary basis when implementing Nationally Determined Contributions (NDCs). Furthermore, it established a new mechanism which shall contribute to the mitigation of greenhouse gases and to sustainable development.

The PA combines a range of national and local policy approaches in a novel form of bottom-up global architecture. Especially through Article 6 the important role of providing incentives for emission reduction activities, including voluntary emission trading and carbon pricing, is recognized. The central pillar of this is the availability of internationally transferred mitigation outcomes and the new Article 6 Mechanism for mitigation and sustainable development.

Business strongly welcomes this continued availability of market-based instruments under the international climate policy framework. In our view it will **permit parties and business to identify and enable the most cost-effective options to meet mitigation challenges lying ahead for parties, society and business.**
Equally, those instruments can help **parties to increase their level of ambition**. If well designed, they will **create new channels for climate finance, lead to technology transfer and capacity building** and hence support sustainable development in many areas.

However, before those mechanisms can start and support the implementation of **NDCs and contribute to the long term goals of the PA a solid framework, rules and procedures both for parties and business as implementing entity have to be established.**

[1] *Clean Development Mechanism (CDM) :* A mechanism under the Kyoto Protocol through which developed countries may finance greenhouse-gas emission reduction or removal projects in developing countries, and receive credits for doing so which they may apply towards meeting mandatory limits on their own emission (UNFCCC, 2016).
[2] *Joint implementation (JI):* A mechanism under the Kyoto Protocol through which a developed country can receive "emissions reduction units" when it helps to finance projects that reduce net greenhouse-gas emissions in another developed country (in practice, the recipient state is likely to be a country with an "economy in transition"). An Annex I Party must meet specific eligibility requirements to participate in joint implementation (UNFCCC, 2016).
[3] *Kyoto Protocol:* An international agreement standing on its own, and requiring separate ratification by governments, but linked to the UNFCCC. The Kyoto Protocol, among other things, sets binding targets for the reduction of greenhouse-gas emissions by industrialized countries (UNFCCC, 2016)
[4] The first session of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA 1) will take place in Marrakech, Morocco in conjunction with COP 22 and CMP 12 (UNFCCC, 2016)

For the success of the mechanisms under Article 6 it will be essential that they are designed in a way that **allows identification of the most cost-effective mitigation options and guarantees environmental integrity.** To maximize business involvement and attract investment those mechanisms have to be based on clear rules and procedures that also avoid setting up trade barriers and are in line with international trade rules.

ICC's comments and recommendations on the implementation of Article 6 PA

1. BUILD AND AGREE ON A FRAMEWORK FOR MEASURING, REPORTING AND VERIFICATION (MRV)

Many credible methods for international and national MRV are already in place and generally accepted (e.g. through the Kyoto mechanisms[5], IPCC[6] methodologies and the UNFCCC inventories) and should be taken into account when developing a MRV framework. **It will be important to link MRV for the mechanisms of Article 6 PA to the Transparency Framework which is being developed under Article 13 of the PA.**

To encourage investments by business and reduce risks it is vital that future emission reduction projects deriving from Art. 6 are supported by **strong and robust MRV systems that covers mitigation of emissions as well as removals by sinks of greenhouse gases.** Such frameworks are also essential to demonstrate **net emission reduction** as well as environmental integrity and to prevent double counting. Without clear MRV systems, parties, businesses and other stakeholders may be hesitant to invest and engage in emission reduction projects deriving from the PA.

2. INTEGRITY, TRANSPARENCY AND RELIABILITY

In order to gain trust by all actors including states, business and other stakeholders the **environmental integrity of any mitigation action under a market mechanism must have highest priority.** This can be achieved through the development and adoption of clearly defined **appropriate upfront standards** that projects under a market mechanism have to fulfill. The development of standards should be based on lessons learned from the past and the experience from the use of market instruments on international, national and regional levels. To ensure long term predictability also in regard to the previous system and its mechanisms (CDM, JI and emissions trading) transition regulations that avoid discontinuation of projects and related investments should be considered.

If cooperative approaches and emission reductions under the mechanisms of Article 6 PA are conducted **prevention of double counting or double claiming as well as absolute or net emission reductions has to be ensured.** Key to this is the transparency measures which should be guided by and linked to the Transparency Framework under Article 13 PA.

[5] *Kyoto mechanisms:* Three procedures established under the Kyoto Protocol to increase the flexibility and reduce the costs of making greenhouse-gas emissions cuts. They are the Clean Development Mechanism, Emissions Trading and Joint Implementation (UNFCCC, 2016)

[6] *Intergovernmental Panel on Climate Change (IPCC):* Established in 1988 by the World Meteorological Organization and the UN Environment Programme, the IPCC surveys world-wide scientific and technical literature and publishes assessment reports that are widely recognized as the most credible existing sources of information on climate change. The IPCC also works on methodologies and responds to specific requests from the Convention's subsidiary bodies. The IPCC is independent of the Convention (UNFCCC, 2016).

3. AMBITION AND PREDICTABILITY

Article 6 mechanisms shall *"incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party"*. To help stimulate investments in this area it is important that **parties reflect in their NDCs how they intend to participate and make use of the mechanisms under Article 6.** The facilitative dialogue foreseen in 2018 (paragraph 20 of COP21 decision) aims to take stock of NDCs implementation and could be used as an opportunity by parties to address this point and through this boost the development and use of the mechanism. As NDCs are also updated in future years it is **essential that participating countries outline in a transparent way how they intend to increase their ambition using voluntary cooperation and market-based instruments.**

Clarity in the use of Article 6 mechanisms from countries is essential to enable comparability of action between countries and sectors, thereby allowing evaluation of mitigation actions, the ability to raise ambition over time and understand and avoid impacts such as carbon leakage.

4. TECHNOLOGICAL NEUTRALITY

Article 6 Mechanisms should be designed in a way to **allow for the identification and selection of the most cost-effective mitigation options.** Their use must demonstrate environmental integrity and be accessible by parties and business. **To encourage the widest range of options a principle of technology neutrality should be applied**.

5. ACCESSIBILITY BY PARTIES AND BUSINESS

Standards are vital for environmental integrity and will enable tracking and transparency of the use of emission reductions and internationally transferred mitigation outcomes. However, they should not lead to unnecessary administrative burdens in order to encourage all kind of businesses (small and large companies) as well as all parts of society to implement and participate in the Article 6 instruments.

6. WORKING ON SECTORAL BASELINES AND STANDARDS FOR EMISSION REDUCTION LEVELS

The development of **comparable and measurable standards and baselines** for emission reduction activities under the Article 6 mechanism and for voluntary cooperation will impact different parts of an economy and may be a **basis for further global emission reduction approaches on a more sectoral level.** In this respect, transparency on establishing baselines and the **determination of emission standards for specific sectors will be crucial, including open and transparent consultation with experts of the specific economic activities** and taking into account the already existing experience with MRV principles under the UNFCCC.

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