

Promoting transparency in Article 6

Designing a coherent and robust reporting and review cycle in the context of operationalising Articles 6 and 13 of the Paris Agreement

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Transparency-related processes play a crucial role in ensuring the environmental integrity of cooperative approaches under Article 6.2 of the Paris Agreement. As cooperation under Article 6.2 is not subject to international oversight, transparency is essential to generate trust among Parties and to allow the identification of underperformance or non-compliance. Transparency is also necessary to identify capacity gaps and constraints.

Elements related to transparency of cooperative approaches can be found both in the guidance on Article 6.2, as well as in the modalities, procedures and guidelines (MPGs) of the 'Enhanced Transparency Framework' (ETF) under Article 13 of the Paris Agreement.

When Parties failed to adopt guidance on Article 6.2 at COP24 in Katowice in 2018, negotiators introduced paragraph 77d into the final MPGs of the ETF, explicitly requiring reporting on participation in cooperative approaches in the Biennial Transparency Reports (BTRs). This sparked controversy as some Parties felt paragraph 77d prejudiced the outcomes of the Article 6 negotiations. Therefore, negotiators agreed to first focus on the finalisation of an Article 6 rulebook before further negotiating reporting formats for paragraph 77d. However, as Parties did not manage to agree on the Article 6 rulebook at COP25, parallel negotiations on Article 6 and the operationalisation of paragraph 77d at COP26 are expected.

Despite Parties not being able to finalise the Article 6 rulebook, the negotiations on the reporting and review chapter of the Article 6.2 guidance made good progress at COP25 in 2019. Article 6.2 guidance now establishes clear interlinkages with the ETF regarding reporting in the BTRs.

Corresponding adjustments (CA) for internationally transferred mitigation outcomes (ITMOs) in expressed in tCO₂e will have to be made to the annual balance of emission sources and sinks covered by

the National Determined Contribution (NDC) that Parties report in their BTRs.

The current draft Article 6.2 guidance describes an initial report that specifies – among other things – information on metrics of ITMOs. The CA method needs to be provided not later than the authorisation of the initial transfer of ITMOs. In addition, annual information on ITMO accounting and a regular report need to be submitted to the UNFCCC if a Party participates in a cooperative approach. Figure 1 provides an overview of the different reports that are to be submitted under the ETF and the Article 6.2 guidance.

Various issues require further elaboration in the upcoming Article 6 negotiations. They include further specification of existing reporting obligations, as well as closing reporting gaps.

A key definition that requires further clarification is that of a cooperative approach as such an approach could involve (at least two) countries or also non-Party buyers (e.g. an airline under CORSIA or a voluntary market actor). This definition establishes the triggers of reporting and whether reporting on (initial) transfers of mitigation outcomes to CORSIA or the voluntary market would also be mandatory. An interpretation that sets a requirement for reporting on the ITMOs transferred for use under CORSIA or the voluntary market, would further strengthen the environmental integrity of international carbon markets.

Important reporting requirements that appear to be missing in the text relate to the additionality and verification of ITMOs. In the further elaboration of reporting templates information on these aspects needs to be included.

To finalise both, the Article 6 rulebook and the negotiations on common reporting tables under the ETF, the two streams of negotiations should be closely aligned.

Article 6 negotiators must understand the role of wording in reporting requirements in specifying the character of reporting obligations (e.g.: the difference between “describe” and “demonstrate”, where only the latter asks for a justification of what is being reported). At the same time, transparency negotiators must understand the information necessary to evaluate environmental integrity of carbon market activities when designing reporting formats and operationalising flexibility provisions.

Reporting under the ETF and in the context of Article 6 activity should be coupled whenever timing and capacities allow for it to reduce the reporting burden. However, this also means that delays in Party reporting in the context of the ETF can generate issues for Article 6.2 transparency. For example, if parts of the regular information under Article 6.2 are to be submitted along with the BTR (see Figure 1), and a country does not manage to submit its BTR on time, Article 6 reporting would suffer. This risk could be prevented by de-coupling the reports when Parties do not manage to meet their reporting obligations.

Transparency of international carbon markets would benefit from as much information as possible being provided upfront, meaning at the very moment when initial transfers of mitigation outcomes are authorised. The inclusion of more information on the cooperative approaches in the initial report – regardless of whether this report is done separately for each cooperative approach or together for all cooperative approaches of one country – will also help to reduce the reporting burden related to the regular provision of information. Especially information relating to environmental integrity should already be included in the initial report and not only in the regular information, to allow for an assessment of the quality of the cooperative approach. As this information is important to guide countries’ decision to authorise transfers, it would not impose additional burden to Parties to report this information.

In addition to a close coordination on reporting obligations, negotiators should lay the ground rules for an efficient coordination of review processes (i) within the Article 6 technical expert review (TER) and

(ii) between the Article 6 and Article 13 TER. Regarding the coordination within Article 6 review processes, centralised reviews of cooperating Parties’ initial reports should be organised, where possible, to ensure a concerted approach.

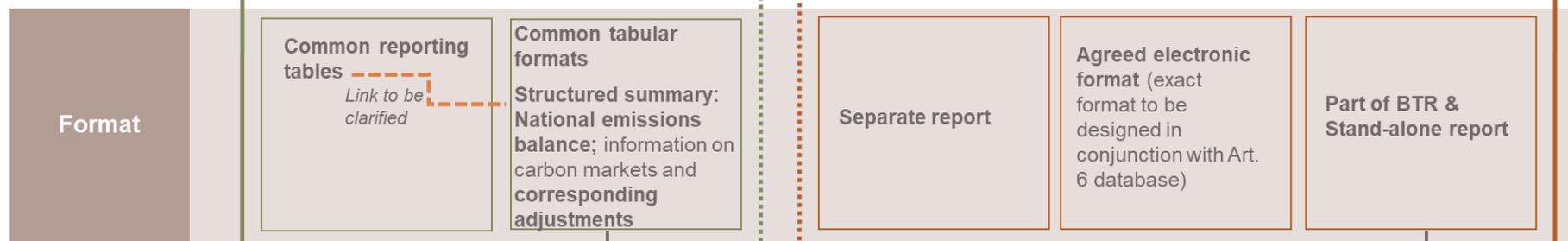
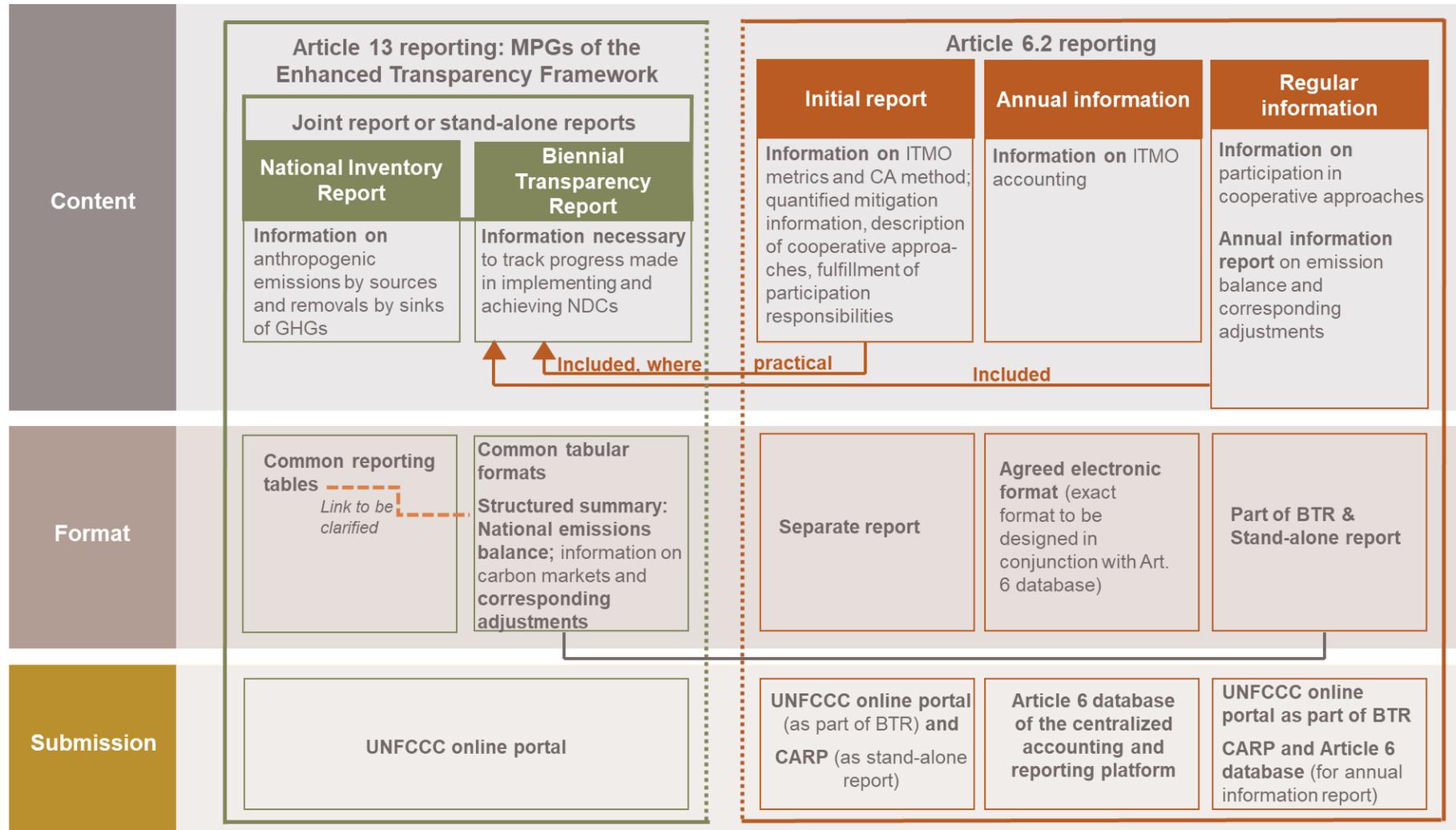
As Article 6.2 reports will often be submitted in conjunction with BTRs, review processes feed into each other. Ideally, the Article 6 review team prepares a draft report of its centralised review of the initial report or regular information before the Article 13 TER week of the BTR begins.

Trade-offs between keeping resource needs low and having a thorough review process that generates benefits for capacity building need to be navigated wisely in the negotiations. In the future, more funding for review processes is needed. The number of expert participants from developing countries and economies in transition will increase, thus requiring greater funding support from the Secretariat. The Secretariat itself will also need more resources to organise and coordinate review processes.

In this respect, Article 6 piloting is essential to test which level of information is really needed, to identify how synergies of different information collection processes can be maximised, and to build capacities of interested partner countries. Piloting also allows to identify synergies between building a country’s broader transparency capacities and required Article 6-related reporting capacities. The guidelines of the ETF will be revised in 2028 after the submission of two BTRs. Against the background that the review of guidelines offers a great opportunity to reflect on lessons learned and to strengthen processes over time, piloting and early experience should be fed back into the rule-setting process.

Further reading: Michaelowa, Axel; Espelage, Aglaja; ‘t Gilde, Lieke; Chagas, Thiago (2020): Promoting transparency in Article 6, Perspectives Climate Group, Study commissioned by the Swedish Energy Agency.

Figure 1: Overview on reporting processes under the ETF and Article 6.2 guidance



Source: Perspectives Climate Group and Climate Focus (2020)