

# Carbon Market Mechanisms Working Group Newsletter

## Review of CMM-WG activities



In the second half of 2021, the focus of the Carbon Market Mechanisms Working Group (CMM-WG) shifted from robust Article 6 methodologies to transparency and oversight on Article 6 market-based cooperation. Since May, two workshops and a survey have been carried out in the context of the CMM-WG. The workshop at the end of May focused on Article 6 methodologies, while the workshop in September revolved around transparency.

In this newsletter you will find:

- A summary of both workshops
- A reflection on relevant developments at the 52<sup>nd</sup> session of the subsidiary bodies (SBs) of the UNFCCC in May and June 2021
- A sneak peek of the results of the transparency survey

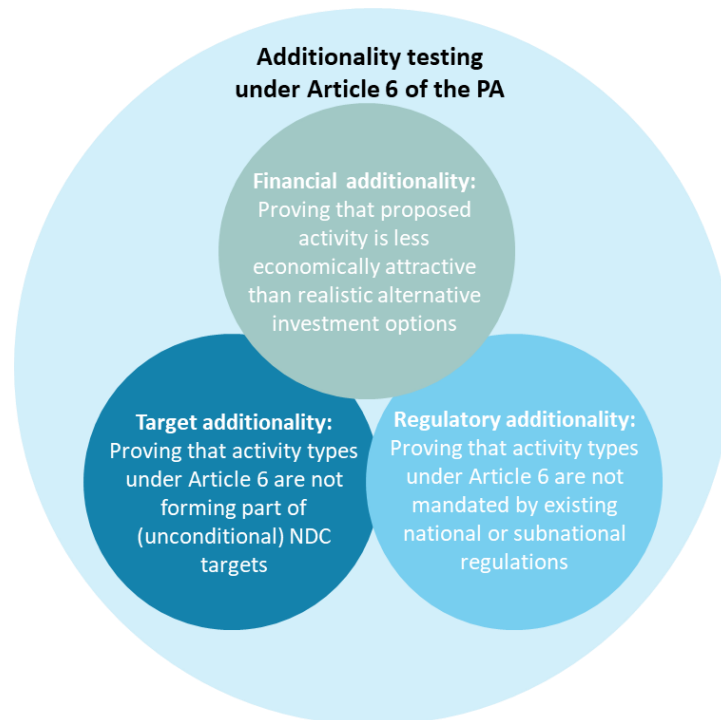
## Technical expert workshop on Article 6 methodologies

The workshop reflected on the results of the CMM-WG paper “[Safeguarding integrity of market-based cooperation under Article 6: Additionality determination and baseline setting](#)” and focused on three methodology-related aspects:

- Additionality testing
- Baseline setting
- Host country and international oversight

Regarding additionality testing in the Paris Agreement (PA) context, the concept of the “three shades of additionality” – comprising financial additionality, regulatory additionality and target additionality testing – was introduced (see Figure 1). While the concept received positive feedback, participants asked for more details on its applicability. It was noted that the distinction between conditional and unconditional targets relevant for target additionality is contested among participants.

What concerns baseline setting under Article 6 of the PA, it was noted that the two key questions are to what extent baselines need to be aligned with Parties’ nationally determined contribution (NDC) implementation and the long-term goals of the PA. The option of making baselines more dynamic was discussed as well.



*Figure 1: The “three shades of additionality”*

Finally, the role of host country and international oversight was elaborated on. Participants supported a “blended” approach under Article 6.4 meaning that countries can develop country-specific standards, but a supervisory body and technical experts should ensure consistency of these standards and international rules. The level of international oversight and standardization of rules may also depend on different sector-specific characteristics, with some sectors requiring a more top-down approach to the development of methodologies. It was suggested that more capacity building is needed for Article 6.2 cooperative approaches.

## Article 6 crunch issues at SB 52

At the 52nd session of the SBs of the UNFCCC in May and June 2021, Parties discussed remaining crunch issues in Article 6 negotiations, including additionality testing and baseline setting under the Article 6.4 mechanism. In general, there was emerging consensus noticeable on the need to accommodate non-GHG metrics and the need for further technical work to ensure approaches that preserve environmental integrity. Regarding baseline setting, continued dissent could be observed on the stringency of baselines.

Parties recognised the need for further technical work regarding transparency of Article 6 cooperation ahead of and at COP26 to refine the provisions in the negotiation text on the reporting and review process. At the June sessions, there was emerging consensus on the need to include further details in the initial report (e.g., environmental integrity information) and the need for a clearer description of the competencies of the technical expert reviewers. Regarding COP26, a question that emerged is whether the link between the transparency and Article 6 negotiations will become more decisive again.

## Technical expert workshop on ensuring transparency of Article 6 cooperation

The [workshop discussed the importance of transparency under Article 6](#) to ensure environmental integrity of internationally transferred mitigation outcomes (ITMOs). Presentations and subsequent discussions focused on the following topics:

- Designing efficient and robust reporting and review processes
- Capacity requirements at the national level for efficient Article 6 reporting and tracking
- Aligning Article 6 and 13 negotiations

Options for improvement of reporting under Article 6 included the strengthening of the initial report (e.g., through information on environmental integrity), the detailing of annual information requirements and the decoupling of the regular information from the biennial transparency report (BTR) submissions if a delay can be anticipated. It was also suggested that more attention should be paid to the presentation of the gathered data from Article 6 reporting processes in the Centralized Accounting and reporting Platform (CARP). When discussing how review processes under Article 6 can be efficiently designed, it was noted that the more cross-links with the Article 13 review process are established the harder its organisation might get but that there might also be added value in doing so.

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Besides, the need to build technical capacities of national experts in host countries regarding the calculation of GHG emission reductions and the application of corresponding adjustments was stressed. Ongoing Article 6 readiness capacity building work and the importance of South-South engagement in this context was stressed.

What concerns the alignment of Article 6 and 13 processes, it became apparent that the operationalisation of both Articles differs in some reporting details, e.g., by using a different wording or requiring more information. Regarding review processes, it is difficult to judge at this stage whether there is alignment as the Article 6 review is currently not well defined in draft negotiation texts.

## Sneak Peek: Results of the transparency survey

For the new CMM-WG paper “Ensuring transparency of Article 6 cooperation – designing robust and feasible reporting and review processes and building capacities” to be published ahead of COP26, a survey was conducted from mid-July to mid-September. Here, we present a sneak peek of some results:

Many of the respondents shared the understanding that robust reporting means that there are clear international guidelines for reporting on environmental integrity and key related concepts in place and that information on cooperative approaches is aligned with information provided in the BTRs and the national inventory reports (NIRs). In addition, respondents agreed that robust reporting means that submitted information on cooperative approaches specifies how the environmental integrity of market-based cooperation is ensured. Regarding the latter, a high number of respondents agreed that initial reports must also include information on how environmental integrity is ensured.

Regarding capacity building, over 90% of participants agreed on the necessity of capacity building to ensure that reporting and accounting requirements are met under Article 6.2. When being asked to specify what aspects capacity building should focus on, respondents prioritised the support for the introduction of host country authorisation processes and the development of guidance for robust reporting and accounting in host countries (see Figure 2).

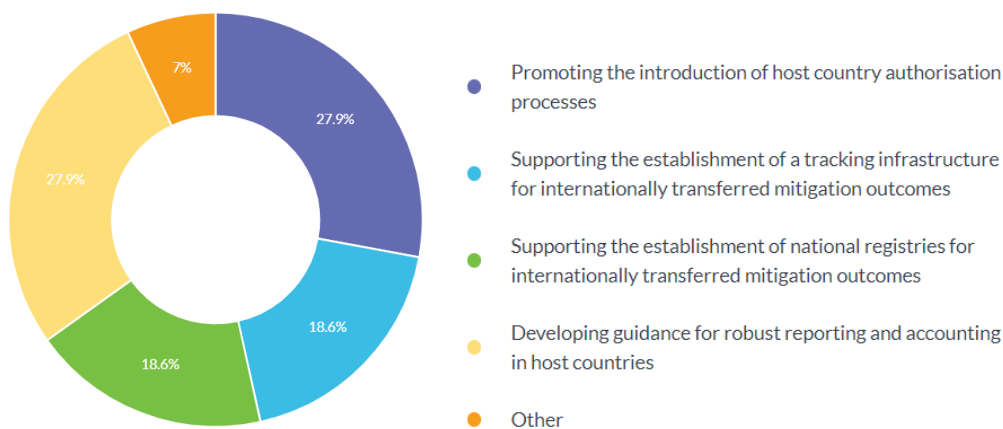


Figure 2: Survey results on capacity building

## Outlook

The new CMM-WG paper “Ensuring transparency of Article 6 cooperation” will be published at the end of October prior to COP26.

In late November, a CMM-WG meeting will take place to reflect on the most important developments and results.

**We are looking forward to seeing you at COP26!**