

# Introduction of International Carbon Market Mechanisms in the context of the Paris Agreement

Tbilisi, September 27<sup>th</sup>, 2022

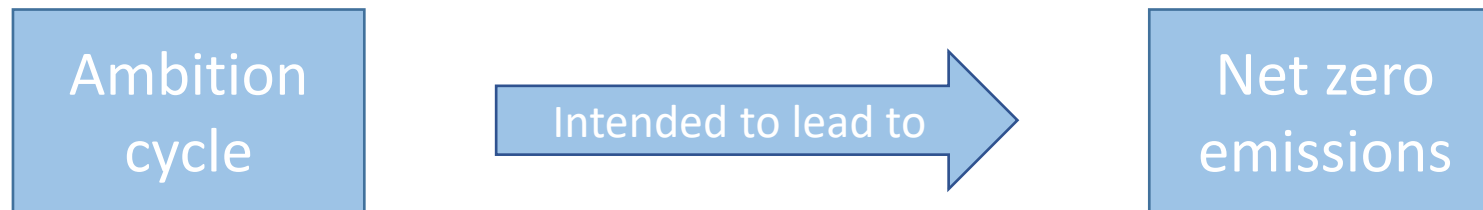
# Paris Agreement

The need for a transformational change

Countries contribution through their NDCs, ER targets and specific mitigation and adaptation actions

The Paris Agreement- a paradigm shift:

- Bottom-up approach.
- Role of developing countries.



# Article 6

Countries can voluntarily cooperate to achieve their NDCs in whatever way they wish. However, there are forms of cooperation that need international guidance, and forms of cooperation where countries want to have their cooperation recognized by the UNFCCC.

6.2

Article 6.2 Cooperative Approaches – decentralized approach with basic guidance from the Parties (CMA), “an accounting mechanism”, type of cooperation not defined

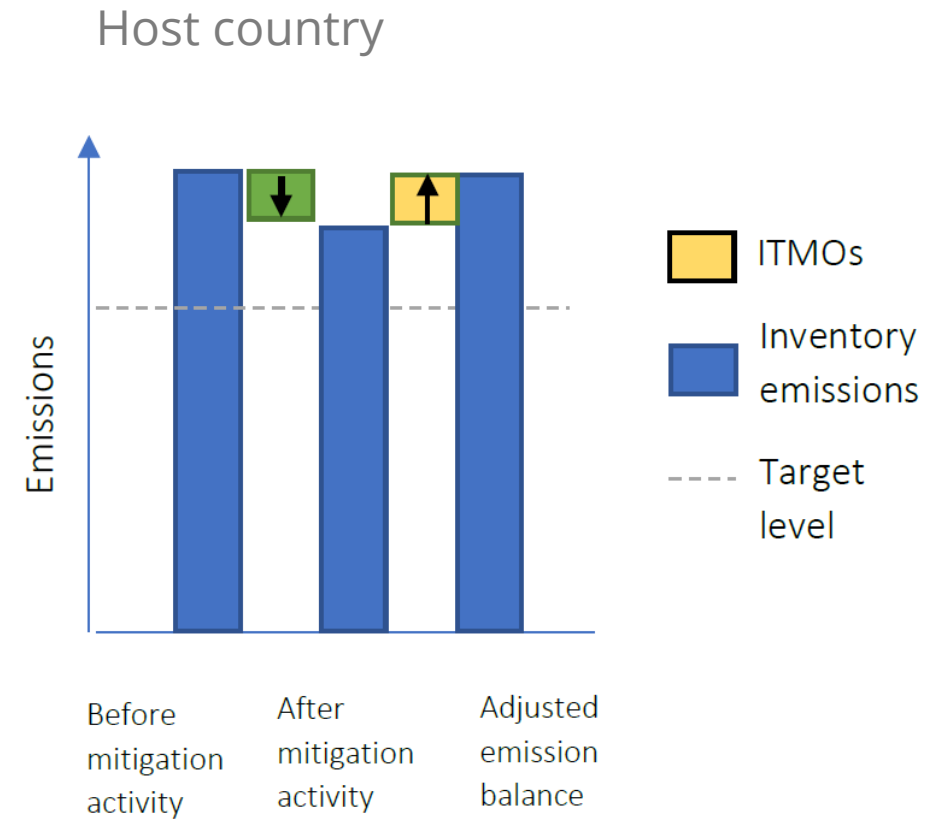
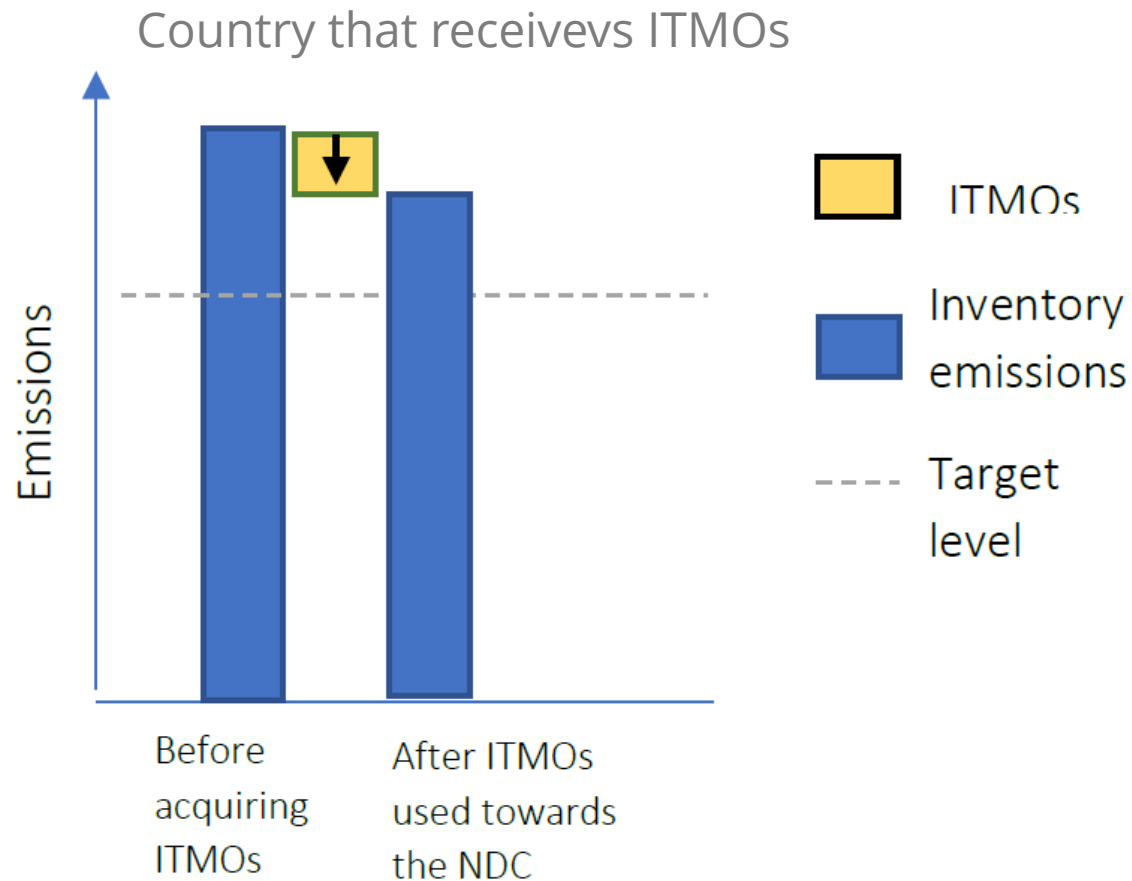
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Article 6.4 The New Mechanism – centralized approach similar to the Clean Development Mechanism, baseline-and-crediting mechanism. Subject to UNFCCC governance

6.8

Article 6.8 Non-Market Approaches – promoting mitigation and adaptation cooperation that does not involve the transfer of mitigation outcomes

# Avoiding double counting



# A New Role for Developing Country Governments

- Article 6 the transfer of mitigation outcomes directly impacts NDC goals
- Taking part in international carbon trading is now different – **opportunity cost for transferring** emission reductions out of the country
- Emission reductions become a **national asset**.
- More active role of governments → diversification of / emerging **new contractual structures** (sharing the mitigation outcome between seller and buyer) and authorization becomes more critical.
- Demand for **greater capacity** from national institutions

# A New Role for Developing Country Governments

**Transfers of ITMOs must be linked to the achievement of NDC goals**  
(and based on an understanding of the conditional and unconditional target)

The national **MRV-system** becomes very important – fulfilling ETF requirements a necessity, not for compliance (as under the KP) but for being able to participate.

*“We will not export ITMOs until we are sure we will achieve the NDC”*

Does it have to be like this? Not necessarily, depends on

- Confidence in national MRV-system
- Confidence in level of ambition of proposed projects assessment

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Participant countries want to be sure that the Article 6.2 guidance is respected – that is, that the cooperative approach **does not result in a net increase in emissions**.

**Environmental integrity** of underlying activities is key requirement for building trust:

- **Ensuring that activities contribute to increasing the level of ambition**, exceed NDC-related mitigation, and are consistent with the long-term target of the Paris Agreement
- **Contribution to sustainable development**
- Basic qualities of emission reductions: **real, verifiable, permanent, additional**

It should be in the interest of any transferring country to:

- establish a national **MRV-system that ensures that no double-counting** will take place, and that there is a no-regret process for making corresponding adjustments

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In addition, it should be in the interest of any transferring country to:

- know what **emissions** it has, including projections for future emissions
- Understand **how policies and measures will impact future emissions** and the achievement of the NDC.
- **Identify the sectors, sub-sectors and technologies** for which it wants to seek international support and communicate this
- Promote transparency regarding policy, regulations as well as opportunities to both potential partners in cooperative approaches and the domestic private sector will be beneficial for all



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## Key building blocks of an Art. 6.2 Framework

- An overall **strategy** for Article 6 participation;
- An **institutional framework**, including roles, responsibilities, and mandates;
- Processes for determining **eligible mitigation activities**;
- Processes for **approval and authorisation** of ITMO;
- An approach to **funding** national processes including fees;
- A process for the **issuance of ITMOs** and an infrastructure for **tracking** of ITMOs;
- A decision-making process based on **NDC tracking** and a robust sectoral MRV system
- Processes for **reporting** Art. 6.2 participation in the context of the ETF.
- Provisions for **non-compliance** of different actors in the activity generation cycle.

# Private sector participation

Cooperative approaches under Art. 6.2 are **country to country based**.

The **underlying mechanism** can incorporate the participation of the private sector (project proponents, project developers, verifiers, etc.)

The participation in an Art. 6.2 must be **authorized** as well as the project and the eventual transfer of ITMOs.

Private sector participation **requires**

- Clarity on the processes and rules for participation
- Information on the type of projects the government wants to prioritize
- Technical capacity development support on project documentation development, MRV process, etc.

Cooperation presents an **opportunity** for cleantech innovation, support to first of its kind projects and technology projects which require financial support

# Thank you

[Miguel.Rescalvo@neyen.io](mailto:Miguel.Rescalvo@neyen.io)