VERRA Standards for a Sustainable Future

Article 6 and its impacts on nationally determined contributions and the voluntary carbon market

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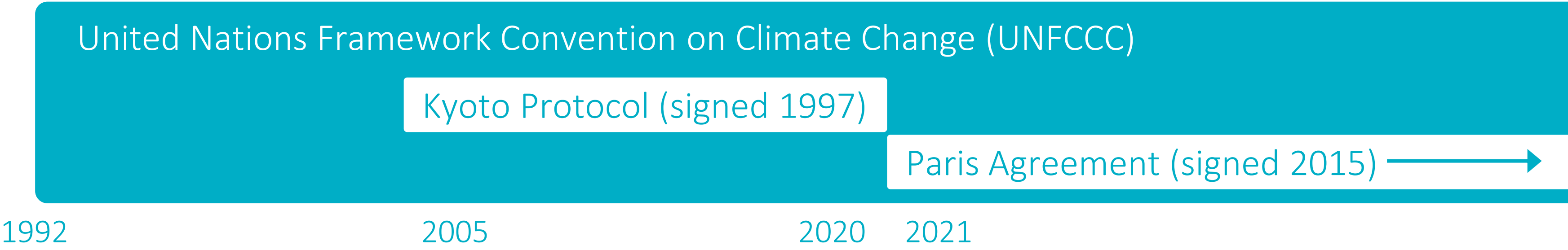
Nationally Determined Contributions

- NDCs set out country plans for climate action
- To be revised every give years to increase ambition
  - Broader sector coverage, moving towards being economy-wide
  - Deeper targets for mitigation, stronger adaptation action
  - Targets expected to be more robust and quantitative
- NDCs have been strengthening but more is needed before COP 27 (Egypt)
- Colombia NDC: 20% below BAU by 2030 (30% with international support)



International cooperation under Article 6

Article 6.2 allows for country-led “cooperative approaches”

- Sets stage for compliance markets driven by government policy
- Emissions trading and carbon credits
- Countries exchange these “mitigation outcomes” for use towards NDCs
- Accounting system of “corresponding adjustments” to avoid double counting this mitigation between NDCs
- Country reporting to commence by 2024 (Biennial Transparency Reports)

Article 6.4 sets out a new UNFCCC crediting program

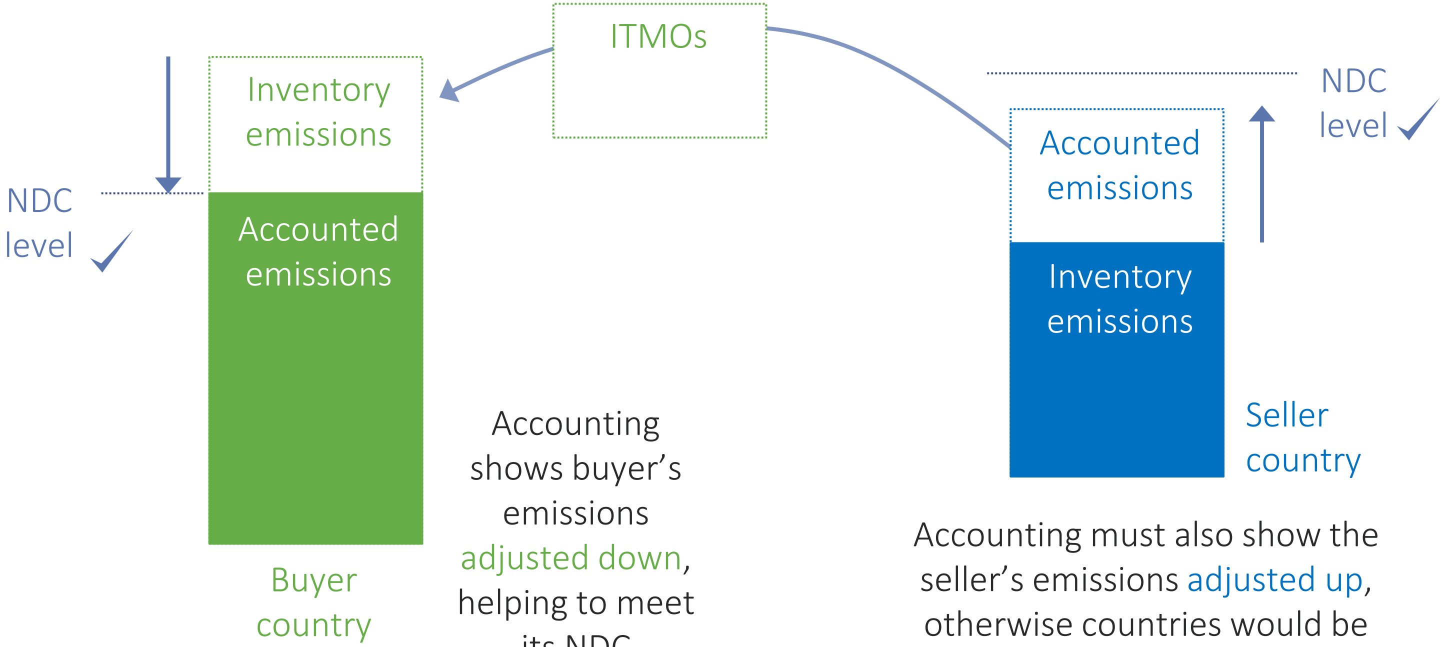
- Successor to the Kyoto Protocol’s project-based mechanisms (CDM and JI)
- Credits are subject to the universal accounting defined under Article 6.2
- Supervisory body being assembled now

VCS and other independent crediting programs can be recognized by countries under Article 6 and may be integrated with NDC accounting

Article 6 accounting

- Accounting is to avoid double counting between countries' NDCs
  - Applied by governments at the national level (not by companies)
  - Applicable to projects in sectors both inside and outside the scope of NDCs
- Accounting is implemented through double-entry bookkeeping
  - Host (transferring) country makes an ***addition*** to its emissions level
  - Buying country can make a ***subtraction*** from its emission level

Accounting through corresponding adjustments



Accounting shows buyer's emissions adjusted down, helping to meet its NDC

Accounting must also show the seller's emissions adjusted up, otherwise countries would be double counting the mitigation

Accounting for point target or emission path?

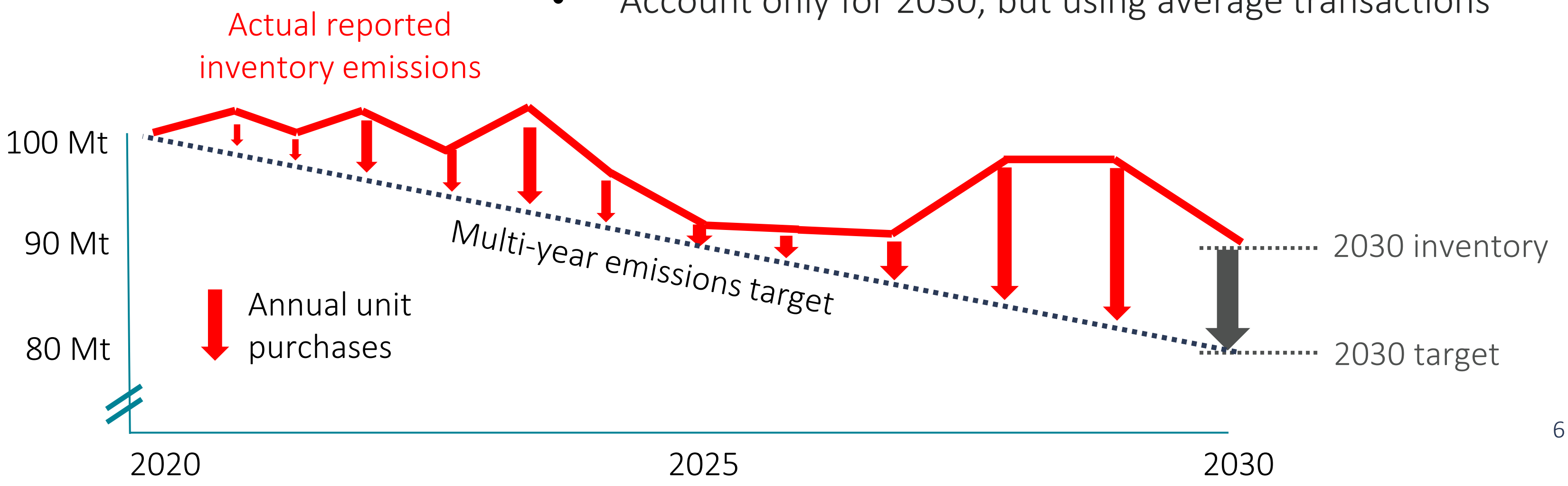
Some NDCs set targets for a ***multiyear period*** (eg 2021-2030), but most NDCs set targets for only a ***single year*** (eg 2030)

Important to compare like with like

- Timing of the reductions being achieved
- Time period covered by the emissions target

Key tools for achieving this

- Account for full period on basis of an emission trajectory
- Account only for 2030, but using average transactions



Accounting is not always needed

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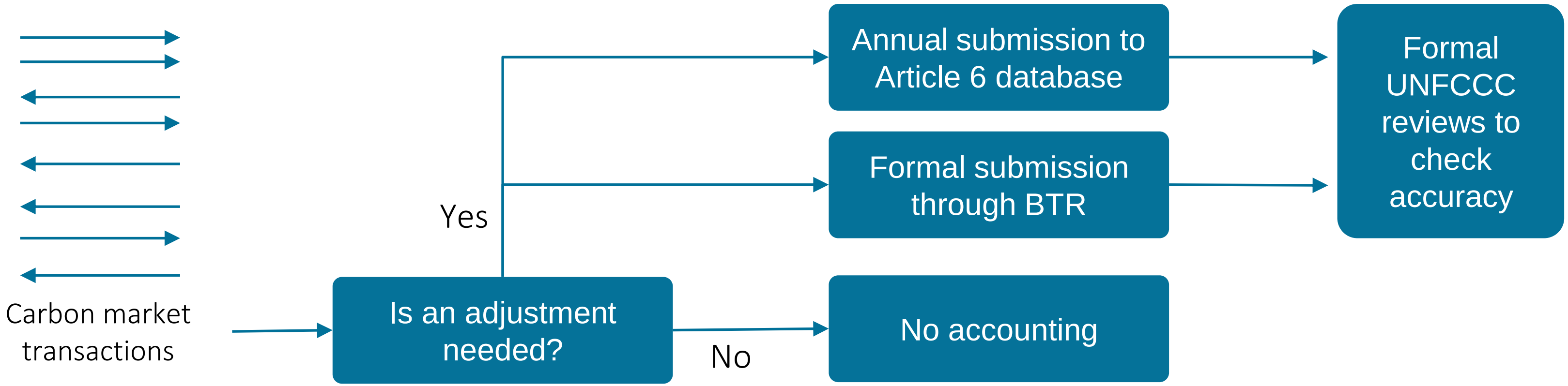
Article 6 accounting is NDC accounting

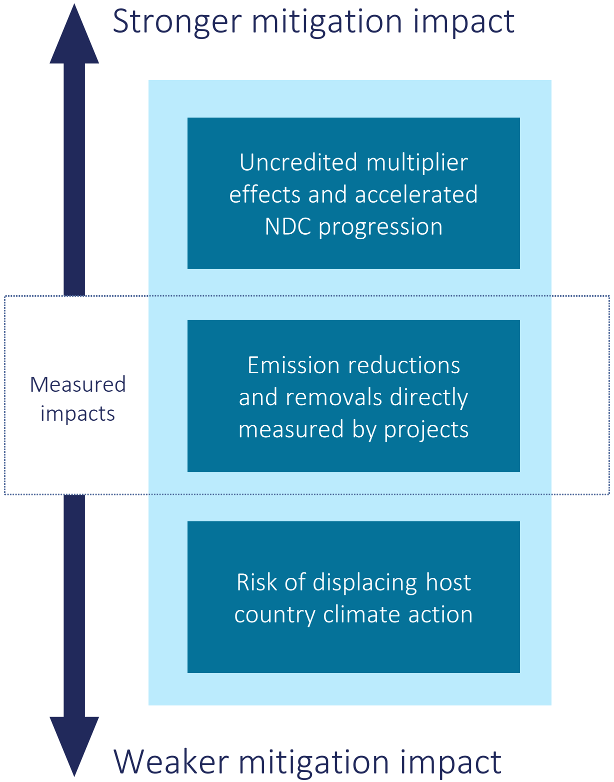
- Countries integrate their Article 6 accounting with their broader reporting under the transparency framework of the Paris Agreement
- Article 6 demand still unclear: Canada, South Korea, Japan, Norway, NZ, Switzerland, Liechtenstein, Monaco, UK, Australia, EU, CORSIA?



Voluntary market accounting?

- Article 6 makes tools available but doesn't mandate their use
- Whether to apply corresponding adjustments is now a VCM decision
  - No integrity problem – VCM doesn't lead to double counting between countries
  - But may be an ambition problem – claims being made by country and company may lead to less mitigation occurring (eg both believe they have done enough)
  - Impacts on ambition are less likely to arise if NDCs are less quantitative and climate policy is not precisely calibrated to a measured emission gap
- Buyers may increasingly look for correspondingly-adjusted credits
  - Gives clarity that host country doesn't use the mitigation towards its NDC
  - Being considered by the Voluntary Carbon Market Integrity Initiative (VCMI)

Alternatives to accounting in the voluntary market



- Clarify how VCM contributes to host's conditional NDC pledges
  and its shift towards net zero
- Promote replication effects
- Promote multiplier effects
- Accelerate progression in NDCs

For conditional NDCs, VCM projects are integral to the host's ambition

Host countries can drive transformation

Article 6.4 expectations

- New crediting program, governed under the UNFCCC
- Supervisory body currently being established
- Political pressure to be operational by end-2023 (Global Stocktake)
- Open to all levels (project, program, sector) and activity type
- Transition of CDM projects
  - Must apply by end-2023 and be approved by end-2025
  - Must comply with Article 6 rules, including corresponding adjustments
  - May keep old meth for current crediting period or until end-2025, whichever earlier
- Use of CDM credits towards first NDC period, if projects were registered from 2013 (no tCERs/lCERs) (16-178 million CERs?)

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Article 6.4 additionality

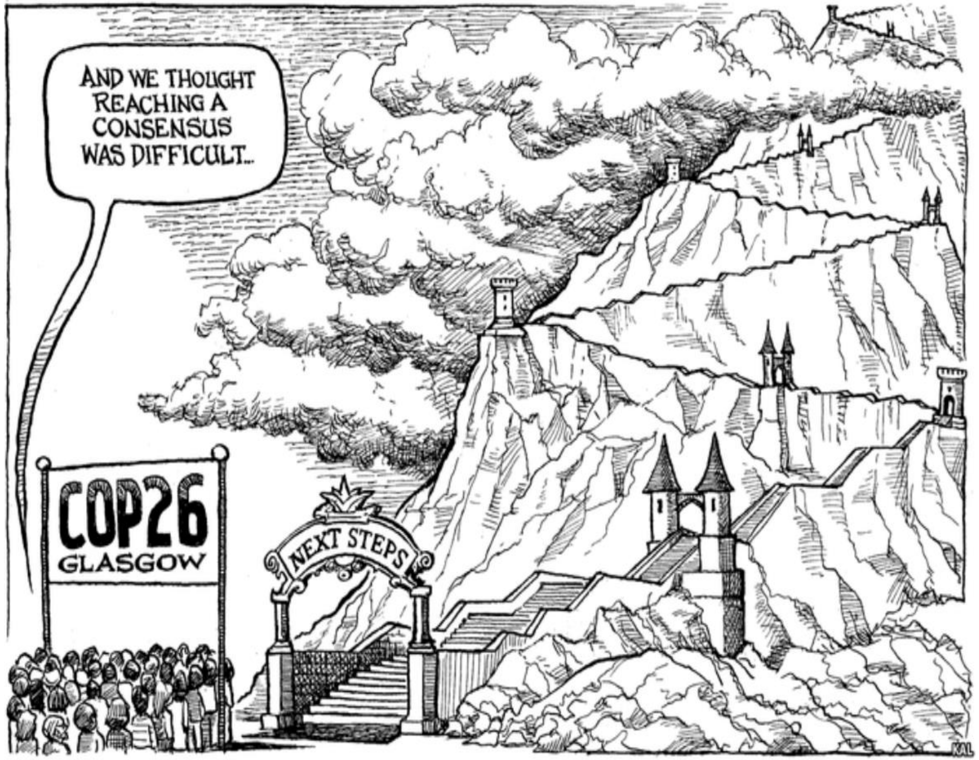
- Glasgow established principles, not methods
- "… robust assessment that shows the activity would not have occurred in the absence of the incentives from the mechanism"
    - Must take account of all relevant national policies
    - Conservative approach that avoids locking in levels of emissions, technologies or carbon-intensive practices
    - Generally demonstrated via a stepwise tool
- Guidance will be needed from the Article 6.4 supervisory body
- Hands-off approach under Article 6.2 – countries report how they ensure no net increase in global emissions in and between NDCs

Article 6.4 methodologies

- Strong principles established
  - Real, transparent, conservative, credible, below business-as-usual, avoid leakage
  - Encourage ambition over time
  - Align with Paris goals and host country NDC and long-term LEDS
- Baseline setting options
  - Best available technology
  - Ambitious benchmark set by best-performing comparisons
  - Actual or historical emissions, but adjusted downwards
- Crediting periods for reduction: 5+5+5 or 10 years
- Crediting periods for removals: 15+15+15 years

Article 6 work programs (2022 only?)

- Still more Article 6 workshops and decision making
  - Trajectory and averaging methods for corresponding adjustments
  - Reporting tables, report outlines and review guidelines
  - Infrastructure guidance, including registries and Article 6 database
  - Processes for the Article 6.4 share of proceeds and overall mitigation
- Article 6.4 operationalization through the supervisory body
- Host country implementation of systems and processes
  - Providing guidance and tracking projects
  - Authorizing use of credits for different purposes
  - Reporting and accounting
- Capacity building for developing countries


AND WE THOUGHT REACHING A CONSENSUS WAS DIFFICULT...
COP26
GLASGOW
NEXT STEPS
KAL

Thank you

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