

# Regulating carbon markets: building capacity for the implementation of Article 6 of the Paris Agreement

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Victoria Falls and Online

## The Supervisory Body and Operationalization of Article 6.4 of the Paris Agreement

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## Change in names and acronym

- Article 6.4 Mechanism - Paris Agreement Crediting Mechanism (PACM)
- Supervisory Body - Supervisory Body of the Mechanism (SBM)

# Presentation Outline

- Introduction – The Supervisory Body (SBM)
- Operationalization of Article 6.4 Mechanism (PACM)
- Host Party Requirements for Participating in the Mechanism and Host Part Responsibilities
- Advantages of using Article 6.4 Mechanism (PACM)
- COP28 Outcomes in relation Article 6.4

**Introduction**

# **The Supervisory Body**

## Article 6.4 of the Paris Agreement

- “A mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development is hereby established under the **authority and guidance of the Conference of the Parties serving as the meeting of the Parties to this Agreement** for use by Parties on a voluntary basis. It shall be **supervised by a body** designated by the Conference of the Parties serving as the meeting of the Parties to this Agreement....”



COP21 • CMP11  
**PARIS 2015**  
UN CLIMATE CHANGE CONFERENCE

## Objectives of the PAC Mechanism

- The mechanism shall aim
  - a) To promote the **mitigation of greenhouse gas emissions** while fostering **sustainable development**;
  - b) To incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities **authorized by a Party**;
  - c) To contribute to the reduction of emission levels in the host Party, which will benefit from mitigation activities resulting in **emission reductions that can also be used by another Party** to fulfil its nationally determined contribution; and
  - d) To deliver an **overall mitigation in global emissions**.

# Responsibilities of the Supervisory Body

- The SBM is tasked with developing and supervising the requirements and processes needed to operationalize the mechanism. This includes:
  - a) developing and/or approving methodologies,
  - b) registering activities,
  - c) accrediting third-party verification bodies, and
  - d) managing the Mechanism Registry.



## Objectives of the PAC Mechanism

- The Supervisory Body is composed of 12 members and 12 alternate members from Parties to the Paris Agreement.
- To ensure broad and equitable geographical representation, members are selected along the following criteria:
  - a) Two members (and alternates) from each of the five United Nations regional groups;
  - b) One member (and alternate) from the least developed countries;
  - c) One member (and alternate) from small island developing States.
- Members and alternate members serve in their individual expert capacity.



# Support Structure of the Supervisory Body

- The Supervisory Body is supported by a unit within the UNFCCC Secretariat. In addition specialised support is provided from a roster of experts disaggregated as follows:
  - a) Accreditation
  - b) Methodologies
  - c) Climate Policy

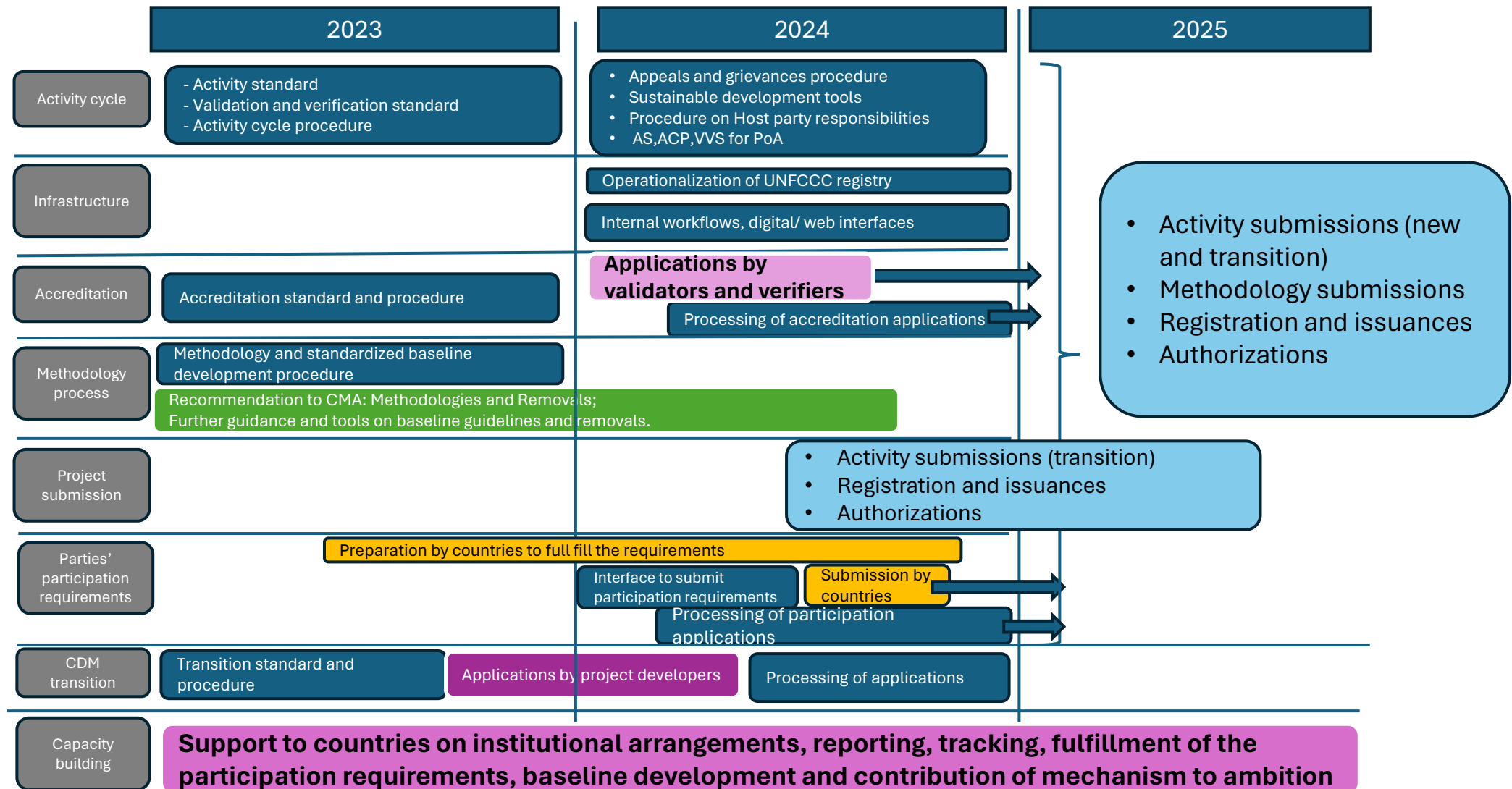
# Operationalization of the Paris Agreement Mechanism (PACM)

## Recalling Glasgow [COP26]



- Decision 3/CMA.3 **Rules, modalities and procedures (RMPs)** for the mechanism established by Article 6, paragraph 4, of the Paris Agreement - **December 2021**.
- First meeting of the Supervisory Body of the Mechanism – **July 2022**.

# Implementation: Where we are and what next?



## Aligning methodologies with the Paris Agreement (1)

- Additionality/Avoid leakage/Non-permanence and reversals
- Encouraging ambition over time
- Being real, transparent, conservative, credible, below business as usual
- Contributing to the equitable sharing of mitigation benefits between participating Parties
- Aligning with the NDC of each participating Party, if applicable and LT-LEDs, if it has submitted one and the long-term goals of the Paris Agreement

## Aligning methodologies with the Paris Agreement (2)

- Aligning with the long-term temperature goal of the Paris Agreement
- Ambitious baseline.
- Encouraging broad participation.
- Including data sources and accounting for uncertainty
- Recognizing suppressed demand.
- Taking into account policies and measures and relevant circumstances
- Standardized baselines

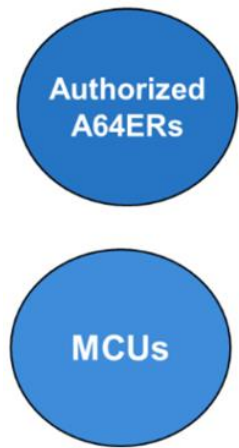
## Types of Units to be Issued by the Mechanism

- Registered activities issue A6.4ERs, which come in two types:
  - **Authorized emission reductions** (AERs): Authorized for use towards NDCs or for other international mitigation purposes.
  - **Mitigation contribution units** (MCUs): Non-authorized units.

## The Mechanism Registry (and Mechanism Information System)

- The Mechanism Registry is a standardized electronic accounting database that ensures accurate accounting of the issuance, holding and acquisition of Issued A6.4ERs, in particular MCUs and authorized A6.4ERs, and CERs eligible for transition.
- Scope of operations: unit tracking from issuance to use.
- Goal: Facilitate reporting, enhance transparency, accountability and trust among Parties.
- Mechanism registry would be in place by Oct 2024 to issue A.6.4 units.





Issuance to pending acc.

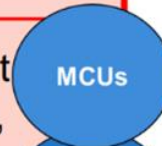
Holding account  
Activity Participant  
*(in the activity generating the units)*

SOP Adapt. account

Holding account  
*(any Party/activity participant)*

Retirement account  
(use for NDC)

Cancellation accounts  
(mandatory/volunt  
OMGE, voluntary,  
admin. purpose)  
OIMP



## Sustainable Development Tool (Mandatory)

- The Article 6.4 sustainable development tool provides a step-wise approach for activity participants to assess, demonstrate and monitor potential negative environmental and social impacts and potential positive and negative contributions to the Sustainable Development.
- This tool is divided into sections:
  - a) Environmental and social safeguards:** identify, mitigate and minimize adverse environmental and social impacts that may arise during the implementation of an activity;
  - b) Sustainable development Impact:** the assessment, demonstration, and monitoring of an activity's impact to sustainable development.

## Participation Requirements and Host Party Responsibilities

- To date **74 countries designated national authorities** to deal with A.6.4, with two countries fulfilled their participation responsibilities.

# Host Party Responsibility “Shall”

| RMP para                | Content   |
|-------------------------|---|
| Para 26                 | Party to the Paris agreement  |
|                         | Prepared and communicated NDC/LT-LEDS (if applicable)   |
|                         | Designate a DNA and communicate   |
|                         | Indicate public to SB contribution to the sustainable development   |
|                         | Indicate publicly type of the Article 6.4 activities that it would consider approving to SB contribution to the sustainable development |
|                         | How such activity and associated emission reductions contribute to the NDC  |
| Para 28                 | Ensure on continuous basis maintaining the NDC as per Article 4.2   |
|                         | Participation contributes to the implementation of the NDC/LEDS as applicable   |
| Para 57 (project cycle) | Renewal of crediting period approved by the host party  |
| Para 43 , 69 (c )       | Application of corresponding adjustments to the authorized 6.4 ERs  |

# Host Party Approval and Authorization

Approval of activity by host Party

The [host Party](#) provide approval to the activity para 40.

The [host Party](#) received request for transition 73 (a)

The [host Party](#) provide approval to transition activity 73 (b).

Authorization of activity participants by host Party

The [host Party](#) shall provide to the Supervisory Body the Article 6, paragraph 4(b), authorization of public or private entities to participate in the activity as activity participants under the mechanism.(para 41)

The [participating party](#) to provide authorization to the participants to open holding account.

Authorization of activity participants by non-host Party

45. [Other participating Parties](#) shall provide to the Supervisory Body the Article 6, paragraph 4(b), authorization for public or private entities to participate in the activity as activity participants under the mechanism [prior to any first transfer of any A6.4ERs](#) to the mechanism registry account of such Party or public or private entity.

# Approval of Activity by the Host Party – What information to include

Approval of the activity by the host Party

*(prior to a request for registration)*

(a) Confirmation that and information on how the activity fosters sustainable development in the host Party;

(b) Approval of any potential renewal of the crediting period, if the Party intends to allow the activity to continue beyond the first crediting period, where the Party has specified that the crediting periods of Article 6, paragraph 4, activities that it intends to host may be renewed pursuant to paragraph 27(b) above

(c) Explanation of how the activity relates to the implementation of its NDC and how the expected emission reductions or removals contribute to the host Party's NDC and the purposes referred to in Article 6, paragraph 1.

# Article 6.4 Activity Authorization

Authorization of the activity by the host Party (para 42)

Statement to the SBM on Authorization of Article 6.4 ER / Other International Mitigation Purposes (OIMP)

Information on Authorization (applicable terms and conditions)

Specific to OIMP how the Host Party defined first transfer

# Host Party Responsibility “May”

Host Party

Development of mechanism methodologies, including applying baseline and other methodological requirements, including additionality

*(a host Party may determine a more ambitious level at its discretion)  
(Standardized baselines may be developed by the Supervisory Body at the request of the host Party or may be developed by the host Party)*

Application of the crediting periods and renewal of crediting periods consistent with or more stringent than as set out in chapter V.A, C and I

Subject to and consistent with these rules, modalities and procedures, under the supervision of the SB, and subject to further relevant decisions of the CMA, with an explanation of how those approaches and requirements are compatible with its NDC and, if it has submitted one, its LT-LEDS;



# Host Party Involvement in the Activity Cycle

| RMP para | Content   |
|----------|---|
| Para 35  | Mechanism methodology may be developed by the host party                          |
| Para 37  | Standardized baseline can be developed at the request of the host party           |
| Para 39  | An LDC/SIDS HP may request 6.4 SB to apply simplified approach for additionality. |
| Para 62  | Appeal a decision taken by A.6.4 SB and request grievance                         |
| Para 70  | HP may request for voluntary cancellation.  |
|          | May request for review of a registration or issuance                              |

# SBM Relationship with Host Party DNAs

| RMP para         | Content   |
|------------------|---|
| Para 24 a (viii) | SB Roles and responsibilities: Approval and supervision of:                               |
|                  | Host party national arrangement of operational entity                                     |
|                  | Development of mechanism methodology  |
|                  | Crediting periods / Renewal of crediting period   |
|                  |   |
| Para 24 (b) (iv) | Facilitative dialogue with the host party and other stakeholders                          |
| Para 24 (b) (v)  | Public information on all registered and issued Article 6 activities hosted by each party |
| Para 63          | Mechanism Registry to have holding/retirement account for the host party                  |

## Article 6.4 COP28 Outcomes

## COP28 Outcomes related to Article 6.4

- Coming out of COP28 the following matters are still unresolved and are important for the operationalization of the Article 6.4 mechanism:
  - the recommendations of the 6.4 Supervisory Body relating to the requirements for the development and assessment of methodologies and the guidance on activities involving removals.
  - Functions of the Registry Mechanism and its interoperability with national registries and the international registry.

## SBM Work Post COP28

- The SB in its work to operationalize the PACM;
  - a) Will fulfil all mandates and tasks assigned to it in accordance to the Rules, Modalities and Procedures (RMP)
  - b) Forward recommendations to CMA 6 in Baku, Azerbaijan,
  - c) Inform the CMA of its progress and seek further guidance, as needed,
  - a) Develop standards, guidelines, and tools as necessary to enable the approval of A6.4 methodologies and thus registration of new A6.4 activities without delay.

## Why use the PACM? Its advantages...

- Highest level of international recognition through multilateral governance/standards/oversight.
- Strong provisions regarding environmental integrity, sustainable development and stakeholder input.
- Funding for adaptation to build resilience to the inevitable impacts of climate change for developing countries.
- Standardized approach to implementation.
- Parties can request changes to the mechanism through the UNFCCC process.
- Allows Parties with bilateral agreements to generate ITMOs (Authorized 6.4ERs internationally transferred).



**THANK  
YOU!**

Ideas  
to  
Action