

## Evaluation of options for reporting under Article 6.2 of the Paris Agreement

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### Summary

Article 6 paragraph 2 (Article 6.2) of the Paris Agreement (PA) provides an overall framework for countries to use internationally transferred mitigation outcomes (ITMOs) from using a cooperative approach to achieve their nationally determined contributions (NDCs). The international negotiations on detailed guidance of Article 6 are expected to be concluded at COP26 in November 2021. However, it is likely that those countries engaging in a cooperative approach under Article 6.2 will be required to submit three types of reporting, based on the current draft guidance<sup>1</sup>. These three types of reporting are initial report, annual information, and regular information.

In this paper, we provide a summary of reporting options and its evaluation for the three information items which are required in the initial report and regular information (Table 1): 1) Timing of submission of the initial report; 2) Arrangements for authorisation of the use of ITMOs; and 3) Quantity of ITMOs applied for corresponding adjustments (CAs). We evaluated reporting options based on two criteria: transparency and administrative effectiveness.

Discussion and evaluation of the reporting options were conducted at several discussion sessions organised by IGES researchers with the countries participating in the Joint Crediting Mechanism<sup>2</sup> (JCM). The JCM is a cooperative approach that Japan implements with its partner countries and is to be set up under Article 6.2.

**Table 1. Summary of reporting options and evaluation for three information items**

Information items (paragraph number in the draft guidance)	Reporting options	Evaluation
1. Timing of submission of the initial report (18)	Option 1. Before 2024 (e.g. in 2023) Option 2. In 2024, in conjunction with first biennial transparency report (BTR)	Option 1. May have increased transparency and less administrative effectiveness Option 2. Increased administrative effectiveness and high transparency
2. Arrangements for authorisation of the use of ITMOs (18 (a))	Governance of authorisation: Option 1. Bilateral Option 2. Unilateral	Option 1. Increased administrative effectiveness Option 2. Less administrative effectiveness
	Level of authorisation: Option 1. Scheme Option 2. Project Option 3. ITMOs transfer level	Option 1. Increased administrative effectiveness (lack of detailed guidelines) Option 2. Increased administrative effectiveness Option 3. Least effective
3. Quantity of ITMOs applied for CAs (23 (f))	Option 1. Vintage year data Option 2. First transfer year data	Option 1. High transparency and less administrative effectiveness Option 2. Less transparency and increased administrative efficiency

<sup>1</sup> Annex to DRAFT TEXT on Matters relating to Article 6 of the Paris Agreement: Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement (Version 3 of 15 December 00:50 hrs.) [https://unfccc.int/sites/default/files/resource/DT.CMA2\\_i11a.v3\\_0.pdf](https://unfccc.int/sites/default/files/resource/DT.CMA2_i11a.v3_0.pdf)

<sup>2</sup> Joint Crediting Mechanism (JCM) <https://www.jcm.go.jp/>

## 1. Introduction

Article 6 of the Paris Agreement (PA) allows countries to engage voluntarily in cooperative approaches to achieve their nationally determined contributions (NDCs). By doing this, countries can pursue higher ambition for their emission reduction target, and promote environmental integrity and sustainable development. Article 6 paragraph 2 (Article 6.2) of the PA recognises that countries involved in a cooperative approach can make use of internationally transferred mitigation outcomes (ITMOs) to achieve their NDCs. In other words, Article 6.2 provides a general framework on accounting of ITMOs for those countries engaging in a bilateral agreement. Countries participating in such cooperative approaches are required to submit reporting under Article 6.2 of the PA. The detailed guidance and rulebook on Article 6, including reporting under Article 6.2, are still under negotiation, and it is expected that the representatives of the countries that signed the PA will conclude these negotiations at the upcoming COP26 in Glasgow, United Kingdom in November 2021. However, the draft text on “Matters relating to Article 6 of the Paris Agreement: Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement”<sup>1</sup> (hereafter referred to as the draft guidance) states that three types of reporting are required to be submitted by the countries involved in a cooperative approach. The three types of reporting are an initial report, annual information, and regular information.

This paper highlights several options for the three information items required in the initial report and regular information, and then provides evaluation for each reporting option. The three reporting items are 1) timing of submission of the initial report; 2) arrangements for authorisation of the use of internationally transferred mitigation outcomes<sup>3</sup> (ITMOs); and 3) quantity of ITMOs applied for corresponding adjustments<sup>4</sup> (CAs). It is important that those countries participating in a cooperative approach under Article 6.2 initiate discussions on these items, since they involve domestic arrangements required by each country. Moreover, it is vital to elaborate on the views held by different countries on these reporting items, so that reporting under Article 6.2 can be practical and feasible for many participating countries.

The options for reporting items were identified and discussed during the Mutual Learning Program (MLP) for Enhanced Transparency. Following this, the options were discussed and evaluated at the Asian Transparency Workshop (ATW)<sup>5</sup>, where they received further feedback. Both of these events were implemented by IGES along with its partner organisations from the Joint Crediting Mechanism (JCM) partner countries in 2020 and 2021. The aim of the MLP and ATW was to enhance capacity building and understanding of Article 6.2, and make preparations with the JCM partner countries for future reporting. The purpose of the JCM, a bilateral mechanism between Japan and 17 partner countries, is to ensure diffusion of advanced low-carbon technologies and products. Under this mechanism, generated greenhouse gas (GHG) emission reduction is used to achieve the emission reduction target for both participating countries. Since the JCM is one of the cooperative mechanisms as set out under Article 6.2 of the PA, it was taken as an example for discussion and evaluation. This paper therefore focuses on reporting items limited to the Article 6.2 cooperative approach. The options for the above three reporting items are evaluated based on two criteria, which were identified ex-post, following analysis of the MLP discussions:

- Enhancement of transparency: This looks at how reporting information is provided in a transparent manner to the international community in order to fulfill the enhanced transparency framework (ETF) under the PA.
- Administrative effectiveness: This sets out how to avoid excess administrative burden and ensure efficiency when participating Parties report ITMOs using a cooperative approach under Article 6.2 of the PA.

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<sup>3</sup> Internationally transferred mitigation outcomes (ITMOs) refers the authorized emission reductions and removals from cooperative approaches, which transferred internationally to be used for the achievement of NDC or other international mitigation purpose<sup>1</sup>.

<sup>4</sup> Corresponding adjustments (CAs) is to adjust GHG emission if ITMOs are transferred between two countries. The acquiring party subtracts the quantity of ITMOs from GHG emission and the transferring party add the same amount of ITMOs on GHG emission<sup>1</sup>.

<sup>5</sup> The Asian Transparency Workshop, <https://www.iges.or.jp/en/events/20201214>

## 2. Options of reporting items related to:

### 2-1. Timing of submission of the initial report

#### *Background information:*

The initial report covers information on the responsibilities of each of the participating countries involved in a cooperative approach. These include, but are not limited to, arrangements for authorising the use of ITMOs to achieve NDCs. The participating countries set out ITMO metrics, the method for CAs for multi-year or single-year NDC, and give quantified mitigation information in their NDCs in tCO<sub>2</sub>e including sectors, sources and GHGs. In their initial report, countries also provide a description of the approach and expected mitigation information for each cooperative approach.

#### *Options on timing of submission:*

According to the draft guidance<sup>6</sup>, we consider there are two potential options for the timing of submission of the initial report:

- Option 1. Before 2024, “before initial first transfer of ITMOs from a cooperative approach” Para. 18 of the draft guidance<sup>6</sup> (e.g. between 2022 and 2023)
- Option 2. In 2024, “in conjunction with the first biennial transparency report (BTR)” Para. 18 of the draft guidance<sup>6</sup>, assuming that the initial report needs to be submitted only once.

#### *Evaluation of the options:*

Option 1. Submitting the initial report before initial first transfer of ITMOs from a cooperative approach (before 2024) may increase transparency since it is submitted before acquiring and transferring the first ITMOs. It also can create additional work on coordination from the administrative point of view. However, the report only provides a simple description and contains less detailed information due to time limitations.

Option 2. In conjunction with the first BTR (in 2024) would increase administrative effectiveness because it can be aligned with BTR preparation work. This option would thus reduce any burden associated with extra coordination and communication, both internally and externally. Moreover, it can allow the participating countries to include more comprehensive data and information related to ITMOs from a cooperative approach in their BTR, which would enhance the transparency and accuracy of the data. This option could also provide more preparation time for countries to set up the necessary infrastructure for tracking ITMOs and carry out proper coordination with partner countries.

### 2-2. Arrangements for authorisation of ITMOs

#### *Options on arrangements for authorisation of ITMOs:*

We identified the following two types of arrangements for authorising of the use of ITMOs, which the participating countries need to set out and report in the initial report as described in Para. 4 of the guidance draft<sup>7</sup>:

- Governance of authorisation: This refers to how arrangements are carried out. This arrangement is further divided into two options:

<sup>6</sup> In Para. 18 of the draft guidance<sup>1</sup>, the timing of submission of the initial report is described as “Each participating Party shall submit an Article 6, paragraph 2 initial report (initial report) no later than the time of providing or receiving authorisation or initial first transfer of ITMOs from a cooperative approach and where practical, in conjunction with the next due biennial transparency report pursuant to decision 18/CMA.1 for the period of NDC implementation”.

<sup>7</sup> Para 4 of the draft guidance<sup>1</sup> “Each participating Party shall ensure that: (c) It has arrangements in place for authorizing the use of ITMOs towards NDCs...”.

- Option 1. Bilateral
- Option 2. Unilateral
- Level of authorisation of ITMOs: This means at what level the authorisation is arranged. We consider three options can be managed in this arrangement in terms of level of authorisation.
  - Option 1. Scheme level
  - Option 2. Project level
  - Option 3. ITMOs transfer level

*Evaluation of the options:*

- Governance of authorization

Option 1. Bilateral authorisation can utilise existing arrangements developed for cooperative approaches by representatives from both participating countries. This option is more efficient and requires less administrative work since countries can authorise the use of ITMOs at high-level joint meetings or committees, thereby making use of existing infrastructure for the bilateral agreement under Article 6.2.

Option 2. Unilateral authorisation would require new arrangements in the country, because in this arrangement, ITMOs from a cooperative approach are authorised by the respective government in each country. This arrangement is separate from the bilateral agreement between countries participating in a cooperative approach. This option may not be effective from an administrative perspective, since it requires additional coordination in terms of the timing of authorisation with the partner country. On the other hand, this type of arrangement could be efficient if the country also authorises any ITMOs from cooperative approaches at the same time.

- Level of authorisation of ITMOs

Option 1. Scheme level authorisation — automatically authorises all transfers of mitigation outcomes from that specific cooperative approach. This option can reduce administrative work in terms of coordination between countries and stakeholders. However, it may lack detailed and constructive regulations and guidelines related to transferring ITMOs from each project under that authorised mechanism (scheme).

Option 2. Authorisation at the project level, meaning automatic authorisation for all transfers from particular authorised projects, is an efficient approach in terms of administrative effectiveness. According to our analysis, in order for this option to work effectively, it should align with the existing registration and approval processes for the project that emerged from a cooperative approach.

Option 3. ITMOs transfer level requires authorisation for each transfer of mitigation outcomes. This arrangement is less efficient and would increase the administrative burden due to the need for additional coordination for each ITMO transfer. Moreover, it would create uncertainty for project participants since authorisation is decided after the project has been developed and implemented.

### **2-3. Quantity of ITMOs applied for CAs**

*Background information:*

Regular information should be submitted as part of the BTRs and each country is required to report details of their cooperative approach including how ITMOs are acquired and used towards achievement of the NDC, as well as how the outcomes are used for other international mitigation purposes. In the regular information, countries include an annual information report, which contains annual and cumulative quantities of ITMOs (first transferred and used towards NDCs) as well as the annual emissions balance as tCO<sub>2</sub> eq. metrics information. For non-GHG metrics information, countries should report their annual adjustment consistent with CAs and assessment of NDCs achievement by taking account of CAs.

### Options on quantity of ITMOs for CAs:

To apply CAs, the participating countries need to consider the quantity of ITMOs as described in Para. 23 of the draft guidance<sup>8</sup>. We have discussed two options for reporting the quantity of ITMOs:

- Option 1. Vintage year data
- Option 2. First transfer year data

The vintage year is the year in which mitigation occurred, while the first transfer year is the year in which mitigation outcomes first transferred.

### Evaluation of the options:

Option 1. Using the vintage year for quantity of ITMOs for CAs is more transparent since this is reflected in the annual emissions balance. However, it could be burdensome for some countries to use the vintage year for reporting as they may lack the advanced infrastructure to track the vintage year of ITMOs. Therefore, this option may be less efficient from an administrative effectiveness viewpoint.

Option 2. If the first transfer year is used for quantity of ITMOs for CAs, the year which mitigation occurred becomes irrelevant. Therefore, it does not reflect actual annual mitigation outcomes for the annual emissions balance, showing a lack of transparency. Moreover, in this case, it will be necessary to consider whether to allow the use of mitigation outcomes from the NDC implementation period, if the transfer occurred after the NDC implementation period (Table 2). Hence, this option must also clarify an additional issue, namely how to address such ITMOs if countries use the first transfer year for CAs.

**Table 2: Image of quantity of ITMOs applied for CAs if the first transfer year is used<sup>5</sup>**

Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Cumulative amount
Mitigation outcomes (tCO <sub>2</sub> eq.)	11	9	10	9	10	11	11	10	9	10	-	100
Amount of credits issued/ first transferred (tCO <sub>2</sub> eq.)	-	-	20	-	-	-	-	-	-	-	80	100

Note: The data for the above table is based on the JCM credits issued for Japan from a hypothetical JCM project. The following assumptions are applied for developing this table:

- The implementation period for this hypothetical JCM project is from 2021 to 2030.
- The credits are issued only in 2023 and 2031.
- In this context, the issuance of credits are treated as first transfer.
- Both participating Parties have single year NDC target in 2030 with implementation period of 10 years.
- Both participating Parties use the average method for CAs.

<sup>8</sup> Para. 23 of the draft guidance<sup>1</sup> as “Each participating Party shall include the following annual information report, consistent with chapter III.B (Application of corresponding adjustments), in each biennial transparency report ... : (d) Annual and cumulative quantity of ITMOs used towards its NDC;”.

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