

Understanding Article 6.2 reporting with the JCM:

Experience from mutual learning program



Tomohiko Hattori^a, Supanut Chotevitayatarakorn^b, Chisa Umemiya^a,

Paweena Panichayapichet^b, Temuulen Murun^a, Kentaro Takahashi^a

^a Climate and Energy Area, IGES, ^b Thailand Greenhouse Gas Management Organization (TGO)

Executive summary

- Under Article 6 paragraph 2 (Article 6.2) of the Paris Agreement (PA), Parties may take cooperative approaches in the implementation and achievement of nationally determined contributions (NDCs). The draft guidance of Article 6.2 stipulates, inter alia, the reporting requirements for the participating Parties to engage in a cooperative approach to ensure environmental integrity and transparency by applying robust accounting, to avoid double counting and other issues.
- This paper presents and evaluates possible options for Article 6.2 reporting, drawing on the results of the Mutual Learning Program for Enhanced Transparency (MLP) and the Asian Transparency Workshop (ATW). The MLP offered an opportunity for participants to engage in a hypothetical Article 6.2 reporting drafting exercise using the Joint Crediting Mechanism (JCM) as an example of a cooperative approach. At the ATW, participants then held discussions to share their views on how Article 6.2 reporting can be realised in their countries in the future. Reporting requirements with possible reporting options are identified, and these options were evaluated using two criteria (i.e. transparency and administrative efficiency).
 - **Timing of submission of initial report (IR):** Higher levels of transparency can be achieved by submitting an IR at an early stage, no later than the time of authorisation or initial first transfer of mitigation outcomes. Alternatively, submitting the IR in conjunction with the next due biennial transparency report (BTR) can be more efficient in terms of administration.
 - **Methodology for calculation of the expected mitigation:** Although IR requires information on expected mitigation from a cooperative approach, there is no specific requirement to report the methodology used to calculate the expected mitigation. Reporting on the methodology will certainly enhance transparency, but it may reduce administrative efficiency if it requires inter-ministerial coordination between participating Parties to ensure that the reported approach and amount is consistent.

- **Arrangements for authorisation (governance):** JCM participating countries can apply the existing arrangements set by the Joint Committee (JC) to carry out bilateral authorisation of the first transfer of mitigation outcomes. In this way, countries can secure higher administrative efficiency compared with unilateral authorisation by individual governments. Unilateral authorisation must consider ways to align the timing and authorisation arrangement within each government as well as how this relates with the process of the JC.
 - **Arrangements for authorisation (Level):** Project level authorisation is in line with the existing project registration/approval process by the JC. Scheme level authorisation allows higher administrative efficiency as it is a one-time process, but it may be difficult for partner countries to regulate transfers of internationally transferred mitigation outcomes (ITMOs). On the other hand, transfer (credit issuance) level authorisation will be administratively less efficient.
 - **JCM credits issued by partner countries:** JCM credits issued by partner countries (host countries) are not ITMOs unless they are subsequently transferred internationally. There is no need to report on those credits which remain with the host countries. However, reporting them voluntarily could enhance overall transparency.
 - **Quantity of ITMOs used for corresponding adjustments (CAs):** Transparency can be enhanced if countries apply CAs using the quantity of ITMOs based on the vintage year to the emissions and removals of the respective year, as the actual year of emission reductions will be reflected in the emissions balance. In addition, if ITMOs are based on the vintage year, this will allow all mitigation outcomes during the NDC implementation period to be included, even if they are first transferred after the NDC implementation period. On the other hand, CAs using the quantity of ITMOs based on the first transfer year may enhance administrative efficiency if the vintage year cannot be tracked.
 - **Common information on the JCM:** JCM participating countries can enhance transparency by reporting common information on the JCM in regular information as an annex to the BTR containing commonly-agreed information. Alternatively, administrative efficiency is enhanced if countries prepare and report the common information on the JCM separately.
 - **Timing of reporting of ITMOs towards the implementation of NDCs:** Countries with a single-year target in their NDCs can enhance transparency of reporting if they report the use of ITMOs towards the implementation of their NDCs annually. On the other hand, they can enhance administrative efficiency by reporting the use of ITMOs towards the achievement of their NDCs once in the target year of their NDCs.
- Recommendations as actions for enhancing future reporting were as follows:
 - **For JCM participating countries:**
 - ✧ Coordination among the JCM participating countries

- ✧ Consideration on how arrangements for authorisation should be formed
- ✧ Possible refinement to the bilateral documents and JCM rules and guidelines
- **For international negotiation processes:**
 - ✧ Consideration on how to support capacity building in countries participating in Article 6.2
 - ✧ Balance between transparency and administrative efficiency must be ensured

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Abbreviation

AI	Annual Information
ATW	Asian Transparency Workshop
BTR	Biennial transparency report
CA	Corresponding adjustment
CDM	Clean Development Mechanism
CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
COP	Conference of the Parties
ETF	Enhanced transparency framework
GHG	Greenhouse gas
IGES	Institute for Global Environmental Strategies
IR	Initial report
ITMOs	Internationally transferred mitigation outcomes
JCM	Joint Crediting Mechanism
MLP	Mutual Learning Program for Enhanced Transparency
MOEJ	Ministry of the Environment, Japan
MPG	Modalities, procedures and guidelines
MURC	Mitsubishi UFJ Research and Consulting
NDC	Nationally determined contribution
NIR	National inventory report
OIMP	Other international mitigation purposes
PA	Paris Agreement
RI	Regular information
RMP	Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, or the Paris Agreement
TGO	Thailand Greenhouse Gas Management Organization

1. Introduction

1.1 Article 6 of the Paris Agreement (PA)

Implementation of the PA began in 2021 with a majority of the Parties entering into their first Nationally Determined Contributions (NDCs) implementation period (IGES, 2020). However, negotiations are still underway on Article 6 of the PA, which stipulates that “some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contributions to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity” (UNFCCC, 2015). At COP25/CMA2 in Madrid, Parties were not able to reach an agreement on further guidance to operationalise this article although the draft guidance for Article 6.2¹ (hereafter referred to as draft guidance), draft rules, modalities, procedures (RMP) for Article 6.4, and relevant decisions were developed (UNFCCC, 2019). It was expected that the draft guidance and RMP would be adopted at CMA1 (UNFCCC, 2015), however this issue will be carried over to COP26/CMA3 in 2021 due to the global outbreak of Covid-19 pandemic from 2020.

Article 6 broadly introduces three types of cooperative mechanisms implemented by two or more Parties: 1) cooperative approaches where Parties engage on a voluntary basis (Article 6.2); 2) a mechanism 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 (Article 6.4); and 3) non-market approaches (Article 6.8). In essence, the cooperative approaches under Article 6.2 and 6.4 mechanism can generate and involve transfer of mitigation outcomes, known as ITMOs, across participating countries.

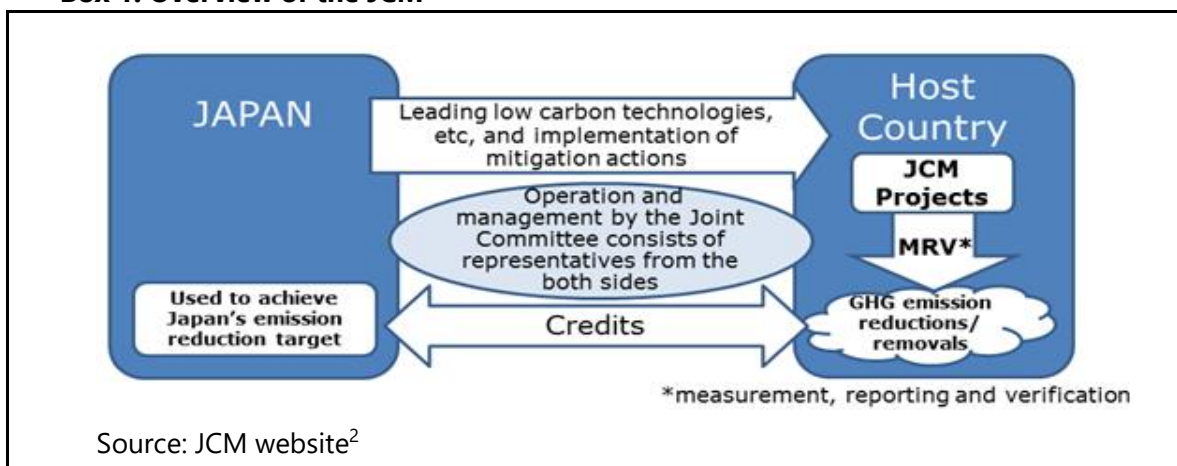
Article 6.2 is particularly relevant and important for the Parties whose NDC commitments refer to the potential use of ITMOs for their achievements (e.g. Japan and Switzerland) (Government of Japan, 2020 & Government of Switzerland, 2020). Article 6.2 mechanisms should also benefit sustainable development of host Parties, such as through, technology transfer and financial support from their partner Parties who are willing to obtain ITMOs in exchange. Further, in order to ensure environmental integrity globally, transparency of Article 6.2 mechanisms through reporting will be crucial, including reporting on the use of ITMOs towards achieving NDCs. In addition, rigorous reporting guidance will be essential to ensure avoidance of double counting and integrity in implementation and achievement of NDCs.

This report addresses transparency issues under Article 6.2, taking the Joint Crediting Mechanism (JCM; see Box 1) as an example. The JCM is a bilateral mechanism that Japan implements with 17 partner countries for the purpose of diffusion of leading low-carbon technologies and products, while using generated emission reductions to achieve its emission reductions target (Government of Japan, 2020). The draft guidance contains new elements, which were not part of the past reporting provisions on the use of international market mechanisms (e.g. corresponding adjustments (CAs)) (UNFCCC, 2019). In addition, there can be different interpretations of the draft guidance, due to the variety of cooperative approaches to be considered under Article 6.2.

¹ 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.

While existing literature has mainly examined the concepts of Article 6.2 reporting (Michaelowa et al., 2020, Asian Development Bank, 2020), there is room for discussion based on an actual Article 6.2 piloting scheme (i.e. the JCM) to provide a more practical understanding. This is especially helpful to enhance the comprehension of Article 6.2 reporting among countries who engage with Article 6.2 mechanisms, including those participating in the JCM. Discussions around Article 6.2 reporting from the implementers' point of view could also be useful for ongoing international negotiations on Article 6.2 ahead of COP26 and beyond.

Box 1: Overview of the JCM



Participating countries	Japan and its 17 partner countries (i.e. Bangladesh, Cambodia, Chile, Costa Rica, Ethiopia, Indonesia, Kenya, Lao , Maldives, Mexico, Mongolia, Myanmar, Palau, Philippines, Saudi Arabia, Thailand, and Viet Nam) (JCM website)
Number of registered projects	65, as of February 2021 (JCM website)
Amount of issued credits	89,736, as of February 2021 (JCM website)
Planned emission reductions or removals by 2030	50 – 100 million tCO ₂ (Government of Japan, 2020)

1.2 Objectives of the report

This report aims to provide practical insights by sharing discussions on Article 6.2 reporting with the JCM as an example. More specifically, it provides possible reporting options and various implications to enhance the understanding of potential Article 6.2 reporting among JCM participating countries. Finally, it proposes actions to take among JCM participating

² <https://www.jcm.go.jp/>

countries in preparation for future Article 6.2 reporting as well as among international negotiations for the future decision-making process.

1.3 Approach of the report

This report summarises the options of reporting for seven reporting requirements in accordance with the draft guidance resulting from the exercises and discussions held during the Mutual Learning Program for Enhanced Transparency (MLP) in 2020, where the Institute for Global Environmental Strategies (IGES) and Thailand Greenhouse Gas Management Organization (TGO) carried out Article 6.2 reporting exercises. These options were later evaluated and presented at the Asia Transparency Workshop (ATW) for further discussions with other organisations. Both activities were co-implemented by IGES and its partner organisations implementing the JCM, with the financial support from the Ministry of the Environment, Japan (MOEJ). Details of each activity are provided in below.

1.3.1 Mutual Learning Program for Enhanced Transparency (MLP)

With technical support from Mitsubishi UFJ Research and Consulting (MURC), IGES and TGO jointly implemented the MLP on the topic of Article 6.2 reporting, as a series of meetings from July to November 2020. The main objective of the MLP was to draft Article 6.2 reporting as an exercise, based on the draft guidance and current JCM implementation, making assumptions where the guidance was unclear or could invite multiple interpretations, and where data for reporting were not available. The draft guidance used in discussions is from the draft text version 3 of 15 December 2019. In the MLP, both IGES and TGO exchanged drafts and discussed what the possible implications would be for JCM participating countries. Due to the unexpected situation caused by the COVID-19 pandemic, the MLP was composed of three online meetings over the course of four months in 2020 (Table 1).

- At the kick-off meeting, participants discussed and agreed on the main exercise which was drafting hypothetical Article 6.2 reporting (i.e. initial report, annual information, and regular information) on the JCM and general timeframe of the programme.
- After exchanging deliverables for the exercise followed by document-based Q&A, participants had the main meeting for follow-up Q&A and discussions, as well as for setting the second exercise to improve the deliverables from the first exercise.
- Finally, participants met at a final meeting for presenting the improvements, Q&A, and sharing reflections of the overall MLP.
- As a follow-up activity, participants summarised the results of discussions by extracting the options of reporting and their evaluation.

1.3.2 Asian Transparency Workshop (ATW)

After completing the MLP in November 2020, participants from IGES and TGO shared the results of discussions at the Asian Transparency Workshop (ATW), which was organised by

IGES in collaboration with the UNFCCC-IGES Regional Collaboration Centre for Asia and the Pacific and Global Support Programme. The ATW was attended by about 40 participants (i.e. government officials in charge of reporting and/or implementation of international market mechanisms and international experts) from 10 countries. Since the JCM participating countries were also present, opinions were voiced from those countries.

Table 1: Overall schedule and contents of MLP and ATW in 2020

Months	July	August	September	October	November	December
Events	MLP					ATW
	Kick-off meeting	---	Main meeting	---	Final meeting	
Contents	- Introduction - Discussion on 1 st exercise	Submission of 1 st deliverable	- QA on 1 st deliverable - Discussion on 2 nd exercise	Submission of 2 nd deliverable	- QA on 2 nd deliverable - Overall discussion	- Sharing result of MLP - Discussion based on the result of MLP

This report consists of the following chapters. In Section 2, it provides an overview of Article 6.2 reporting requirements in accordance with the draft guidance. In Section 3, it presents the reporting options for seven reporting requirements as a result of discussions held during the MLP. These reporting options are evaluated based on the criteria identified ex-post and presented at the ATW. Finally, in Section 4, it proposes actions for future reporting in accordance with the reporting options and their evaluation.

2. Reporting requirements in the draft guidance

2.1 Overview

According to the draft guidance of Article 6.2, the reporting on cooperative approaches under Article 6.2 will be based on the three types of reporting (i.e. initial report (IR), annual information (AI), and regular information (RI)). Reporting requirements including the timing for each of the three types of reporting, are described in the draft guidance. Some reporting requirements overlap between multiple types of reporting (Table 2), so it is important for reported information to be consistent. The draft guidance requires both qualitative information including descriptions and quantitative information mainly of ITMOs. The summarised reporting requirements for the three types of reporting are set out in Table 2.

Table 2: Reporting items for three types of reporting (Modified from Hattori et al., 2020)

Reporting requirements		IR	AI	RI
1	Fulfilment of participation responsibilities, including: <ul style="list-style-type: none"> NDC communication pursuant to Article 4.2 Arrangements for authorising the use of ITMOs towards NDCs pursuant to Article 6.3 and for tracking of ITMOs Provision of the most national inventory report (NIR) pursuant to decision 18/CMA.1 	✓		✓
2	Description of NDC pursuant to paragraph 64 of the annex to decision 18/CMA.1, if biennial transparency report (BTR) has not been submitted	✓		
3	ITMO metrics and method for CAs	✓		
4	Mitigation information in NDC in tCO ₂ eq, including sectors, sources, GHGs and time periods covered by NDC; or methodology for the quantification of the NDC in tCO ₂ eq	✓		
5	Description of cooperative approach including expected mitigation and the participating Parties	✓		
6	Information on authorisation of first transfer and use of ITMOs towards NDCs and other international mitigation purposes (OIMP)			✓

7	How CAs are representative of progress towards NDC and ensure participation does not lead to a net increase in emissions			✓
8	How to ensure that ITMOs acquired and used towards NDC or OIMP will not be further transferred, cancelled or used			✓
9	How to contribute to mitigation of GHG emissions and implementation of NDC			✓
10	How to ensure environmental integrity			✓
11	How to measure mitigation outcomes in accordance with the methodologies and metrics by the IPCC			✓
12	Consistency with sustainable development objectives of the host Party			✓
13	Annual and cumulative emissions and removals from the sectors and GHGs covered by NDC			✓
14	Annual and cumulative quantity of ITMOs first transferred, used towards its NDC, authorised for use for OIMP, specifying the cooperative approach, sector, transferring Party, using Party and vintage year			✓
15	Annual information on ITMOs (authorisation including for OIMP, first transfer, transfer, acquisition, holdings, cancellation, use towards NDCs, voluntary cancellation), specifying as applicable, the cooperative approach, OIMP, first transferring party, using party, vintage year, sector and activity type		✓	
16	Annual emissions balance consistent with application of CAs			✓
17	Application of the necessary CAs and assessment of achievement of the NDC in BTR that contains the end year of the NDC period			✓

For the three types of reporting, the reporting requirements (what), the timing of reporting (when), and how to report (how) can be summarised in 2.2, according to the draft guidance.

2.2 Initial report (IR)

- **What:** There are five major reporting requirements required for an IR (Table 2). For reporting requirements relevant to NDCs, special circumstances will be considered for the least developed countries and small island developing states in accordance with Article 4.6 of PA and further decisions of the CMA. For those Parties participating in multiple cooperative approaches, the information for each cooperative approach needs to be reported.
- **When:** The timing of submission of the IR is described as “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”.
- **How:** The draft guidance does not specify how to report the IR, however all reported information will be included in a centralised accounting and reporting platform.

2.3 Annual information (AI)

- **What:** Detailed quantitative annual information on ITMOs shall be reported.
- **When:** AI is to be reported annually.
- **How:** AI is to be reported via Article 6 database managed by the UNFCCC.

2.4 Regular information (RI)

- **What:** RI includes both qualitative and quantitative information on cooperative approaches, each Party’s participation, and a quantitative annual information report with information on the emissions balance. The IR should include information on whether participation responsibilities were met, any updates, and information on authorisation. It should be pointed out that many reporting requirements of the RI are asked with ‘how’, thus requiring further guidance to ensure common interpretation among Parties (Michaelowa et al., 2020). An annual information report is required to calculate the emissions balance, which is calculated using annual and cumulative data of emissions and removals and ITMO data.
- **When:** RI is to be reported at the timing of each BTR submission (See Box 2).
- **How:** RI is to be reported as part of BTRs.

Box 2: Relationship between Article 13 and Article 6.2 reporting

An Enhanced Transparency Framework (ETF) as stipulated in Article 13 was already agreed at CMA1 under COP24 with modalities, procedures, and guidelines (MPGs) which specify reporting requirements for BTRs, the first of which is to be submitted by no later than the end of 2024. BTRs will contain information on Article 6.2 as part of mitigation actions towards implementation and achievement of NDCs. Article 6 reporting is closely linked to the ETF processes with much of the information to be reported as part of or possibly in conjunction with BTRs (Michaelowa et al., 2020). At CMA3 under COP26, adoption of Article 6 as well as design of reporting formats for BTRs in line with Article 6 will be listed as issues to be decided (Rocha and Ellis, 2020).

3. Reporting options and their evaluation

This chapter introduces the reporting options and their evaluation for seven reporting requirements in the draft guidance (Table 3), based on the exercises and discussions in the MLP and the ATW. For other reporting requirements (Table 2), similar views were expressed by the participants from TGO and IGES as to what and how to report. Hence, this chapter focuses on the seven reporting requirements for which different options were developed and discussed in the MLP.

3.1 Assumptions

In the MLP, the exercise to draft three types of reporting, with the JCM as an example, was implemented in accordance with the draft guidance, which inevitably required making assumptions where necessary. While actual information and data were used as much as possible, assumptions were made for reporting requirements without relevant information at the time of drafting. Some examples of assumptions include arrangements for authorisation, method of CAs, and quantitative data (e.g. JCM credits and emissions and removals). For some reporting requirements such as the amount of JCM credits, it was also an option to use past data as hypothetical future data. Where the draft guidance did not provide specific conditions (e.g. arrangements for authorisation), it was assumed that decisions depended on the participating countries. The following paragraphs introduce relevant points with possible reporting options based on the hypothetical drafting of the three types of reporting.

3.2 Evaluation criteria

From the follow-up discussions after the drafting exercise, two criteria used in evaluating different options for reporting were identified ex-post:

1. **Transparency:** How information is provided in a transparent manner, recognising that Article 6.2 requires participating Parties to, inter alia, ensure transparency, including in governance.
2. **Administrative efficiency:** How administrative burden is avoided and its efficiency secured. While this principle is not explicitly referred to in Article 6 per se, the recognition of avoidance of undue burden is among the key principles required to be taken into account when developing the MPGs for the enhanced transparency framework (Decision 1/CP.21, paragraph 92 (f)) which is closely linked to Article 6.2 reporting.

The participants of the MLP evaluated reporting options based on these criteria.

Table 3: Summary of reporting options for the seven reporting requirements in the draft guidance and their relevance to three types of reporting

Discussion points		IR	AI	RI
1	Timing of submission of Initial report A) <i>"no later than the time of providing or receiving authorization or initial first transfer of ITMOs"</i> (i.e. before 2024) B) <i>"in conjunction with the next due BTR"</i> (i.e. 2024)	✓		
2	Methodology of calculation for the expected mitigation A) Report without methodology B) Report with methodology	✓		
3-1	Arrangements for authorisation (governance) A) Bilateral authorisation at the Joint Committee (JC) B) Unilateral authorisation by each government	✓		✓
3-2	Arrangements for authorisation (level) A) Scheme level B) Project level C) Transfer (credit issuance) level	✓		✓
4	Reporting of JCM credits issued by partner countries A) Report B) Not report		✓	✓
5	Quantity of ITMOs used for CAs A) Vintage year B) First transfer year			✓
6	Reporting on the common information on the JCM A) Report an Annex with agreed information among partner countries B) Report information prepared by each country			✓
7	Timing of reporting of the use of ITMOs towards the implementation of NDC A) Report every year B) Report cumulatively for the NDC target year		✓	✓

3.3 IR

In drafting the IR, the participants found four points with possible reporting options (Table 3).

3.3.1 Timing of submission of IR

The chapeau of paragraph 18 of the draft guidance refers to the timing for submission of the initial report:

18. Each participating Party shall submit an [initial report] no later than the time of providing or receiving authorization or initial first transfer of ITMOs [...] and where practical, in conjunction with the next due [BTR] [...]

Reading of the chapeau can lead to a possible different interpretation, particularly on how to determine “where practical”. There could also be a different interpretation on whether the draft guidance allows a Party to decide to submit an initial report before or in conjunction with the BTR or, on the contrary, whether it restricts a Party to submit an initial report, depending on which case is earlier. In addition, there is the question of whether this may lead to a situation where a Party may be required to submit an initial report twice, once no later than the time of providing or receiving authorisation or initial first transfer of ITMOs, and then a second time in conjunction with the BTR when “practical”. Regardless, on the assumption that submission of the IR is required only once, there can be an evaluation of these two different timings, based on the criteria of transparency and administrative efficiency.

- 3.3.1.1 Reporting options and their evaluation
 - Option 1: “no later than the time of providing or receiving authorization or initial first transfer of ITMOs” (i.e. before 2024)
 - Mitigation actions can be accelerated by an international appeal on emission reductions at an early stage (as soon as possible is better).
 - There is more transparency when Parties report on their qualification of participation requirements to cooperative approaches and also on information on the JCM, prior to providing or receiving authorisation or initial first transfer of ITMOs.
 - The content should be less detailed because Parties have less time for preparation.
 - A reporting timeframe that differs from BTR may ensure that Parties are not overburdened when trying to prepare both reports at the same time.
 - Option 2: “in conjunction with the next due BTR” (i.e. 2024)
 - More efficient with less administrative cost and can be perceived as being simpler from the reporting Party’s point of view.

- BTR would be more comprehensive with information on mitigation actions to achieve NDC both in terms of domestic measures and cooperative approaches.
- Parties would have more time to set up infrastructure and necessary arrangements and to coordinate with partner countries.
- Considering the state of negotiations and possibly limited time after the agreement on relevant rules, this option may be more realistic

Table 4: Discussion points and their relevance to three types of reporting

Options	1. no later than the time of providing or receiving authorisation or initial first transfer of ITMOs	2. in conjunction with the next due BTR
Transparency	>	
Administrative efficiency	<	

*For example, when "1 > 2" for Transparency, 1 is considered to achieve higher transparency compared with 2.

It should be noted that while the evaluation is based on the assumption that Parties may provide or receive authorisation or initial first transfer of ITMOs prior to the time of submission of the BTR, some Parties may decide to submit the first BTR earlier than 2024. Additionally, to fully understand the administrative efficiency aspect of this issue could also depend on the domestic framework and arrangement for the NDC and reporting of different countries.

3.3.2 Methodology of calculation for the expected mitigation

Paragraph 18 of the draft guidance identifies the content of the initial report which also includes "a description of the approach, the expected mitigation and the participating parties involved" (paragraph 18 (f)). The requirement for a description of "the expected mitigation" stands out because countries may have different understanding on how to demonstrate this, including whether it should be reflected in a quantitative or a qualitative aspect. Practically, participating Parties may not start out by estimating the total expected quantity of mitigation outcomes to be generated from a cooperative approach they are engaged. Each participating Party may also have a different methodology in calculating the expected mitigation from the cooperative approach. In this regard, there is room for discussing whether reporting on the expected mitigation with a description of methodology is helpful, when taking into consideration the evaluation criteria.

- 3.3.2.1 Reporting options and their evaluation
 - Option 1: Report without methodology
 - Not required and may be considered as being unnecessary
 - Option 2: Report with methodology
 - Contribute to enhance transparency
 - May require inter-ministerial coordination between participating Parties to ensure that the reported amount is consistent

Table 5. Evaluation of options for methodology of calculation for the expected mitigation

Options	1. Report without methodology	2. Report with methodology
Transparency	<	
Administrative efficiency	>	

*For example, when “1 > 2” for Transparency, 1 is considered to achieve higher transparency compared with 2.

3.3.3 Arrangements for authorisation

Among the participation requirements for each Party engaging in a cooperative approach is assurance that “it has arrangements in place for authorizing the use of ITMOs towards NDCs pursuant to Article 6, paragraph 3, of the Paris Agreement.” (paragraph 4 (c)) This is transposed into reporting requirements both in the IR (paragraph 18 (a)) and RI (paragraph 21 (c)). While arrangements for authorisation can be seen as a domestic process, it is highly relevant in ensuring that participating Parties are reporting consistently on the amount of transfers and use of ITMOs. The case of the JCM can be explored in order to understand how Parties may report on authorisation. In the reporting exercise, different options for authorisation arrangements which implicate reporting on authorisation are explored from two perspectives (i.e. governance and level). For this discussion point, evaluation criterion is limited to administrative efficiency since discussions were focused on administrative efficiency from a domestic or bilateral perspective rather than on transparency from an international perspective. However, further discussions from a transparency viewpoint could be developed in the future.

Governance: Although arrangements for authorising the use of ITMOs towards NDCs have not been decided under the JCM, participants identified two possible forms of governance for authorisation (Figure 1). The first option is bilateral authorisation at the JC, which is an

existing decision body composed of representatives from both Parties. The other option is unilateral authorisation by each government.

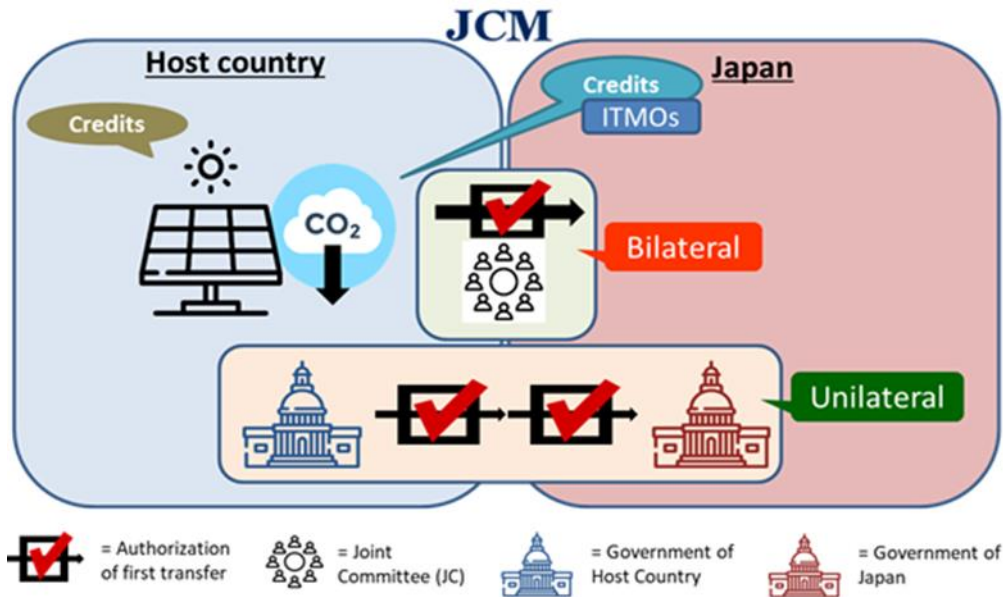


Figure 1. Options for governance of authorisation (Modified from Hattori et al., 2020)

Level: Another perspective looked at the level necessary for authorisation (Figure 2). The first possible option is authorisation as a scheme to automatically authorise all the transfers of mitigation outcomes (credit issuances) from all JCM projects. The second option is authorisation at project level, whereby all the transfers from authorised projects are automatically authorised. The third option is for each transfer to require authorisation.

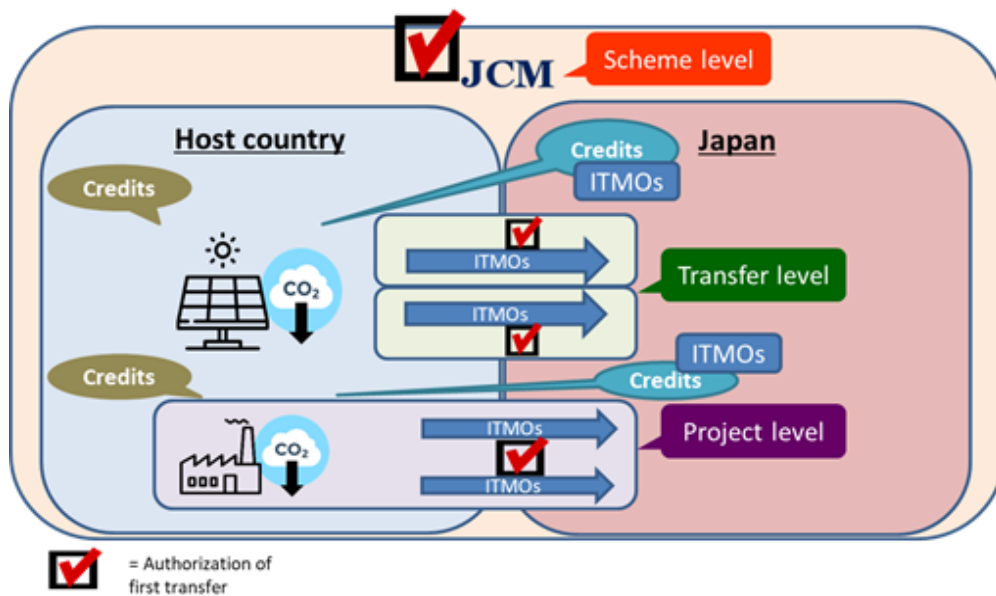


Figure 2. Options for level of authorisation (Hattori et al., 2020)

- 3.3.3.1 Reporting options for governance of authorisation and their evaluation
 - Option 1: Bilateral authorisation at the JC
 - Ensures consistency between partner countries.
 - Efficient with existing arrangement and rules of procedures for the JC, including annual meeting.
 - Competent since the JC members are selected by each partner country’s relevant ministries and agencies.
 - Partner countries may wish to build understanding on whether revision of the bilateral document may be necessary.
 - Option 2: Unilateral authorisation by each government
 - May be efficient if ITMOs from other schemes are authorised simultaneously.
 - May be appropriate when each partner country require careful unilateral consideration on allocation, transfers and CAs.
 - Necessary to consider the timing, arrangements and how it is related to the process by the JC.

Table 6. Evaluation of options for governance of authorization

Options	1. Bilateral authorization at the JC	2. Unilateral authorization by each government
Administrative efficiency	➤	

*For example, when “1 > 2” for Transparency, 1 is considered to achieve higher transparency compared with 2.

- 3.3.3.2 Reporting options for level of authorisation and their evaluation
 - Option 1: Scheme level
 - Simple to implement (one-time authorisation).
 - Partner countries may find it difficult to regulate the transfers of ITMOs unless clear criteria/rules are in place.
 - Option 2: Project level
 - Aligns with the registration/approval process of project by the JC.
 - Creates certainty for project developers.

- Option 3: Transfer (credit issuance) level
 - May create uncertainty for project developers.
 - Most stringent oversight.

Table 7. Evaluation of options for level of authorization

Options	1. Scheme level	2. Project level	3. Transfer (credit issuance) level
Administrative efficiency		>	>

*For example, when "1 > 2" for Transparency, 1 is considered to achieve higher transparency compared with 2.

In addition to the JCM, relevant existing processes and procedures of the partner country for other bilateral/international schemes which countries are familiar with, such as the CDM, can also be considered in order to build on existing arrangements and experience.

3.4 AI

There was not much room for further reporting options in the AI as this guidance is already specified and requires only quantitative information (Table 3).

3.4.1 JCM credits issued by partner countries

The draft guidance defines ITMOs as "emission reductions and removals [...] when internationally transferred" which are authorised by a participating Party for use for international mitigation purposes, including towards NDC and other international mitigation purposes (paragraph 1). JCM credits issued by the Japanese side can be considered as ITMOs (credits issued on the Japanese side are recognised as the first transfer) to be reported. However, the question remains as to whether the credits issued by partner countries should be similarly reported as they are not "internationally transferred"; rather they have the potential to be subsequently transferred should the rules permit. Under the evaluation criteria, it could be said that reporting on JCM credits issued by partner countries enhances transparency while maintaining administrative efficiency since the information is already readily available in the JCM designated registry of the partner country. The evaluation criterion is limited to transparency as the two reporting options have minimum impact on administrative efficiency of reporting.

- 3.4.1.1 Reporting options and their evaluation
 - Option 1: Report JCM credits issued by partner countries

- Although reporting is not required, reporting could enhance transparency
- Option 2: Not report JCM credits issued by partner countries
- Reporting is not necessary because JCM credits issued by partner countries are not ITMOs as long as they are not internationally transferred

Table 8. Evaluation of options for JCM credits issued by partner countries

Options	1. Report	2. Not report
Transparency	➤	

*For example, when “1 > 2” for Transparency, 1 is considered to achieve higher transparency compared with 2.

It should be noted that the JCM credits issued by partner countries are not subject to CAs. Therefore, even though the participating Parties may report these credits, they should be clearly separated from the credits issued by the Japanese side and should be differently treated.

3.5 RI

Reporting options on arrangements for authorisation in the RI are also relevant for RI (Table 3). In addition, as discussed for the annual information, whether to report JCM credits issued for partner countries is also relevant for regular information although they are not subject to application of CAs.

3.5.1 Quantity of ITMOs used for CAs

In order to report on RI, paragraph 23 of the draft guidance requires participating Parties to provide an annual information report. This should include information including annual and cumulative emissions and removals from the sectors and greenhouse gases covered by its NDC, annual and cumulative quantity of ITMOs first transferred/used, and a resulting annual emissions balance consistent with the application of CA (for tCO₂eq metrics). Recognising that the mitigation outcomes may not be transferred in the year in which the mitigation occurs (vintage year), it is questionable whether the vintage year or the first transfer year of ITMOs is relevant for the purpose of corresponding adjustment of the emissions and removals resulting in the emissions balance of any particular year. This becomes increasingly important when considering the target year of an NDC. If the “first transfer year” is used, it may be necessary to address whether to allow the use of mitigation outcomes that occurred during the NDC implementation period in case they are transferred after the NDC implementation period (Table 8).

**Table 9. Options for quantity of ITMOs used for CAs (hypothetical units in tCO₂ eq)
(Modified from Hattori et al., 2020)**

Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Vintage year	11	9	10	9	10	11	11	10	9	10	-	100
Transfer (credit issuance) year	-	-	20	-	-	-	-	-	-	-	80	100

*When a hypothetical JCM project has an implementation period of 10 years from 2021 to 2030 and credits are issued in 2023 and 2031.

- 3.5.1.1 Reporting options and their evaluation
 - Option 1: Vintage year
 - More transparent and relevant since the actual reductions affecting emissions and removals covered by the NDC that occurred in the vintage year.
 - Mitigation outcomes from NDC target year can be used.
 - Burden for countries which lack infrastructure to track vintage year.
 - Option 2: First transfer year
 - Annual emissions balance may not reflect the impact of a cooperative approach on actual emissions for the partner country.
 - Necessary to consider whether to allow the use of mitigation outcomes from NDC target year in case their first transfer is after NDC target year.

Table 10. Evaluation of options for quantity of ITMOs used for CAs

Options	1. Vintage year	2. First transfer year
Transparency	>	
Administrative efficiency	<	

*For example, when "1 > 2" for Transparency, 1 is considered to achieve higher transparency compared with 2.

It should be noted that, while CAs with the quantity of ITMOs based on the vintage year is technically reasonable, the ITMOs will only be reported and used for adjustment after they are transferred. Therefore, a process of true-up period similar to that which was applied in the Kyoto Protocol will also be relevant.

3.5.2 Common information on the JCM

Paragraph 22 of the draft guidance specifies the reporting of RI on a cooperative approach which is required to be included in the BTR. There should be information on mitigation contribution, environmental integrity, measurement of mitigation outcomes and contributions to sustainable development objectives. The aforementioned information pertains to the cooperative approach rather than being specific to each country's implementation. Therefore, it is likely or expected that Parties to each cooperative approach will report on similarly comparable information. This leads to consideration of how best to report on this descriptive information.

- 3.5.2.1 Reporting options and their evaluation
 - Option 1: Report as an annex to the BTR containing agreed information among participating Parties
 - Ensure avoidance of inconsistent information among partner countries.
 - May be difficult to coordinate among some or all of partner countries.
 - Option 2: Report separately using information prepared by each country
 - There will be overlap of information reported by partner countries.
 - More realistic from administrative viewpoint.

Table 11. Evaluation of options for common information on the JCM

Options	1. Report an Annex containing agreed information among partner countries	2. Report information prepared by each country
Transparency	>	
Administrative efficiency	<	

*For example, when "1 > 2" for Transparency, 1 is considered to achieve higher transparency compared with 2.

3.5.3 Timing of reporting of the use of ITMOs towards the implementation of NDCs

Parties may decide to acquire ITMOs from participating Parties during the NDC implementation period but then use the ITMOs to demonstrate achievement of the NDC in the target year. This is particularly relevant for Parties with single-year target NDCs. Therefore, it is questionable whether Parties should report on ITMOs used along the implementation period or only for the end year (Table 12). Paragraph 23 (d) of the draft guidance requires Parties to report on “annual and cumulative quantity of ITMOs used towards its NDC”, reporting on ITMOs used during the implementation period helps countries in identifying the indicative emissions balance used to evaluate the progress towards NDC. Nevertheless, the relevant emissions balance to demonstrate achievement of the NDC for a single-year target NDC will only be the balance in the target year only.

Table 12. Options for the timing of reporting of the use of ITMOs towards the implementation of NDC (hypothetical units in tCO₂ eq)

Year	2025	2026	2027	2028	2029	2030	Total
Report the use of ITMOs every year during the NDC implementation period	20	20	20	20	10	10	100
Report the use of the cumulative amount of ITMOs for the NDC target year	-	-	-	-	-	100	100

*When the country has a single year NDC target in 2030.

- 3.5.3.1 Reporting options and their evaluation
 - Option 1: Report every year during the NDC implementation period
 - Contribution to the progress towards NDC at early stage.
 - Option 2: Report cumulatively for the NDC target year
 - May be more aligned with the characteristic of the NDC (in case of single-year target).

Table 13. Evaluation of options for timing of reporting of ITMOs towards the implementation of NDC

Options	1. Report every year	2. Report cumulatively for the NDC target year
Transparency	>	
Administrative efficiency	<	

*For example, when "1 > 2" for Transparency, 1 is considered to achieve higher transparency compared with 2.

It should be noted that in paragraph 20 of the draft guidance, the annual information on ITMOs includes "acquisition", "holdings" as well as "use". Therefore, while the use of ITMOs may not occur during the NDC implementation period, Parties which acquire ITMOs will also report on those amounts under "acquisition" and "holdings".

Box 3: Comments from countries during the Asian Transparency Workshop

Some of the points explained in this report were presented by participants of the MLP at the ATW. Some of the reactions from workshop participants are as follows:

- **Timing of Submission of IR:** Many preferred to submit IR "in conjunction with the next due BTR (i.e. BTR1 to be submitted by 2024)" to "no later than the time of providing or receiving authorization or initial first transfer of ITMOs" for efficiency purpose and to ensure more time for preparation including coordination among partner countries. Earlier submission in 2022 or 2023 would contain less detailed information.
- **Arrangements for authorisation:** On the topic of arrangements for authorisation, many preferred to use the existing body of JC for efficiency. Project-level authorisation aligns with the existing process of project registration at the JC.
- **Quantity of ITMOs used for CAs:** Some participants were concerned that tracking the vintage year of mitigation outcomes could be difficult for schemes without sufficiently structured registries, while some agreed that vintage data should be available even with simple registries. In addition, some agreed that CAs based on the vintage year of mitigation outcomes are more transparent than for the first transfer year. This is quite a technical topic and more work is necessary to understand the implications with regard to NDCs.

Box 4: Showcase where draft guidance was unclear

In addition to the discussion points above, examples of areas where draft guidance was unclear are identified:

Type of reports	Examples of areas where draft guidance was unclear
1. Initial Report	<p>Interpretation of paragraph 18 (d) – Quantification of NDC</p> <p>Ambiguity: whether “..., including the sectors, sources, GHGs and time periods covered by NDC” indicates coverage (quantify only emissions inside the NDC within the time frame of NDC) or the requirement for break-down information (quantify for each sector, source, GHG and time period separately)</p>
2. Annual Information	<p>Latest reporting year of ITMOs</p> <p>Absence: submission year -1 or submission year -2 (similar to inventory)</p>
3. Regular information	<p>Interpretation of paragraph 21 (d) – Representativeness and avoidance of net increase in emissions</p> <p>Ambiguity: By applying the methods specified in the draft guidance, what needs to be further demonstrated for this purpose</p>

It should be noted that this exercise was conducted from a technical perspective and does not necessarily reflect the political understanding as to why certain areas of the draft guidance are left for possible varied interpretation.

4. Actions for future reporting

4.1 JCM participating countries

Coordination among the JCM participating countries: Discussions in the MLP imply that JCM participating countries should take some necessary actions. As the JCM involves 18 countries including Japan, it is expected that the coordination for these arrangements will take time if consistency is to be ensured between Japan and all of its partner countries. At opportunities such as the JC, countries could start sharing their perspectives with focus on priority issues.

Consideration on how arrangements for authorisation should be formed: Arrangements for authorisation for the JCM need to be determined in order for JCM credits to be ITMOs under Article 6.2. From this year, all the mitigation outcomes from JCM projects will be eligible as ITMOs as long as they are authorised by the governments of Japan and its partner countries. Considering that the IR may be required as early as 2022, arrangements for authorisation should be decided at an early stage. Another political decision needs to be taken on the method for CAs. Coordination is likely to require domestic discussion among relevant ministries as it could influence each country's NDC achievement.

Possible refinement to the bilateral documents and JCM rules and guidelines: These issues should be discussed with consideration on possible refinement to the bilateral documents and the JCM rules and guidelines as they are relevant to the fundamental part of the JCM. To align the development of all the arrangements, it is recommended that partner countries maintain regular coordination to establish a common understanding on reporting requirements and their implications for participation in the JCM.

4.2 International negotiations

Consideration on how to support capacity building in countries participating in Article 6.2: The results from the MLP can provide support to participating Parties so that they can make informed decisions and participate in the ongoing negotiations on Article 6.2. Capacity building, such as the MLP, provides Parties with a practical understanding on readiness and any constraints to potentially report in accordance with the provisions in the draft guidance. In addition, it enables participants to identify areas where the draft guidance is unclear and to build mutual understanding of the draft guidance.

Balance between transparency and administrative efficiency must be ensured: The MLP highlights the need to take into consideration the balance between transparency and administrative efficiency when addressing and making decisions on different reporting options in the draft guidance. To advance international negotiations, ensuring this balance can encourage acceptance of the guidance by countries as well as maintaining effective operationalisation of Article 6.2.

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Institute for Global Environmental Strategies (IGES)

Climate and Energy Area

2108-11 Kamiyamaguchi, Hayama, Kanagawa, 240-0115, Japan

Tel: 046-826-9592 Fax: 046-855-3809 E-mail: ce-info@iges.or.jp

www.iges.or.jp

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