Supporting adaptation through Article 6 of the Paris Agreement

ECBI-PCR workshop

Zoom
21 October 2021
Finance for adaptation through market-based cooperation

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21 October 2021
Lessons learned from the KP

- SoP → created as an alternative to an international tax under the KP

- Initially levied on the CDM, later also on Joint Implementation (JI), and International Emissions Trading (IET), to:
  - cover the administrative costs of international oversight by the stakeholders engaged in, and benefitting from, market-based cooperation.
  - raise funds for adaptation to assist developing countries

### Administrative share of proceeds
- directed towards administration expenses of the UNFCCC Secretariat
- monetary charge levied *ex ante* and at credit issuance
- Revenue: USD 356 million

### Adaptation share of proceeds
- directed towards the Adaptation Fund
- in-kind charge (2 percent of issued CERs)
- Revenue: USD 200 million

Revenue: USD 356 million
Adaptation share of proceeds

Revenue: USD 200 million
Adaptation share of proceeds
Lessons learned from the CDM

- **Unexpected funding generated by the administrative SoP and adaptation SoP.**
  - Administrative SoP >> Adaptation SoP
  - Insufficient funding for adaptation and accumulation of a surplus of collected administration funding
  - **Key lesson:** ensure both upwards and downwards flexibility of an administrative SoP

- **Sales revenues of CERs collected under in-kind SoP are highly dependent on market price, and accumulating CER reserves can be risky.**
  - World Bank (Adaptation Fund trustee) accumulated a significant CER reserve during the period of high CER prices that was only sold after prices had collapsed.

- **Monetisation guidelines for sale of CERs by the World Bank were too inflexible to prevent losses.**
Extension of SoP to Joint Implementation and International Emissions Trading

- **Adaptation SoP extended to JI and IET in second commitment period of the KP**
  - Proposed by developing countries (e.g., Argentina, China, Colombia and Costa Rica)
  - **Unchanged**: Adaptation SoP maintained at 2% of CERs issued; CDM project activities in LDCs to be exempt from SoP
  - **New**: For the 2nd commitment period, further 2% share of the proceeds to be levied on the first international transfers of AAUs and the issuance of ERUs for Article 6 [JI] projects immediately upon the conversion to ERUs of AAUs or RMUs previously held by Parties for the Adaptation fund
Levying SoP in cooperative approaches under Article 6.2

- Developing country Parties pushed for SoP to be extended to Article 6.2 at COP24
  - Argument → creates a balance between the various mechanisms and avoiding perverse incentives to prioritise one mechanism over another
  - Opposed by industrialised countries → argue that the bottom-up nature of A6.2 and the diverse approaches applied can make collection of SoP difficult (particular resistance for linked ETS)
  - Compromise at COP25 → voluntary “commitment to contribute” to adaptation finance; was not acceptable to all

- Key considerations:
  - If the SoP were a monetary contribution with flexibility on how to levy it, how should it be levied?
  - Avoidance of double levying of SoP for the 6.4 mechanism and resulting 6.2 transfers
  - Levy of SoP on ITMOs for ‘other international mitigation purposes’ and ‘other purposes’?
  - Levying SoP for meeting administrative costs in cooperative approaches
Levying SoP from Article 6.4 mechanism

- **Combination of monetary and in-kind SoP**
  - Strike a balance between stable income and the opportunity to benefit from high credit prices
  - Limits burden on project developers and reduces transaction costs
  - Level of in-kind SoP must be considered in the context of cancellations of ITMOs to generate OMGE (and implications for domestic use of A6.4M be explored)
  - Administrative expenses should be reassessed on a regular basis e.g., biannually

- **Levying SoP and the link to corresponding adjustments**
  - **Question**: how to reconcile SoP provisions with usage patterns of A6.4ERs?
  - Any in-kind levy of Article 6.4 credits for sale by the World Bank for the AF should ensure that the credits have a corresponding adjustment, to facilitate monetisation.
SoP beyond CDM and Article 6

Sub-national Contributions: Quebec in Paris

“Paris, 5 December: Today the Chair of the Least Developed Countries (LDCs) Group welcomed a pledge from the Quebec government of $ CAD 6 million to the Least Developed Countries Fund (LDCF).”[LDC Group Press Release]

- Pledges by the city of Paris ($1.3m) and three Belgian sub-nationals ($17.1m) to the GCF
The North American Potential

2 percent share of proceeds
- Quebec: $10 million/yr
- California: $125 million/yr
Shares of National Proceeds: European Potential

2 percent of the total allowances for 2021-30 under the EU ETS amount to 650 million allowances, when monetized in equal annual amounts at the current allowance price would raise €4 billion p.a., thus raising €80 million p.a.

14.3% (€240.7m) of earmarked revenue, goes to international climate and energy purposes.
Reaction from Panelists

- MJ Mace, AOSIS
- El Hadji Mbaye Diagne, AGN/Senegal
Promoting adaptation finance through the Article 6.8 work programme

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Research Director

21 October 2021
History of negotiations on Non-Market Approaches under Art. 6.8

- **Non-market approaches** have a long history in UNFCCC negotiations

- What is often forgotten: Article 6 explicitly recognises non-market based forms of international cooperation (NMAs)
  - Article 6.8: NMAs are to be integrated, holistic and balanced but not defined clearly
  - Article 6.9: Establishes a framework for NMAs
History of negotiations on NMAs between Paris and Glasgow

- **Objective and role** of the work programme
  - Some Parties fear a duplication of initiatives and instruments

- **What concrete NMAs** the work programme could look at?
  - Specific proposals: ABM, JMA mechanism, EBI

- **Three central issues in negotiations**
  - **Definition of NMAs**
    - Unclear, no consensus whether it should be financial or coordinative approaches
  - **Structure and governance of the framework**
    - Permanent or non-permanent governance structure?
    - Facilitative mechanism to mobilise finance for NMAs and a coordinative function for other UNFCCC bodies? (LMDCs)
    - Bottom-up, Party driven process with voluntary engagement and lessons sharing
  - **Objectives, modalities and instruments** of the NMA work programme
    - How to promote NMAs? With what objective and what resources?

- **Industrialized countries** fear finance negotiation spillover
- **Bolivia (and some others)** want balanced outcome
Key approaches to Art. 6.8 as per current status of negotiations

### Definition of NMAs
- Approaches to international cooperation
- Identified by participating Party
- Not include international transfer of mitigation outcomes
- Contribute to NDC implementation
- Ambition increase and exploitation of synergies

### Modalities and activities to promote NMAs
- Development of tools (e.g. web-based platform)
- Sharing of information
- Workshops and meetings
- Coordination with relevant bodies

### Establishment of an NMA forum
- Govern framework and implement work programme
- Meeting twice a year
- 1-year review after 4 years implementation: consider whether new institutional arrangements are needed
Links to adaptation

Contribution of Article 6.8 to Article 7 (Adaptation)

- Support the submission process of adaptation information
- Enhancement of countries’ capacities to prepare and implement adaptation communications through the development of methodologies as well as vulnerability assessments
- Support approaches to resilience and approaches that initiate and guarantee a just transition
- Development and testing of methodologies to quantify mitigation co-benefits of adaptation action and economic diversification plans that contribute to mitigation outcomes according to Article 4.7
Links to adaptation – Bulk Purchasing

- International bulk purchasing NMA could drive down the cost of climate technologies and accelerate their diffusion, thereby transforming an economic sub-sector
- Potential benefits of Article 6.8 institutional architecture
  - Provides entry point for LDCs
  - Allows for information and knowledge sharing
  - Enables access to existing financial support
- Example: UJALA LED purchasing programme in India
- Other applications: cooling equipment (access to green cooling), co-benefits with Montreal Protocol Kigali Amendment implementation and high SD impact
The Adaptation Benefits Mechanism

- **ABM:** results-based model aiming at leveraging new and additional public and **private** finance for adaptation
  - ABM will certify benefits of adaptation activities based on approved methodologies: “Certified Adaptation Benefits” (CABs)
    - CABs are **not** tradable!
  - Purchase agreement to be concluded between public financial institutions, CSR actors, philanthropies and project developers, specifying the fixed payments for CABs, the volume and delivery schedule
    ⇒ Contribute to **de-risking adaptation investments**, enable pre-finance of adaptation projects
- **ABM Executive Committee:**
  - Approves methodologies, defines activity cycle, oversees third party auditors
- **Pilot phase 2019-2023** supported by AfDB
  - First methodology has been submitted
Lessons from the past for design of the Art 6.8 work programme

- **Precedent**: Paris Committee on Capacity Building (PCCB)
  - **PCCB targets**
    - Strategic approach to capacity building
    - Engagement with stakeholders
    - Platform for coordination of capacity building exercises
  - **PCCB achievements**
    - Dialogue process with civil society actors highly appreciated by the latter
  - **PCCB challenges**
    - Lack of financial resources
      - Platform exists but cannot be updated in a timely manner
    - Unclear place in the universe of financing (e.g. GCF) and capacity building (e.g. CTCN, UNDP, GIZ, … …) institutions
    - Dependent on willingness of capacity building finance and technical assistance providers to take PCCB seriously
  - Work programme needs sufficient buy-in by key governments and institutions to be seen not as competition but facilitator
Reaction from Panelists

• Rene Orellana, Bolivia
• Gebru Jember, LDCs
Questions/discussion
Thank You!