

FUNDAMENTAL RISK TO MARKETS INTEGRITY BY INCLUSION OF NON-GREENHOUSE GAS METRICS

Several of the world biggest emitters have expressed the targets of their National Determined Contributions (NDCs) in non-greenhouse gas units. The **current draft CMA decision in relation to Article 6.2 allows for the inclusion of non-greenhouse gas (GHG) metrics** as an option for the internationally transferred mitigation outcomes (ITMOs). While there are some provisions that call for further work on providing guidance on such metrics in the current draft text, **there are fundamental concerns with regard to the integrity and effectiveness of such approaches some of which are exemplified below:**

Challenges for tracking progress against NDCs

The text allows the transfer of non-GHG metrics that are not the same as the metric used to measure the NDC. This could present challenges for tracking progress. Under the Enhanced Transparency Framework, Parties are to track progress using NDC indicators; if a Party sells a unit that is in the same unit as these indicators it will be difficult to see how the transaction affected that Party's NDC.

Challenges for environmental integrity

Context-specific mitigation effects of non-greenhouse gas targets:

The effect of non-greenhouse gas targets for the transformation towards net-zero greenhouse gas emissions depends on the national context. Consider the following example: Country A is a growing economy and has a low target, e.g. on renewable energy expansion. Country B is a country with existing fossil fuel capacity that it wants to replace through renewable energy deployment (e.g. through a renewable share target). Such a renewable share target only has a meaningful mitigation effect if it is achieved through a transformation of the country's own energy system. However, if Country A overachieves its NDC target (for example, because of lower than anticipated renewables, or an exaggerated baseline) its 'excess units' could be bought by country B, which, in such a scenario, would not need to replace its existing fossil fuel infrastructure with renewable energy. In such a scenario, the market mechanism would delay or undermine the required systemic transition towards a net-zero economy by country B.

This scenario is somewhat similar to an overachievement of a GHG target, but in a GHG scenario country B would at least seek to replace its most CO₂-intensive areas first instead of just buying 'hot energy'.

Accounting for activity value chain emissions:

Using a non-GHG metric means that the carbon intensity of a measure's value chain does not have to be considered. As an example, consider bioenergy production. The carbon intensity of bioenergy can vary substantially between countries as a result of different feedstocks, different land-use changes, etc. If a country with a low carbon energy target wishes to buy a quantity of low carbon energy ITMOs on the market (using MW of capacity as a unit) the effect of this transaction on what the atmosphere sees in terms of emissions would be very different depending on the carbon intensity of the seller's bioenergy production. The buyer would not need to consider the mitigation impact of its purchase.

Potential loopholes in corresponding adjustments:

If units other than greenhouse gases are traded, their conversion into greenhouse gas units may strongly depend on national circumstances. Again an example: Country A and B have a common metric

in their NDCs that they want to trade, and come up with a common metric to do so (i.e. trees). In country A's accounting, the greenhouse gas sequestering potential of trees is accounted for as high-carbon natural ecosystems. In fact, however, the trees in country B are comparably low-carbon plantations. Since the common unit is trees, transfer of non-equivalent trees from B to A would lead to the creation of additional greenhouse gas units being created. This is a particular problem for land-based mitigation measures, since the abilities of ecosystems to sequester carbon vary substantially across different countries and regions.

Furthermore, there are profound questions regarding the adjustments of nested NDC targets without a common metric. It is e.g. very difficult to imagine a metric (other than GHGs) to do adjustments when an NDC contains a target for reforestation or renewable energy generation as well as a target for reducing carbon intensity.

Background – Annex 1 of the Draft CMA decision on guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement – December 13 Version 1

I. Internationally transferred mitigation outcomes

1. Internationally transferred mitigation outcomes (hereinafter referred to as ITMOs) are: (a) Real, verified, and additional;

(c) Measured in metric tonnes of carbon dioxide equivalent (tCO₂ eq) in accordance with the methodologies and metrics assessed by the IPCC and adopted by the CMA **or in other non-greenhouse gas metrics determined by participating Parties that are consistent with the nationally determined contributions (NDCs) of the participating Parties;**