

## Side event at SB58

### Update on progress and the way forward for the Paris Agreement Article 6 Implementation Partnership and Market Infrastructure

- June 9, 2023, 10:15–11:30 CEST
- Venue: Meeting room Berlin
- Organizers: Ministry of the Environment of Japan (MOEJ), World Bank (WB), Overseas Environmental Cooperation Center (OECC)
- Speakers: Kazuhisa Koakutsu (MOEJ), Kazuhiko Takemoto (OECC), Sadamitsu Sakoguchi (MOEJ), Gemma Torras Vives (WB), Yuvaraj Dinesh Babu (Climate Action Data Trust), Andrew Howard (Verra), Cristina Figueroa Vargas (Ministry of Environment, Chile), David Newell (Swedish Energy Agency), Leticia Guimaraes (UNDP), Rui Yun Gan (National Climate Change Secretariat, Government of Singapore), Makoto Kato (OECC), Chandra Shekhar Sinha (WB)
- Audiences: Over 100 at the venue and over 50 on online

- Summary:

This event highlighted the progress and plans of two initiatives, which promote the implementation of Article 6 of the Paris Agreement, and discussed the efforts and challenges faced by stakeholders involved in carbon markets.

In the opening remarks, the MOEJ first introduced the "Paris Agreement Article 6 Implementation Partnership (A6IP)", which was established at COP27 at the initiative of the MOEJ, and the endorsement of the "Principles of High Integrity Carbon Markets" at the G7 Sapporo Ministerial Meeting. He then expressed that this event would contribute to a comprehensive discussion on carbon markets. Next, the OECC mentioned the need to accelerate the implementation of Article 6, its challenges and support, and pointed out the need for collaboration among the various stakeholders of the initiative.

Session 1 introduced the A6IP and its activities to build a high-quality carbon market, including discussions in three Working Groups (WGs): (1) Authorization WG, (2) Reporting WG, and (3) Tracking WG, and the establishment of the A6IP Center.

Session 2 shared the progress and outlook of the Climate Warehouse, the World Bank's carbon market infrastructure development and capacity building program, and the Climate Action Data Trust (CADT), a metadata platform connecting various registries. The CADT is expected to release a data dashboard in July 2023 that will allow users to view data from various registries.

In the 3<sup>rd</sup> Session, panelists from Verra, the Ministry of Environment of Chile, the Swedish Energy Agency, the Ministry of the Environment of Japan, and UNDP discussed

(1) linkages between Article 6 of the Paris Agreement and voluntary carbon markets, (2) the role of infrastructure for integrity of the carbon markets, (3) institutional arrangement needs to scale-up carbon markets, and (4) the focus of capacity building support. During the discussion, it was pointed out that when considering infrastructure development and institutional arrangements in each country as well as the capacity building support needed for such measures, it is necessary to understand the situation and make strategic efforts, as readiness and strategies vary from country to country.

In the closing remarks, the World Bank emphasized the need for coordination and cooperation among the many initiatives underway and the urgent need to move into the implementation phase.

■ **Opening Remarks, Kazuhisa Koakutsu, MOEJ**

- ✓ This event is a venue to share the progress of the Paris Agreement Article 6 Implementation Partnership (A6IP). Currently, 68 countries and 32 organizations are participating in the A6IP, with more partners expected to join.
- ✓ The A6IP Center has recently been established. IGES serving as the secretariat will work with the UNFCCC Secretariat, the World Bank, and other partners.
- ✓ Japan holds the G7 Presidency this year, and the G7 Ministers' Meeting on Climate, Energy and Environment adopted the "Principles of High Integrity Carbon Markets" and discussed supply-side, demand-side and market integrity in the carbon market.
- ✓ With the growing interest in Article 6 and carbon markets, we need to look at the situation in a comprehensive manner.

■ **Opening Remarks, Kazuhiko Takemoto, OECC**

- ✓ Many countries have noted the importance of Article 6 of the Paris Agreement to achieve their NDC targets and have accelerated their actions by agreeing bilateral cooperation.
- ✓ On the other hand, they also face the following challenges for a smooth and efficient implementation of Article 6: (1) institutional arrangements and capacity building in countries, (2) ensuring transparency in the transfer of ITMOs (internationally transferred mitigation outcomes) and avoiding double counting, and (3) collaboration and capacity building with stakeholders, including the private sector and local communities.
- ✓ Stakeholders from different backgrounds can work together on these issues with mutual understanding.
- ✓ This event will showcase the efforts of stakeholder collaboration in the A6IP led by MOEJ and in the Climate Warehouse implemented by the World Bank.

■ **Progress of the Article 6 Implementation Partnership, Sadamitsu Sakoguchi, MOEJ**

- ✓ The A6IP was established at COP 27 in 2022 to promote capacity building on Article 6 through international collaboration. Interactions among stakeholders are important for the implementation of the A6IP.
- ✓ The A6IP currently has 68 countries and 32 international organizations as partners. The partner countries are located in different regions of the world.
- ✓ The A6IP has established thematic working groups (WGs) on (1) authorization, (2) reporting, and (3) tracking, provides technical assistance such as hands-on training and mutual learning, and disseminates information through its information platform. In addition, capacity-building activities for the private sector are planned in collaboration with IETA.
- ✓ As for the activities in 2023, the first meeting of each WG has already been held and the second meeting is scheduled for the fall. Meetings will be held online this year, but in-person meetings will be considered in the future.
- ✓ The Authorization WG will promote the development of capacity building tools for institutional arrangement and authorization and will develop an "A6IP Capacity Building Package" for the whole process.
- ✓ The Reporting WG will provide capacity building support for the preparation of three types of reports (initial reports, annual information, and regular information) to be submitted by Article 6 implementing countries.
- ✓ The Tracking WG will organize and share information on the various tracking tools available to assist Article 6 implementing countries in selecting appropriate tools.
- ✓ The A6IP Center has been established to promote A6IP activities, with IGES serving as the secretariat.

■ **Climate Warehouse [Gemma Torras Vives, World Bank]**

- ✓ The activities of the Climate Warehouse program consist of two pillars: 1) piloting and developing open-source digital infrastructure, and 2) building capacity for digital infrastructure.
- ✓ For Pillar 1, the development of digital MRV, registries, tokenization, trading platforms and metadata layers (Climate Action Data Trust: CADT) for the entire carbon credit lifecycle infrastructure is underway.
- ✓ Pillar 2 supports digital infrastructure development strategies and the identification of needs and challenges.
- ✓ Through the activities of Pillar 1 and 2, the Climate Warehouse aims to digitize the entire infrastructure of each step of the carbon market. The first step is the physical layer, including data collection through sensors and satellites; the second step is the database layer at the country level; the third step is the registry and transaction layer; and the

fourth step is CADT as the metadata layer, which is the mechanism supporting the digital infrastructure ecosystem.

- ✓ Over the past year, the World Bank has been working on various areas of infrastructure development, but in order to avoid duplication of efforts and to promote collaboration and coordination with other organizations, the World Bank has established the Digital 4 Climate (D4C) Working Group and is collaborating with the UNFCCC, EBRD, UNDP, IETA, and the European Space Agency.

■ **Climate Action Data Trust [Yuvaraj Dinesh Babu, Climate Action Data Trust (CADT)]**

- ✓ Challenges in carbon market infrastructure include fragmentation of multiple systems, decentralization of registries, lack of data transparency and interconnectivity, and limited visibility into project lifecycles.
- ✓ To address these challenges and strengthen the transparency, reliability, and integrity of the carbon market, a common data system, which collects and builds upon existing data, is needed.
- ✓ The Climate Action Data Trust (CADT) was launched in December 2022 by IETA, the Government of Singapore, and the World Bank. It is envisioned that users will use CADT to easily understand data, make investment and operational decisions, and create best practices and benchmarks.
- ✓ Features of CADT include its open-source nature, management discretion on each system and registry to control what data is public or private, and its blockchain technology.
- ✓ The value of CADT is that it can facilitate dialogue on supply-side IC-VCM considerations for high-quality credit and on demand-side VCMI considerations for credit use.
- ✓ CADT addresses the following points;
  - harmonize data from different registries through a common data taxonomy
  - Make the entire lifecycle of carbon credits available for review
  - Extract publicly available information on mitigation outcomes
  - Strengthen transparency and trust among market participants, enable tracking of mitigation outcomes, and reduce the risk of double counting.
- ✓ National registries and governments interested in connecting to CADT can inquire via a contact form on the CADT website. Connection methods for registries include manual upload, API integration on a batch basis, and API integration for real-time data exchange.
  - CADT's governance structure includes a Council, followed by a Board of Directors, a Technical Committee and a User Forum, with overall support provided by the Secretariat. The timeline for 2023 is as follows;

- December 2022: Establishment of the Initiative and holding of the first Council meeting
- January 2023: Establishment of the Technical Committee
- March 2023: Development of Data Dashboard
- May 2023: Establishment of the User Forum
- April-July 2023: Acceptance of applications from various registries
- July 2023: Publication of the Data Dashboard
- Q4 2023 - 2024: Authorization by independent crediting systems and national registries

#### ■ Panel Discussion

**[Moderator: Rui Yun Gan, National Climate Change Secretariat, Government of Singapore]**

**[Andrew Howard, Verra]**

(Q. Linkages between Article 6 of the Paris Agreement and voluntary carbon markets)

- ✓ Verified Carbon Standard (VCS) credits can be used in both compliance and voluntary markets and are distinguished by whether the funding source or motivation is regulatory or voluntary.
- ✓ Both require a common source.
- ✓ Many companies are ready to invest in carbon projects and are looking for opportunities to help host countries implement NDCs. Similar to compliance carbon markets and country-level programs, voluntary carbon markets can contribute to conditional NDCs for which host countries seek international funding.
- ✓ Interaction between the host country side and the private sector side is important. Host countries need to demonstrate that they are attractive enough to invest through institutional development and clarification of eligible projects. The private sector side needs to find incentives and rewards for going beyond regulations.
- ✓ Companies have used credits to offset their own emissions, but the role of offsetting could be limited in the future, and ideas such as contribution claims may expand.
- ✓ The voluntary carbon market is an open forum where different forms of investment, projects, and incentives can coexist.

**[Cristina Figueroa Vargas, Ministry of Environment, Chile]**

(Q. Linkages between Article 6 of the Paris Agreement and voluntary carbon markets)

- ✓ Currently, Chile is trying to establish three market mechanisms: (1) an energy standard compensation system, (2) a national voluntary certification system, and (3) a green tax compensation system.

- ✓ It is necessary to link these domestic markets and infrastructure with international markets, such as Article 6, and the agriculture, forestry, and other land use (AFOLU) sector to ensure integrity and transparency and to understand the impact of mitigation efforts.

(Q. The role of infrastructure for integrity of the carbon markets)

- ✓ Looking ahead to future infrastructure development, it is important to strengthen capacity and secure human resources related to infrastructure development using IT and other technologies.

(Q. Institutional arrangement needs to scale-up carbon markets)

- ✓ Transparency is priority to carbon markets. Chile has submitted Biennial Update Report (BUR) five times and has developed a national inventory system and a mechanism for multi-sector data integration and sectoral MRV.
- ✓ This mechanism allows for the preparation of NDCs through sectoral collaboration and interagency consultations in the Interagency Task Force on Article 6.

(Q. The focus of capacity building support)

- ✓ Capacity building is needed to establish a transparency framework, and based on this the use of Article 6 can become possible.
- ✓ Since there are only one or two Article 6 officers within the Chilean government, a format for Article 6 reporting would be useful. There is also a need for capacity building on registries and the use of the International Registry to easily track ITMOs.
- ✓ Currently, Chile is struggling to ensure environmental integrity in implementing Article 6, to ensure permanence, and to figure out how to assess the requirements for risk minimization. On the part of the transferring country of ITMOs, it is necessary to guarantee the working environment, natural environment, society, benefits, indigenous peoples, etc.

**[David Newell, Swedish Energy Agency]**

(Q. The focus of capacity building support)

- ✓ We must recognize that depending on the intended use of ITMOs, Article 6 has different requirements to be met. Depending on the development of infrastructure and access to the International Registry, the supports needed to participate in Article 6 will also vary from country to country.
- ✓ Much of the Article 6 capacity building support is technical, with less capacity building support for strategic decisions. Using a car as an example, if you want to drive from Bonn to Bangkok, you can build a great car, but you cannot get to Bangkok without a map. Similarly, while technological capacity building is important, we should also focus on the strategic aspects of our own environmental and climate policies in order to participate

in Article 6.

- ✓ Sweden's experience has shown that while countries are willing to participate in Article 6, many are not sure why they should participate. Inflow of funds is one factor, but strategic decisions need to be made.

**[Kazuhisa Koakutsu, MOEJ]**

(Q. Linkages between Article 6 of the Paris Agreement and voluntary carbon markets)

- ✓ When considering the linkage between Article 6 and the voluntary carbon market, it is necessary to consider the relevance of the voluntary carbon market to the implementation of NDCs and to recognize that domestic policies such as carbon taxes and offsetting schemes are in place in each country.
- ✓ To this end, it is important to understand the status of the domestic voluntary carbon markets, for example, what types of projects are being implemented in the country. From this perspective, ensuring transparency is important and information should be provided through CADT and other means.

(Q. The focus of capacity building support)

- ✓ Many developing countries lack the resources to implement Article 6, and it is necessary to consider what tools would be useful for them. While some types of system may be useful, many countries have developed their own registries, and appropriate registries should be considered based on each country's situation. If multiple bilateral cooperation is implemented, multiple registries must be addressed, and understanding the current situation in each country should be prioritized.

**[Leticia Guimaraes, UNDP]**

(Q. The focus of capacity building support)

- ✓ UNDP offers a comprehensive carbon market support package based on three pillars: 1) technical assistance and capacity building, 2) digital solutions, and 3) direct financing of mitigation outcomes.
- ✓ Under (1) technical assistance and capacity building, based on the regulatory, institutional, and technological gaps in the target countries, a carbon market access strategy is first considered. A comprehensive regulatory framework should then be developed to serve them as the basis for various initiatives and carbon market implementation. This framework includes governance and institutional arrangements for decision-making on carbon markets. This support has been completed in Ghana and Vanuatu and is being implemented in Georgia, Cote d'Ivoire, Ukraine, Uruguay, Malawi, Morocco, and Rwanda.
- ✓ An online course has also been developed with UNFCCC, Switzerland, Sweden, IGES,

Gold Standard, and SustainCERT to address Article 6 capacity building needs. To date, 3,500 people have registered. French and Spanish versions will be available in July.

- ✓ In (2) digital solutions, the Digital 4 Climate (D4C) Working Group has been established in collaboration with UNFCCC, EBRD, UNDP, and IETA, and we have worked on developing pilot modules, promoting capacity building, and developing technical infrastructure. In this context, UNDP has established the Carbon Cooperation Platform to simplify carbon project workflows for project developers and to streamline the authorization process for governments.
- ✓ In (3) direct financing of mitigation outcomes, UNDP will make payments for credits to be generated up to 6 million tons in the period 2023-2030. We support public-private partnerships between project developers and governments and cover credits issued through third-party verification. For example, UNDP supports public-private partnerships between R Corp, a composting company in Ghana, and the government of Ghana and between UNELCO, a utility company in Vanuatu, and the government of Vanuatu.

■ **Closing remarks [Chandra Shekhar Sinha, World Bank]**

- ✓ This side event was merged from two different applications, and by holding them together made it clearer that there are multiple initiatives underway, and that cooperation is needed to coordinate and complement each other's efforts.
- ✓ Support is now needed from the design phase to the implementation phase of Article 6 and carbon markets. Learning by doing was the mantra of the World Bank's efforts during the Kyoto mechanisms era, and it is necessary to move into such phase.
- ✓ Compared to 20 years ago, technological advances allow for faster iteration and mutual learning, and support programs and country initiatives should be quickly implemented through the Partnerships.