

# Options to promote sustainable development through climate mitigation actions under Article 6 of the Paris Agreement

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## Introduction

Keeping global warming well below 2°C must be accompanied by a development path which ensures sustainable economies, diverse environments and healthy societies. This interconnection between climate change mitigation and sustainable development (SD) has recently gained considerable momentum (DIE, 2017; K. H. Olsen & Soezer, 2016; Verles, 2016). The interconnections are mirrored, inter alia, in the Paris Agreement (PA), which on several occasions demands that climate actions shall not be seen in isolation but in context of SD and poverty alleviation. Within the PA, Article 2 (objectives), Article 4 (mitigation) and Article 6 (cooperative approaches) explicitly underscore this interconnection. One characteristic feature of all activities under Article 6 is that they shall contribute to sustainable development (UNFCCC 2015).

However, the SD Goal (SDG) process and the United Nations Framework Convention on Climate Change (UNFCCC) negotiations still lack formal and institutional links and integrated assessment approaches to ensure that synergies are exploited and trade-offs avoided. Both the SDGs and global warming testify that sustainability is a global common good, which depend upon the implementation of national and local agendas for SD to be aligned with the interconnected concerns for environmental, social and economic development (UN, 2015). International level guidance, rules and procedures are therefore needed to ensure a consistent, robust and credible approach to national level implementation of the SD objective of Article 6 cooperative mechanisms.

Moreover, Article 6 mechanisms are unitary in the sense that the overall purpose is to support the implementation of Nationally Determined Contributions (NDCs) to achieve the global 2°C target through voluntary cooperation (EU, 2017; Panama, 2017). The three mechanisms should be treated as one, a package of complementary cooperative approaches supporting the overall objective and not in isolation, competing for investments by lowering standards. To avoid fragmentation and trade-offs across the mechanisms SD

provisions need to be defined at international level with enough flexibility to respect Parties prerogative to define development priorities nationally appropriate.

In addition, experience from the Clean Development Mechanism (CDM) Sustainable Development (SD) Tool shows that it is possible to define an international SD framework with dimensions, criteria and indicators to assess the benefits of mitigation actions that respect the national prerogative of Parties to define their own development priorities (UNFCCC, 2014).

Finally, governance of the Article 6 SD provisions need to be differentiated to reflect the complementary but distinct objectives, scope and functions of the mechanisms defined in the paragraphs 6.2, 6.4 and 6.8. Yet, guidance, rules and procedures can follow an internationally defined framework for SD assessment aligned with the global SDGs and implemented specific to each mechanism with procedures for national approval and third party independent validation and verification.

### **Lessons learned from the CDM SD tool and other sustainability assessment tools and approaches**

Assessed on its own merits the CDM SD objective was never achieved to its full potential (Dialogue, 2012). The Marrakesh 2001 'rulebook' for the CDM delegated the decision to approve and assess CDM projects' and programmes of activities' contribution to nationally determined criteria for SD to Designated National Authorities (DNAs) in host countries. The national prerogative to define and approve CDM projects and programmes of activities created a 'race to the bottom' among host countries competing to attract investments by lowering the SD standards, a clear trade-off between the two objectives of the CDM (Rindefjall, Lund, & Stripple, 2011; Sutter & Parreño, 2007).

Diverse and unclear SD criteria at national level did not incentivise buyers of credits and project developers to maximise SD impacts to the benefit of local communities. Rather, weak national SD standards and approval procedures in many countries created a lack of social credibility and a reputational risk to all CDM credits (Marcu, 2016; Sterk et al., 2009). Examples of human rights violations and negative impacts to communities in some countries meant that the CDM as an international carbon market mechanism did not safeguard the social integrity of the underlying mitigation activities (Schade & Obergassel, 2014). Responding to this critique, the Conference of the Parties serving as the Meeting of the Parties (CMP) to the Kyoto Protocol in 2011 mandated the Executive Board of the CDM to highlight the co-benefits of CDM projects and programmes. The voluntary CDM SD tool was developed in 2012 and made available in 2014. The CDM SD tool represents the first international definition of SD and has been evaluated to meet its objective by facilitating assessment of SD benefits in a structured, consistent and comparable manner that respects Parties' prerogative to define national priorities and to assist investors to factor in the value of SD benefits in decision-making (UNFCCC, 2014).

Experience and lessons learned from the CDM SD tool and other sustainability assessment tools and approaches are a relevant starting point to develop international guidance, rules

and procedures for SD assessment of Article 6 mechanisms (Dransfeld et al., 2017; Olsen, Arens, & Mersmann, 2017). Compared to other sustainability assessment tools and approaches (Arens et al., 2014) and stakeholder needs for assessment of SD impacts (Olsen et al., 2015) a number of shortcomings of the CDM SD tool have been identified: 1) Guidance for monitoring and reporting of impacts is not available, 2) provisions for independent validation and verification do not exist, 3) guidelines for stakeholder participation are detached from SD assessment, 4) negative impacts are not assessed and mitigated, 5) methods for quantification are not developed and 6) certification of SD impacts is not an option.

Learning from experience Article 6 mechanisms should aim to meet best practice in international sustainability standards and build on the SDGs for a unitary framework to assess and promote SD through climate mitigation actions. Building on recommendations to improve the CDM SD tool (Arens et al., 2015), elements of Article 6 SD provisions applicable to ITMOs and units transferred internationally should include:

- A framework with indicators to assess SD impacts consistent with the global Sustainable Development Goals (SDGs)
- Monitoring and reporting guidelines
- The use of independent auditors that verify the monitored impacts
- No-harm safeguards and compliance with human rights
- Stakeholder participation rules and guidelines including a grievance mechanism
- Methods for quantification of SD impacts
- Options for certification of SD impacts to comply with international guidance and rules

Including these seven elements in a unitary approach to SD assessment across Article 6 mechanisms is a good starting point to promote SD through international cooperation. The challenge is how to transition from the Kyoto Mechanisms particularly the CDM and ensure that capacity, knowledge and institutional infrastructure is retained and adapted to serve the purpose of each mechanism in Article 6.

### **Needs for Article 6 SD guidance**

Article 6 of the Paris Agreement comprises three different approaches for international cooperation. It is worth noting that while many regard Art. 6 as the “markets article” of the agreement, the text itself speaks of “voluntary cooperation” between Parties to “allow for higher ambition in their mitigation and adaptation actions and to promote SD and environmental integrity.” Whether or not these activities will generate tradable certificates as seen under the Kyoto Protocol is not yet clear.

Art. 6.1 establishes overarching principles that all Art. 6 activities must adhere to. These comprise

- Participation is voluntary for countries.
- Use of the cooperation mechanisms is to allow for raising climate action ambition, thus increasing the effort in terms of climate change mitigation or adaptation.

- The mechanisms are to promote SD.
- The mechanisms shall ensure environmental integrity, meaning that all emissions and reductions will be properly accounted for.

The three different approaches are:

- “Cooperative approaches” under Art. 6.2 and 6.3, which foresee are direct engagement between Parties and enables them to use “internationally transferred mitigation outcomes” in achieving their NDCs. These activities will not be supervised by any international institution, but guidance is to be developed for Parties that want to engage in cooperative approaches.
- Art. 6.4-6.7 establish a mechanism “to contribute to the mitigation of greenhouse gas emissions and support sustainable development”. This mechanism will be supervised by a body that will be mandated by the Parties to the Paris Agreement. Similar to the Kyoto Protocol’s flexible mechanisms, Parties are to adopt rules, modalities and procedures which are to regulate the implementation of activities under Article 6.4.
- Art. 6.8 and 6.9 establishes the use of ‘non-market approaches’. The exact nature of these approaches is still undetermined and is subject to negotiation under a “framework for non-market approaches” (UNFCCC 2015).

Since the adoption of the Paris Agreement, Parties have been exchanging views and first ideas on how to shape the guidance for cooperative approaches as well as the rules, modalities and procedures for the new mechanism, and the framework for non-market approaches. However, the discussions are still in early stages and final decisions will take some time.

When it comes to contributions to SD within Art. 6 activities, it becomes clear that SD belongs to the basic principles named in the umbrella article 6.1. Furthermore, the Paris Decision (§37b) states that rules, modalities and procedures to implement Article 6.4 are to be adopted by the CMA on the basis of ‘real, measurable and long term benefits related to the mitigation of climate change’. Benefits include both GHG and SD benefits, which reflects the dual aim of Article 6 to support implementation of NDCs through voluntary cooperation and promote SD goals. In the following, Art. 6.2f and 6.4ff will be dealt with only, as the shape of the non-market approaches is yet to be defined. One decisive difference between Art. 6.2f and 6.4ff is that the former will be subject to (voluntary) guidance while activities under the „6.4 mechanism“ will be governed by international oversight. Developing the ‘rulebook’ for Art. 6.4 ff could and should therefore comprise a framework of assessing SD benefits.

A unitary approach to development of international guidance, rules and procedures to operationalize the SD provisions of Article 6 needs to differentiate governance and implementation according to the different scope, functioning and focus of what gets assessed and how specific to each mechanism. Table 1 shows options for a differentiated operationalization of the unitary approach to SD assessment.

	Article 6.2	Article 6.4
<b>Unitary SDG framework</b>	<ul style="list-style-type: none"> <li>• Yes</li> </ul>	<ul style="list-style-type: none"> <li>• Yes</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>• Voluntary guidance</li> <li>• Host country approval</li> </ul>	<ul style="list-style-type: none"> <li>• Mandatory SD assessment</li> <li>• UNFCCC oversight</li> </ul>
<b>Possible activities</b>	<ul style="list-style-type: none"> <li>• Linking of ETS</li> <li>• Bilateral cooperation as in JCM</li> </ul>	<ul style="list-style-type: none"> <li>• CDM+</li> <li>• Sectoral Approaches</li> </ul>
<b>Assessment of SD benefits</b>	<ul style="list-style-type: none"> <li>• National guidance</li> <li>• Independent sustainability standards</li> </ul>	<ul style="list-style-type: none"> <li>• International guidance</li> <li>• Compliance with host country priorities</li> </ul>

As for Article 6.4, different views persist as to which kinds of activities will be eligible under the mechanism. Some Parties advocate for a „CDM+“, which would basically maintain the project-based nature of the CDM. In this case, an enhanced version of the CDM SD tool could be made part of the Art. 6.4 rulebook (Olsen, Arens & Mersmann 2017). Other Parties suggest that the Art. 6.4 mechanism should go beyond the project-by-project approach and comprise sectoral approaches. This would make assessing SD benefits more difficult, as mitigation benefits (and, therefore, SD benefits) would be achieved within a group performance approach (Wehnert et al 2012).

For activities under Art. 6.2, different ways of international cooperation can be imagined. These comprise the linking of emissions trading systems and the respective exchange of „ITMOS“ as well as bilateral cooperation as under the Japanese „Joint Crediting Mechanism“ (JCM) (Oberghassel et al. 2016). Again, while the latter is based on individual projects, which makes assessing SD benefits easy, tracking SD benefits of activities under a cap-and-trade-system will most likely be very difficult.

## Conclusion

The Paris Agreement and its Article 6 provide a strong mandate to ensure integrated assessment and linked implementation of climate actions and SD. Higher ambition, sustainable development and environmental integrity are overarching principles defined in Article 6.1 to guide the implementation of Articles 6.2, 6.4 and 6.8. Hence, developing the rulebook and guidance to operationalize the SD provisions of Article 6 requires a unitary international framework building on the SDGs. Implementation of the unitary framework needs to be differentiated across the three mechanisms to fit the scope, function and needs specific to each.

Considering the lessons from the Kyoto Protocol as well as voluntary schemes, particularly the CDM SD tool, it becomes clear that governance structures, procedural and substantive elements for designing SD assessment are crucial to get right in order to avoid a „race to the

bottom', where economic and development priorities take precedence at the expense of environmental and sustainability concerns. An international, unitary SDG framework is essential to enable a consistent, structured and comparable approach to SD assessment.

Issues and options need to be discussed and agreed among Parties to operationalize the SD provisions of Article 6. Building on experience and lessons learned from existing tools, key elements to be considered as part of a unitary SDG framework are: Monitoring and reporting guidelines, independent validation and verification, no-harm safeguards and compliance with human rights, stakeholder participation rules and guidance, a grievance mechanism, methods for quantification and options for certification of SD claims to comply with national, international or voluntary requirements.

Governance and implementation of these elements need to be differentiated across the Articles 6.2, 6.4 and 6.8 mechanisms to fit the purpose and needs of each. New tools to assess and promote higher ambition in NDC implementation such as the potential and impacts for transformational change of policies and actions could also be considered.

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