NDC Support Programme

Frequently Asked Questions on Article 6 of the Paris Agreement and Internationally Transferred Mitigation Options (ITMOs)

What is an ITMO?

A: Internationally transferred mitigation outcomes (ITMOs) use a carbon dioxide equivalent [CO2e] metric for a new set of market provisions or other greenhouse gas (GHG) mitigation outcomes that are defined under Article 6 of the Paris Agreement. Under Article 6.2, ITMOs differ from previous offset schemes, as they count toward countries' Nationally Determined Contributions (NDCs), support overall mitigation in global emissions (for Article 6.4) and involve more substantial government participation than under the Clean Development Mechanism of the Kyoto Protocol. Although the Paris Agreement rulebook is not fully finalized, enough has been agreed for some countries to begin engaging and planning for ITMO transactions.

What is in Article 6.2 of the Paris Agreement?

A: Article 6 of the Paris Agreement makes provisions for voluntary international cooperation between parties to achieve NDC targets. Sub-section 6.2 calls for transparency and the avoidance of double counting when two parties engage in the international transfer of emission reductions known in the Agreement as Mitigation Outcomes. This sub-section implies that two parties can enter into an agreement whereby one party reduces carbon emissions and transfers those reductions to the other party which counts it towards its NDC targets. It is assumed that the receiving party will provide financial compensation to the transferring party.

How does Article 6.2 help a country achieve its NDC commitment?

A: Transferred mitigation outcomes contribute to the NDC targets of the party that purchases the ITMO. The selling party must make a corresponding adjustment which means that it has to "un-count" these mitigation outcomes from the emission reductions that contribute to its NDC targets.

What are the benefits to the selling party and benefits to the purchasing party?

A: For the selling party, selling ITMOs is an innovative way to channel investments into low-carbon projects. The payments for the ITMOs can leverage finance and stimulate investment into projects that contribute to its sustainable development. As stated above, the ITMOs sold to the buyers cannot count towards the selling countries NDC, but mitigation benefits can be achieved in the long-term. It is assumed that a contract for International Transferred Mitigation Outcomes (ITMO) is shorter (usually 5-6 years) than a mitigation project, therefore, when the ITMO contract expires and the payments/ transfers stop, if the project continues producing mitigation outcomes, this will be accounted against the selling Party's NDC.
For the buying country, buying the ITMOs enables it to meet its NDC target in a cost-efficient way.

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<u>How do you find parties that want to engage in ITMO transactions?</u>

A: At the moment, there is one active state buyer of ITMOs; Switzerland. Nordic countries through the Nordic Environment Finance Corporation (NEFCO) are considering engaging in ITMO transactions. The World Bank has set-up the Transformative Carbon Asset Facility (TCAF) to buy mitigation outcomes from Article 6 projects which will be used by the donors of the Facility against their targets. The TCAF considers buying a portion of the mitigation outcomes so that the other portion can count towards the selling party's NDC target. The other group of buyers are companies which buy mitigation outcomes to voluntarily offset their emissions (mainly flight emissions). Most offsetting projects are small but there are also some large buyers such as oil companies.

<u>What contractual agreements should be in put place to engage in ITMO transactions?</u>

A: This depends on the buyer. In the case of Switzerland, a bilateral legal agreement between the two participating countries is needed to govern the overall ITMO programme. In addition to that, the official buyer of the Swiss government, the KliK Foundation – will sign an Emission Reduction Purchase Agreement (ERPA) which defines the Terms and Conditions related to the purchase of the emission reductions. These contracts are usually signed with project developers that provide upfront finance for project implementation. The ERPA can potentially be used as a collateral for loans required for the implementation of the projects. The actual ERPA payments are made only ex-post upon verification of the achieved mitigation outcomes.

<u>What monitoring system should be in place before engaging in an ITMO transaction?</u>

A: The country will need an MRV system that fulfils all Biennial Transparency Report (BTR) requirements of the Paris Agreement and can track mitigation outcomes at project level. The transferred mitigation outcomes will be included in the national registry and reported as ITMOs to UNFCCC through the BTR. UNDP is providing support for development of BTR eligible MRV systems in some countries.

<u>Who can implement ITMO projects?</u>

A: Each ITMO project is governed by a state-to state bilateral agreement. Individual projects implemented within the scope of the bilateral agreement require a government authorization but can be implemented by the private sector.

<u>Can an existing project be an ITMO project?</u>

A: This will depend on the rules agreed by the two governments involved. In the case of Switzerland, it's not possible.

<u>What are the consequences of engaging in an ITMO contract when the Paris Agreement rulebook regarding Article 6.2 is not finalized?</u>

A: The Paris Agreement rulebook will not regulate Article 6.2 and it will always be at the discretion of the participating governments to define their rules and regulations within the broader goal of the Paris Agreement. The principles that ambitious countries subscribe to are subscribed to the San Jose Principles for High Ambition and Integrity in International Carbon Markets which will probably be more stringent that the Article 6 guidelines can ever become.

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<u>Who receives the ITMO payments, the government or the ITMO project developer?</u>
A: It depends who signs the ERPA with the buyer. It can be a public entity or a private sector actor. If the government, investments will have to be made by the government upfront to implement and successfully operate the project in order to allow a project to generate mitigation outcomes.

<u>What is the role of the government if the ITMO project is implemented by a private entity?</u>
A: The government will authorize the project, approve the validation and verification reports (replace the UNFCCC Secretariat's as we have known it under the CDM), make corresponding adjustments and track the mitigation outcomes through the BTR reporting.

<u>What is the role of UNDP in facilitating ITMO transactions?</u>
A: The goal of this FAQ is to make countries aware of the opportunities and potential benefits of selling ITMOs UNDP will have no role in the negotiations between the Parties. For implementation of the ITMO programme, UNDP can conduct due diligence on participating companies, sign performance-based payment agreements and make the actual payment to companies based on their verified mitigation outcomes. UNDP can support the development of the detailed project design document which outlines how the project will be implemented and the mitigation outcomes it is expected to generate. In addition, UNDP can engage third parties who will be required to validate the volume of mitigation outcomes estimated ex-ante, and verify the final calculations of mitigation outcomes produced, ex-post. Furthermore, UNDP can participate in steering committee meetings where the validation and verification reports are reviewed and approved. Finally, UNDP can facilitate the impact assessment of the project if required in the cooperation agreement.

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