Implications of the Paris Agreement for the Partnership for Market Readiness

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KORU CLIMATE

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ABBREVIATIONS

ADP	Ad Hoc Working Group on the Durban Platform for Enhanced Action, as established by decision 1/CP.17, para 2, to develop what became the Paris Agreement
APA	Ad Hoc Working Group on the Paris Agreement, as established by decision 1/CP.21, para 7, to prepare for the entry into force of the Paris Agreement and the first session of the CMA
AWG-LCA	Ad Hoc Working Group on Long-term Cooperative Action under the Convention, as established by decision 1/CP.13 (Bali Action Plan), para 2
CDM	Clean Development Mechanism under Article 12 of the Kyoto Protocol
CER	Certified Emission Reduction generated under the CDM
CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
COP	Conference of the Parties, the supreme body of the UNFCCC
FVA	Framework for various approaches, as referred to in decision 1/CP.18, para 44
FY	Financial year of the PMR
GHG	Greenhouse gas
ICAO	International Civil Aviation Organization
ICP	Implementing Country Participant under the PMR
INDC	Intended nationally appropriate contribution under the Paris Agreement
IPCC	Intergovernmental Panel on Climate Change
ITMO	Internationally transferred mitigation outcome, as referred to in Article 6
JI	Joint Implementation under Article 6 of the Kyoto Protocol
LEDS	Low emissions development strategy
MRP	Market Readiness Proposal, as prepared by ICPs under the PMR
MRV	Monitoring, reporting and verification
NAMA	Nationally appropriate mitigation actions
NAZCA	Non-state Actor Zone for Climate Action
NDC	Nationally appropriate contribution under the Paris Agreement
NMA	Non-market approaches, as referred to in decision 1/CP.18, para 47
NMM	New market-based mechanism, as defined in decision 2/CP.17, para 83
PA	Partnership Assembly of the PMR
PMR	Partnership for Market Readiness
REDD+	Reducing emissions from deforestation and forest degradation
SBI	Subsidiary Body for Implementation
SBSTA	Subsidiary Body for Scientific and Technological Advice
TCAF	Transformative Carbon Asset Facility
TEP	Technical Examination Process
TP	Technical Partner under the PMR
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change

1. INTRODUCTION

1. The Partnership for Market Readiness (PMR) was established by the World Bank in 2011 in the midst of a vibrant international debate on how to strengthen the implementation of the United Nations Framework Convention on Climate Change (UNFCCC) and bring about its objective of ensuring safe levels of climate change.

2. The Bali Action Plan, adopted in 2007 by the Conference of the Parties (COP) under the UNFCCC, had firmly set an agenda of implementation and called for enhanced national and international action, including through opportunities to use markets. Through processes set up at COPs in Copenhagen (2009) and Cancun (2010), pledges of emission reductions up to 2020 were recognized from over 90 countries, as UNFCCC negotiations continued on the form the international climate regime should take to bolster implementation after 2020.

3. Against this backdrop, the PMR was established with the following objectives:

    (a) To provide grant financing to countries for building market readiness components;

    (b) To pilot, test and sequence new concepts for market instruments, both for domestic and new international mechanisms, and to identify potential synergies between national market based instruments at an early stage;

    (c) To create a platform to enable policy makers of government agencies, practitioners, and public and private entities to share experiences and information regarding elements of market readiness, to learn from one another, promote south-south cooperation, and explore and innovate together on new instruments and approaches;

    (d) To create and disseminate a body of knowledge on market instruments that could be tapped for country-specific requirements;

    (e) To share lessons learned, including with the UNFCCC[1].

4. The PMR quickly evolved into a preeminent forum for providing technical support to governments as they develop and implement carbon pricing instruments. In 2016, 18 implementing country participants (ICPs) and one further technical partner are working with the support of the PMR, supported by 13 contributing participants and three further technical partners. Fifteen of the ICPs have presented their market readiness proposals (MRPs) and had them endorsed, and eight of these ICPs have finalized formal arrangements and commenced the implementation of their MRPs.

5. The UNFCCC negotiations on the post-2020 international climate regime reached a key milestone at the end of 2015 with the adoption of the Paris Agreement at COP 21[2]. This puts

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[1] PMR Governance Framework (as amended per Resolution PA8/2014 on 5 March 2014).

[2] Decision 1/CP.21, http://unfccc.int/resource/docs/2015/cop21/eng/10a01.pdf

the obligation for goal setting and policy implementation squarely with all countries, while setting a framework for them to determine, implement, monitor and strengthen their contributions to climate action from 2020 onwards. The Paris Agreement therefore gives domestic action – including of the type supported by PMR – even stronger significance.

6. Since the beginning, the PMR has sought to respond to emerging needs among its members and anticipate changes in the wider international policy environment. The PMR Secretariat initiated a discussion in October 2013 on the future strategic orientation of the PMR in which it already began to distil lessons from the first years of the PMR[3]. The high level of upfront work needed to build market readiness and support the choice of policy instruments was becoming clear. It was also evident that many countries were interested in a wider set of instruments than those initially focused upon in the PMR, including carbon taxes and energy efficiency trading, in order to fit their economic contexts and stages of development.

7. As a result of what has since become a series of strategic discussions of this nature, new work has been commenced within the PMR that was not originally foreseen. Some of these new areas are now quite well developed, such as greater support to members in setting mitigation goals and analysing alternative policy instruments. The secretariat undertook to continue broader discussions on the PMR's strategic direction in 2016 in light of the Paris Agreement[4].

8. The current analysis was commissioned by the PMR Secretariat to feed into the ongoing strategic discussions, in particular by identifying and assessing the potential implications of the Paris Agreement for the PMR and to make recommendations on any worthwhile adjustments to the PMR objectives, strategic discussions and work programmes, including its country, technical and policy analysis work programmes, as well as its delivery mechanisms and modalities. It considers the period up to 2020 for the PMR, but also looks beyond to inform discussions about the longer-term future of the partnership.

9. The analysis focuses on the following key areas of the Paris Agreement considered to be most relevant to the activities and operation of the PMR[5]:

    (a) National action undertaken by countries, both in the post-2020 context of their nationally determined contributions (NDCs), as addressed primarily in its Articles 4 (mitigation) and 14 (global stocktake)[6], and in the present pre-2020 context;

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[3] Strategic orientation for the future of the Partnership for Market Readiness (note PA7 2013-2).

[4] Options for funding additional activities under the PMR: update and proposed way forward (note PA12 2015-4), para 5. The timeline was welcomed by PA12.

[5] Relevance to the PMR is assessed here in terms of the similarity of policy instruments involved, degree and nature of implications for the PMR, and potential synergy with the objectives and activities of the PMR.

[6] All Article references in this document refer to the Paris Agreement, unless otherwise stated.

(b) International cooperation, in particular through cooperative approaches that result in internationally transferred mitigation outcomes (ITMOs) and through the UNFCCC-governed crediting mechanism, as addressed in Article 6;

(c) Climate finance addressed primarily in Article 9.

10. Section 2 discusses the general context provided by the Paris Agreement while sections 3 to 5 highlight and discuss key issues and likely developments in each of the relevant areas of the Paris outcomes, as noted above. The next two sections contain an assessment of specific implications arising from the outcomes of the Paris conference, firstly in relation to the objectives and strategic priorities of the PMR (section 6) and secondly in relation to each of the PMR's work programmes (section 7). These two sections include recommendations for further PMR consideration. Overall conclusions are then drawn in section 8. The appendix contains an overview of the UNFCCC work programmes directly relevant to the PMR.

2. CONTEXT OF ACTION UNDER THE PARIS AGREEMENT

11. The Paris Agreement was adopted after a decade of international talks that began with the entry into force of the Kyoto Protocol and culminated in the Paris Climate Change Conference in November 2015. Its adoption, and the widely held view that the Paris Agreement is the best agreement possible in the circumstances, has given a new boost to the UNFCCC and restored faith in its international negotiation process. The Paris Agreement has already been signed by 175 Parties, in a historical record for first-day signatures of an international agreement, raising hopes that it may enter into force already in 2016 or 2017[7].

12. The Paris Agreement articulates its aim in Article 2 as being to "strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty". It is to do this through several means: holding the increase in global temperature "well below 2°C" above pre-industrialized levels while pursuing efforts to limit this to only 1.5°C; increasing the ability to adapt; and making finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions and climate-resilient development.

13. The temperature goal represents a hard-fought battle but the need to reach for 1.5°C is now established and is expected to bring much pressure on strengthening ambition in the future. In Article 4.1, the agreement translates the long-term temperature goal into an emissions goal, aiming to reach global peaking of emissions "as soon as possible", followed by "rapid reductions", to balance emissions and removals in the second half of this century. There is a recognition that developing countries may take longer to achieve peaking.

14. The formulation of Article 2 clearly brings adaptation on to the same footing as mitigation, a balance which is reinforced in frequent references throughout the Agreement. It also singles

7 The Agreement enters into force 30 days after 55 Parties to the Convention, making up 55% of global emissions, have ratified it. Irrespective of the timing of its entry into force, the NDCs under the Paris Agreement will only apply to the period from 2020 onwards.

out finance from the other means of implementation, highlighting the priority of a full transformation in finance and investment and elevating the need for major financial flows towards developing countries to support them in undertaking climate action.

15. Importantly, the Paris Agreement is only part of an overall package achieved at COP 21. The French Presidency of the conference sought that success in Paris would stand on four pillars:

(a) The Paris Agreement itself;

(b) Strong national contributions in the form of "intended" NDCs (INDCs);

(c) A finance package reconfirming financing levels committed by developed countries;

(d) A recognition of the contributions made by non-state actors to climate action, from subnational authorities such as states and cities to the private sector.

16. Decision 1/CP.21 from the Paris conference was the vehicle for both adopting the Paris Agreement and flanking it with important provisions to give it effect. Much detail for the implementation of the Paris Agreement is now to be developed, through work programmes established under decision 1/CP.21[8], for agreement by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) at its first session[9].

17. The first session of the CMA is to take place in conjunction with the first COP after the entry into force of the Paris Agreement. An entry into force of the Agreement in 2016 or 2017[10] would be considerably earlier than anticipated when the work programmes were adopted in Paris, which worked on the implicit expectation that CMA 1 would take place around 2018. An earlier date would make it unlikely that the many work programmes established in Paris would be completed in time for CMA 1, in which case the work would need to completed thereafter but there would be considerable political pressure for Parties to complete work designated for CMA 1 before the first NDC period begins in 2020.

3. NATIONAL ACTION

18. The key priority in preparing a new international climate regime and developing the Paris Agreement was the strengthening and enabling of national climate action. This focus, as laid out in the Bali Action Plan in 2007, continued through the major milestones of the UNFCCC process in Copenhagen (2009), Cancun (2010), Durban (2011), Doha (2012) to Paris. The Paris

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8 The work programmes have been distributed across the two existing bodies under the COP, namely the Subsidiary Body for Scientific and Technological Advice (SBSTA) and the Subsidiary Body for Implementation (SBI), as well as the new Ad Hoc Working Group on the Paris Agreement (APA), which was established and tasked by decision 1/CP.21 to prepare for the entry into force of the Paris Agreement and the convening of CMA 1.

9 The COP under the UNFCCC is to serve under the Paris Agreement as the CMA.

10 See paragraph 11 above.

conference reached key outcomes regaring national action for both pre and post-2020. These outcomes are discussed in this section, beginning with those for the post-2020 period and returning to outcomes for the pre-2020 period in section 3.2.

19. The Paris Agreement does not contain specific obligations for individual countries with regard to their levels of mitigation and adaptation activity, or the levels of support they are to provide to other countries. These levels are to be determined by the countries themselves. The Paris Agreement instead sets out a framework for countries to determine, implement and monitor their climate action, guided by the aims and goals of the Agreement.

20. INDCs had been submitted on behalf of over 180 countries by the end of the Paris conference[11]. These signalled the action planned by countries and simultaneously gave confidence within the negotiations that all countries were acting together. Around 90 countries expressed interest in using carbon pricing or market-based instruments[12].

3.1 POST-2020 NATIONAL ACTION

PARIS PROVISIONS

21. The Paris Agreement sets a new approach to international obligations on climate change by ushering in mitigation and adaptation obligations that are universal across all developed and developing countries. As set out in Article 4.2, all Parties are to communicate NDCs containing measures they will implement "with the aim" of achieving them[13].

22. NDCs are therefore the focus for determining and implementing national action on climate change. They require countries to examine their economic, social and environmental circumstances, identify opportunities and decide on policies. The submission of NDCs is a public, political commitment of the contributions that countries undertake to make to global climate action. Countries may also specify in their NDCs what action they will undertake alone and what nature and level of support is required to undertake the remainder.

23. Parties are invited to communicate their first, formal NDCs no later than the submission of their instruments of ratification of the Paris Agreement, although Parties may also wish to

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11 See the UNFCCC's INDC portal at http://unfccc.int/focus/indc_portal/items/8766.php.

12 The International Emissions Trading Association has developed an "INDC Tracker" compiling information from INDCs on countries' intentions concerning the use of market–based instruments. See http://www.ieta.org.

13 The obligation in Article 4.2 to "prepare, communicate and maintain" successive NDCs is a "shall" provision. However, the agreement does not oblige Parties to fulfil their contributions, but only to implement measures "with the aim" of fulfilling them. This reflects the nature of the Paris Agreement in limiting the mandatory or legally binding status to process matters rather than the nature or level of climate action that NDCs are to contain.

have their INDCs from 2015 recognized as their first NDCs (para 22[14]). Parties are also requested to communicate new or updated NDCs by 2020[15], thus providing Parties with an opportunity to strengthen their NDCs after the facilitative dialogue in 2018[16] (paras 23-24).

24. From this point on, all Parties are to enter a five-year cycle of communicating NDCs, with each NDC representing a "progression" beyond the previous one and reflecting the Party's "highest possible ambition, reflecting its common but differentiated responsibilities and respective capabilities, in the light of different national circumstances" (Article 4.3).

25. It is still recognized, as under the Convention, that countries have common but differentiated responsibilities and respective capacities. However, "in the light of different national circumstances" allows for a more nuanced understanding that it is not only the historical responsibility for climate change and different capabilities which determine how much action a country can take. This reinforces the principle of self-differentiation underlying the NDCs and breaks away from the interpretation of the Convention and Kyoto Protocol that only developed countries need make international commitments to take action on climate change.

26. It is nevertheless still expected that developed countries should continue taking the lead through taking on economy-wide, absolute emission reduction targets. The language for developing countries is softer, in that they should continue enhancing their mitigation efforts and are encouraged to move to economy-wide emission reduction or limitation targets, again "in light of different national circumstances" (Article 4.4).

27. It was already clear during the adoption of the Paris Agreement that the climate action set out in the INDCs is insufficient to fulfil the purpose set out Article 2. Various mechanisms are foreseen to increase ambition over time and work towards the achievement of the purpose:

(a) A "facilitative dialogue among Parties" is to be convened in 2018 to take stock of the progress towards the long-term emissions goal set in Article 4.1, as represented in the collective efforts of Parties, and to further consider the information to be included in NDCs necessary for clarity, transparency and understanding (para 20);

(b) The specification that each successive NDC is to represent a "progression" beyond the Party's earlier NDC (Article 4.3), with a general move towards all countries

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14 All paragraph references in this document refer to decision 1/CP.21, unless otherwise stated.

15 Decision 1/CP.21 differentiates between Parties whose INDCs contain a time frame up to 2025 and those with a time frame up to 2030, with the former being requested to "communicate by 2020 a new NDC" and the latter being requested to "communicate or update by 2020" their NDCs. It is also not yet clear how often NDCs will be submitted for the immediate post-2020 period. Countries may submit fresh NDCs with their ratifications or rely on the INDCs already submitted. Some countries may rely on such revisions to satisfy the requirement to submit new or updated NDCs "by 2020", while others may submit revised NDCs closer to 2020, irrespective of whether a revision was submitted with the ratification.

16 See paragraph 27(a) below.

eventually having economy-wide emission reduction or limitation targets. NDCs may be adjusted at any time, if this is to enhance ambition (Article 4.11). They are to be submitted at least 9 to 12 months before the relevant CMA in order that they may be included in a synthesis report prepared by the secretariat (para 26);

(c) The CMA is to periodically undertake a "global stocktake" to assess the collective progress towards achieving the purpose set out in Article 2 and its long-term goals (Article 14). It is to be comprehensive and facilitative in nature and is to cover action on both mitigation and adaptation, as well as means of support for these actions, all in the light of equity and the best available science. The first global stocktake is to take place in 2023 and it is currently foreseen that they will take place every five years thereafter. The outcomes of the global stocktake are to inform the revision of actions and support in subsequent NDCs and enhance international cooperation on climate action. The principle of successive, progressive NDCs, informed by regular global stocktakes, is a key factor underlying longevity of the Paris Agreement.

28. In addition to the short to medium term focus of NDCs, all Parties "should strive to" prepare long-term low emission development strategies (LEDS) (Article 4.19). Such LEDS are to provide long-term direction and coherence to the NDCs submitted for subsequent periods. Decision 1/CP.21 further clarifies the call for LEDS by inviting Parties to extend these strategies to a mid-century timeframe and to communicate them by 2020 (para 35).

29. Numerous references in the Paris Agreement and its accompanying decision (paras 117 and 133-135) recognize the role of non-state actors in climate action, including regional and city authorities, civil society and the private sector. The role of such actors is treated in an integrated manner with other references to climate action, reinforcing that their role is not separable from national action in general. Alongside the role of Parties, non-state actors can support the scaling up of ambition and help implement and strengthen the actions of governments. This has been a growing trend for some time and, after the COP in Lima, led to the creation of the Non-state Actor Zone for Climate Action (NAZCA) platform for non-state actors to register their commitments.

UNFCCC WORK PROGRAMMES

30. There remains much guidance to be elaborated under the UNFCCC in relation to post-2020 national action, with much of it destined still to touch on many political and controversial matters. The components of the guidance, and hence also the various work programmes established under decision 1/CP.21 under all the different Convention bodies, will contain much overlap. It will require a great deal of care – and careful management by the body chairs – to ensure the coherence and efficiency of both the outputs and processes[17].

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[17] The timing of CMA 1, and hence the deadline for adopting the results of the work programmes, is uncertain (see paragraph 17 above).

31. The following work has been requested by decision 1/CP.21 in relation to NDCs[18]:

(a) Guidance on features of NDCs, to be developed by the APA for adoption by CMA 1 (para 26). It is expected that the features will be tailored to the types of NDCs;

(b) Further guidance for the information to be provided to facilitate the clarity, transparency and understanding of NDCs, to be developed by the APA for adoption by CMA 1 (para 28);

(c) Guidance for accounting for NDCs, drawing on approaches established under the Convention and its related legal instruments, to be elaborated by the APA for adoption by CMA 1 (para 31)[19];

(d) CMA 1 is to consider "common time frames for NDCs" (Article 4.10). This refers to NDCs currently being submitted for periods from 2020 until either 2025 or 2030[20];

(e) The CMA is to adopt guidance on adjustments to NDCs (Article 4.11)[21];

(f) Modalities and procedures for the operation and use of the public registry for NDCs, as referred to in Article 4.12, to be developed by the SBI for adoption by CMA 1 (para 29). An interim registry for recording NDCs has already been made available by the UNFCCC secretariat, in accordance with para 30[22].

32. Decision 1/CP.21 also requested the SBSTA to develop the guidance on accounting for cooperative approaches that involve ITMOs, as referred to in Article 6.2 (as well potentially as other guidance taken to be referred in this Article) (para 36) [23].

33. The same decision also requested the APA to develop modalities, procedures and guidelines for the transparency framework for action and support, as set out in Article 13.13, to be adopted by CMA 1 (para 91).

34. With regard to the global stocktake referred to in Article 14, decision 1/CP.21 requested the APA to develop modalities (para 101) and identify the sources of input, including on the overall effect of NDCs and the provision of support (para 99), all for adoption by CMA 1.

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18 This guidance, irrespective of whether it is adopted at CMA 1 or later, will come after the formal NDCs have been submitted for the 2020 period. NDCs may however be resubmitted by 2020 (see paragraph 23 above). See the appendix for the full wording of the work requests.

19 See also paragraph 60 below.

20 No specific work programme was established by decision 1/CP.21 for this matter.

21 It was not specified which CMA session is to address this matter and no specific work programme was established by decision 1/CP.21.

22 http://www4.unfccc.int/ndcregistry/Pages/Home.aspx

23 See also paragraph 60 below.

RELEVANT ASPECTS FOR THE PMR

35. The Paris Agreement puts considerable pressure on all countries to develop and implement mitigation action, with a view to having appropriate measures in place, or at least decided upon, by 2020. The form and stringency of these policy instruments will vary greatly between countries but the universal nature of the obligation to act, combined with the obligation to support other countries, can be expected to significantly increase the momentum of national, regional and other collaborative efforts to mitigate climate change.

36. A number of developments can be expected:

(a) Countries will engage on significant and ongoing work to revise their NDCs and develop implementation plans. Some will take the opportunity of their ratification to submit new, formal NDCs, while others will wait until a time closer to 2020;

(b) Many countries are likely to conduct more thorough assessments of mitigation scenarios, goals and policy instruments than were possible prior to COP 21. It is also likely that countries will in parallel develop LEDS as a means to provide long-term strategic direction to the specification of NDCs for subsequent periods;

(c) The next round of NDCs is also likely to give more consideration to the type and level of finance and other support that are needed. Countries may reconsider which actions they will unconditionally implement and which should be conditional on support being received. Countries may also choose to make greater use of policies, such as carbon pricing instruments, that both incentivize action and channel finance. The new NDCs may therefore seek a more diverse blend of finance sources, often including the mobilization of private finance through market instruments;

(d) The practical focus on policy implementation in the lead up to 2020 may also trigger a stronger interest in collaboration across countries and initiatives that support them.

37. The recent introduction of the PMR's policy analysis work programme (PAWP) sought to support ICPs in their assessments of mitigation scenarios, goals and policy instruments. Further support is likely to be needed in the next years but it will be important to build a self-sufficient capacity within ICPs for this work, given that all countries will be on a continuous cycle of NDC revisions and will require this capacity also for NDC monitoring processes.

38. The expected developments in NDCs in the next years also bring a risk that MRP activities may be left out of sync with the directions being taken in the NDCs. Given the general nature and/or underlying no-regret approach of many MRP readiness activities, issues may be more likely to concern missed opportunities than problematic inconsistencies. There is also a degree of flexibility within the MRP processes. Nevertheless, where significant progress and decision making has been made by an ICP through its NDC processes, it may be worthwhile that ICPs have opportunity to review their MRP activities.

39. Overall, the conditions created by the Paris conference can be expected to both facilitate the work of the PMR and provide it with many opportunities to support countries in their integration of carbon pricing instruments into national policy. Section 4 considers specific adjustments that the PMR could consider in order to pursue these opportunities.

3.2 IMMEDIATE ENHANCEMENTS IN CLIMATE ACTION PRIOR TO 2020

PARIS PROVISIONS

40. While most attention in Paris was focused on the Paris Agreement and its long-term outlook beyond 2020, political pressure continued in Paris on countries to maintain and enhance their climate action in the period leading up to 2020. After COP 15 in Copenhagen in 2009, 42 developed countries submitted economy-wide targets for the period up to 2020 and 58 developing countries submitted nationally appropriate mitigation actions (NAMAs) with the aim of achieving a deviation in emissions relative to business-as-usual projections in 2020. The status of these international pledges was given recognition at the next COP in Cancun. In addition, COP 18 in Doha 2012 adopted the Doha Amendment to the Kyoto Protocol, which set out targets for many developed countries for the Protocol's second commitment period. A successful outcome in Paris on negotiations on pre-2020 action was vital in strengthening the credibility of the negotiation process among Parties for the post-2020 period.

41. Section IV of decision 1/CP.21 refers to a series of earlier initiatives and agreements that call on Parties to commit and undertake pre-2020 climate action. Specifically, it:

(a) Urges Parties to complete their actions to ratify the Doha Amendment on Kyoto's second commitment period (2012) and implement pledges made under the Copenhagen Accord (2009) and the Cancun Agreements (2010) (para 105);

(b) Reiterates the resolve to accelerate the implementation of decision 1/CP.19, paras 3 and 4, from Warsaw (2013)[24], particularly on technology, finance and capacity building for developing countries and on enhancing pre-2020 ambition (para 105(c));

(c) Commits to enhancing finance, technology and capacity building support and calls for a "concrete road map" from developed countries to reach the goal of annually providing USD 100 billion in financial support by 2020 (para 114);

(d) Agrees on a "facilitative dialogue" at COP 22 to assess progress in implementing decision 1/CP.19, paras 3 and 4, and identify opportunities to enhance the provision of finance to enhance the ambition of mitigation efforts by all Parties (para 115).

42. A "technical examination process" (TEP) on mitigation has been run since 2014 in conjunction with the sessions of the SBI and SBSTA to facilitate Parties in identifying and implementing policy options, practices and technologies with high mitigation potential. Decision 1/CP.21

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24 This decision in turn refers to decisions 1/CP.18, 2/CP.17, 1/CP.16 and other decisions.

resolves to continue the TEP to 2020, strengthen the engagement of Parties, organizations and non-state actors, and improve access and participation for representatives and non-state actors from developing countries (para 109). The decision sets out a number of specific steps:

(a) Calls upon the UNFCCC secretariat to organize the process and, in consultation with the Technology Executive Committee, regular expert meetings (para 111(a));

(b) Requests the UNFCCC secretariat to prepare annual technical papers on the mitigation benefits and co-benefits of policies, practices and actions for enhancing mitigation ambition, as well as options to support their implementation (para 111(b);

(c) Requests the secretariat to prepare annual summaries for policy makers to provide information on policies, practices and actions that have the potential to be scalable and replicable, as well as on options and collaborative initiatives to support their implementation (para 111(c));

(d) Establishes a new TEP for 2016 to 2020 focused on adaptation to identify concrete opportunities for strengthening resilience, reducing vulnerabilities and increasing the understanding and implementation of adaptation action (para 124).

43. Parties at COP 21 also agreed to convene a "high-level event" at each session of the COP from 2016 to 2020. This is to encourage high-level representatives of Parties, international organizations, cooperative initiatives and non-state actors to engage on the results of the TEPs, take stock of progress and announce new or strengthened "voluntary efforts, initiatives and coalitions" (para 120). The summaries for policy makers referred to in paragraph 42(c) above are to feed into these high-level events.

44. In addition to the process-related decisions set out above, COP 21 agreed on two provisions relating specifically to how Parties implement their climate action, both of which address the use of market instruments:

(a) Encourages Parties to promote the voluntary cancellation of Kyoto units, including Certified Emission Reductions (CERs) issued under the Clean Development Mechanism (CDM) for the second commitment period under the Kyoto Protocol. Such cancellation can reduce the quantities of units available for offsetting against emission targets, thus increasing the pressure to directly reduce emissions. In the case of the CDM, purchasing CERs for cancellation can provide a revenue stream back to the project owners and help ensure the continuation of these projects, despite the current low prices of credits. It can be incorporated into other carbon pricing instruments such as emissions trading systems and carbon tax systems (para 106);

(b) Urges Parties to report transparently on any ITMOs they may make, including outcomes used to meet pledges and units issued under Kyoto, in order to promote environmental integrity and avoid double counting. This responds to a concern that, in the pre-2020 era in which there is no comprehensive accounting for all the actions and pledges that countries may engage in, mitigation outcomes may be used to demonstrate fulfilment of multiple commitments (para 107).

45. While these specific provisions are not mandatory, it would be expected that Parties take them into account in their use of market instruments before 2020.

46. The decision further encourages greater collaboration among Parties and non-state actors, highlighting the opportunities to strengthen mitigation and adaptation and for non-state actors to engage in the TEPs and the high-level events from 2016 to 2020 (paras 118-120).

RELEVANT ASPECTS FOR THE PMR

47. The TEP and high level processes for dialogue, together with the technical papers and summaries for policy makers, serve to maintain and increase the immediate technical and political momentum on climate action and bridge the gap between Paris and the first NDC period commencing in 2020. It is unlikely that the pre-2020 pledges themselves will be raised, however it is intended that their implementation and support will be strengthened before 2020 as part of a seamless transition to even stronger action thereafter.

48. Much of the discussion is relevant to the experience and lessons being learned through the PMR and other similar international initiatives. What is particularly sought after is lessons that can be distilled from practical experience with the implementation of policy instruments and their preparation. There may however be value in synthesizing the increasing volumes of technical material available from the PMR to make it more accessible to a wider policy and negotiator audience, in particular from countries which have not made progress on their own policy implementation to the extent that others have under the PMR.

49. There may also be value in the PMR providing further support on issues that would be a natural extension of existing work results and would benefit a wide set of countries already prior to 2020. For example:

(a) There could be further support for the integration of voluntary cancellation into carbon pricing instruments being developed through PMR activities;

(b) There could be work, in the context of the call in decision 1/CP.21 for countries to transparently report on ITMOs prior to 2020, to develop common understandings as to accounting and tracking of ITMOs and the relationship and transition between the Cancun pledges, the Kyoto Protocol targets and post-2020 NDCs[25].

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25 This involves complex, poorly understood and controversial issues, for example with regard to whether double counting can exist between the undertakings under different pledges and whether actions taken prior to 2020 should receive recognition after 2020. Nevertheless, an improved technical understanding of the issues may help members in their own reporting and the inputs to the accounting work in the UNFCCC.

4. INTERNATIONAL COOPERATION

50. The Article with the most direct relevance to the PMR is clearly Article 6, which sets out various means through which Parties may cooperate internationally in undertaking their climate action. These include:

(a) Recognition under Articles 6.2 and 6.3 of cooperative approaches that involve ITMOs and that may be used by other countries in the fulfilment of their NDCs;

(b) Establishment of a UNFCCC-governed crediting mechanism under Articles 6.4 to 6.7;

(c) Definition of a framework for non-market approaches under Articles 6.8 and 6.9.

51. Certainly the original impetus for what became Article 6 was grounded in experience with market instruments under the Kyoto Protocol. The Parties advocating these approaches for the Paris Agreement had a number of objectives in mind, in particular:

(a) Means to strengthen their mitigation cooperation, through a country being able to make use of lower-cost abatement in another country, counting the resulting mitigation towards its own emission commitment and contributing to the other country through payment, investment or other forms of support;

(b) The leveraging of private sector finance for climate action;

(c) A clear carbon price to internalize the costs of emissions and give widespread incentive to less emissions intensive activities and low emissions growth;

(d) Means for increasing ambition over time, by unlocking lower cost climate action.

52. However, Article 6 in its final form encompasses both market and non-market approaches. The challenge of finding an acceptable balance between these different worldviews literally made Article 6, in the last moments of the Paris conference, the last component to fall into place in the Paris Agreement. Discomfort from some countries is also why the term "market" is not used in the Paris Agreement, which refers instead to "cooperative approaches".

53. Already in the Bali Action Plan in 2007, market mechanisms had been referred to as "various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions". In Durban in 2011, the word "market" was accepted as the new market-based mechanism (NMM) was defined, as part of a distinction between this and the recognition of "non-market" approaches. In Doha in 2012, the COP mandated specific work to elaborate the modalities and procedures for the NMM and to conduct work on both non-market-based approaches (NMA) and a framework for various approaches (FVA).

54. Work under the SBSTA on the FVA, NMA and NMM made only slow progress in recent years, and the respective agenda items were given little attention in Paris due to most Parties wishing to address the political matters relating to such instruments under the ADP[26].

55. The first paragraph of Article 6 serves to orient the article with a general recognition that some Parties[27] wish, on a voluntary basis, to cooperate in the implementation of their NDCs "to allow for higher ambition on mitigation and adaptation and to promote sustainable development and environmental integrity". In this manner, Article 6.1 contains nothing to be operationalized but serves instead as an umbrella provision for the remainder of the article. It is in fact relevant to both market and non-market instruments, and also refers to adaptation as well as mitigation, consistent with the balance across the whole Paris Agreement.

4.1 INTERNATIONAL TRANSFERS AND THEIR ACCOUNTING

PARIS PROVISIONS

56. Article 6.2 deals with specific cases of cooperative approaches established by countries, or groups of countries, that involve ITMOs originating in one Party and used by a second Party to help demonstrate the fulfilment of its NDC. This Article does not establish such cooperative approaches centrally under the Paris Agreement but instead provides a framework within which countries implement their own instruments. The inclusion of this element in the Paris Agreement was of critical importance for many Parties.

57. This Article builds upon experienced gained with international emissions trading under Article 17 of the Kyoto Protocol which, together with the accounting provisions in Kyoto's Articles 3.10 to 3.11, provided for the transfer of "assigned amounts" among Kyoto's Annex B Parties. This was also the basis for linked national emissions trading systems to transfer among themselves. However, while Kyoto takes a centralized approach to such international

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26 As market and non-market instruments were included in the Paris Agreement, SBSTA 44 agreed in May 2016 to postpone any further consideration of the agenda items on the FVA, NMA and NMM until SBSTA 50 in June 2019. This gives countries an opportunity to reopen this work if needed in light of progress in the work programmes on Article 6. The NMM is the only one of these that had been formally defined by the COP, however it still needs its modalities and procedures to be adopted for it to become operationalized.

27 The reference is specifically only to "some Parties", given that some other Parties had concerns on the use of the market instruments in Article 6. Also important is that the wording carefully avoids any suggestion that Article 6 gives Parties permission to cooperate, as many Parties held the view that they do not need such permission.

transfers[28], the framework approach adopted by Article 6.2 is expected to result in a greater diversity of sytems, processes and standards for ITMOs.

58. A number of issues of scope are dealt with directly with Article 6.2 and 6.3:

(a) Both the transfer and use of ITMOs is voluntary in nature;

(b) The ITMOs reference to "mitigation outcomes" is very open. It may include outcomes denominated in "units" and subject to trading, but may also include other outcomes, such as simply a quantity of tonnes of emissions or outcomes measured in non-GHG metrics. In either case, the accounting rules will need to address how they are taken into account in inventories and NDCs;

(c) Only ITMOs used towards NDCs are relevant here. Theoretically, ITMOs which are not used towards NDCs would not be covered by these provisions[29]. However, this may not be an issue in practice as most Parties are likely to want ITMOs to meet the relevant standards in order to at least be potentially usable for NDC purposes;

(d) The use of ITMOs towards NDCs must first be authorized by the Parties participating in the transfer. This provides safeguards to national governments that mitigation outcomes originating in its territory will not be used for other NDCs without its expressed awareness and approval, and gives a route towards recognition for subnational authorities wishing to implement their own market systems.

59. As with all of Article 6, the provisions on ITMOs do not grant permission to undertake and use ITMOs, as this is already taken as given. Instead, these provisions place safeguards on how Parties engage in cooperative approaches involving the use of ITMOs towards NDCs:

(a) Parties "shall apply robust accounting to ensure, inter alia, the avoidance of double counting, consistent with guidance adopted by the CMA". Accounting is seen to warrant guidance from the CMA rather than leaving this to the discretion of Parties. Decision 1/CP.21 specifies that double counting is to be avoided by making "corresponding adjustments" for emissions and removals covered by NDCs (para 36)[30]. It will be important to understand the denomination of the ITMO and track

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28 The quantity of assigned amount must be vetted through Kyoto's review processes; each Party needs to meet eligibility requirements relating to inventories, assigned amount, reporting and registries; and all international transfers must be checked by the international transaction log for conformity with the applicable rules set under Kyoto.

29 For example, it may occur that the volume of net transfer between two ETS is insufficient or otherwise not required for fulfilment of an NDC.

30 For example, an emission reduction made in one country but used for NDC fulfilment in a second country needs to be added back into the inventory of the first country, otherwise the single emission reduction would be counted twice. Similarly, a transfer of an emissions

what is being adjusted, including its initial issuance and any transfers, use towards an NDC, cancellation, or carry over to a subsequent NDC period;

(b) Parties shall "promote sustainable development and ensure environmental integrity and transparency, including in governance". The safeguards are mandatory, even though they are not explicitly made subject to guidance to be adopted by the CMA. Some Parties consider, however, that these safeguards should also to be the subject of guidance to be adopted by the CMA, at least of the nature of high-level principles[31].

UNFCCC WORK PROGRAMMES

60. There are two work programmes established by decision 1/CP.21 in relation to accounting[32], both of which are to result in guidance to be adopted by the CMA 1:

(a) The SBSTA was requested to develop and recommend the guidance referred to in Article 6.2 to apply when Parties engage in cooperative approaches that involve ITMOs that may be used in fulfilment of NDCs (para 36). This refers to the transfer of units or other forms of mitigation outcome between countries;

(b) The APA was requested to elaborate guidance for accounting for NDCs, drawing appropriately from approaches established under the Convention and Kyoto Protocol (para 31). This refers to what countries may count towards the fulfilment of their NDCs and how this counting should be undertaken. It will be necessary to track progress towards the fulfilment of NDCs over time and also, after the NDC period, to demonstrate whether they have been fulfilled on an ex post basis.

61. As the accounting for NDCs needs to take account of ITMOs transferred or received, it will be important to ensure coherence between the NDC and ITMO accounting rules, making necessary a coordinated approach between the SBSTA and the APA to their development.

62. If it is to be agreed that CMA 1 needs also to adopt guidance on cooperative approaches in relation to promoting sustainable development and ensuring environmental integrity and transparency (including in governance), this could be developed through either the work programme under Article 6.2 or Article 13.13 (on the transparency framework).

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allowance from one country to a second country should be added to allowances in the second country while being deducted from the allowances of the first country.

31 These countries consider the words "consistent with guidance adopted by the CMA" in Article 6.2 to also apply to promoting sustainable development and ensuring environmental integrity and transparency (including in governance), instead of only referring to accounting.

32 See the appendix for an overview and the full wording of the work requests.

RELEVANT ASPECTS FOR THE PMR

63. It can be expected that countries, at both the national and subnational levels, will continue and accelerate the development and implementation of market instruments that result in the transfer and use of mitigation outcomes against each other's NDCs. Some transfers – or at least agreement on them – may need to be made prior to 2020, while in other cases transfers will only take place after 2020. In addition to emissions trading approaches, crediting systems may also be implemented individually or collectively by countries within the framework of Article 6.2, depending on how they assess the merits of developing their own systems vis-à-vis using the UNFCCC-governed crediting mechanism under Article 6.4.

64. The ITMO accounting guidance for transfers may be relatively straightforward to develop, if Parties are comfortable with a basic commonality of approaches to transfers. It would be useful, for example, to define:

(a) Specific transaction types[33];

(b) Basic transaction processes;

(c) ITMO features;

(d) Double-entry bookkeeping;

(e) Tracking registries.

65. This work programme therefore creates an opportunity to provide for at least a basic harmonization in the way that transfers and NDC use are conducted across all countries, which can be expected to be a critical technical factor in facilitating and accelerating the subsequent linking of carbon markets.

66. It will probably be very important to a number of Parties that they be able to issue their own units and manage their own registries. This should be possible, while still providing for a basic commonality in unit types, features and transactions. How acceptable this is will depend on whether rules are seen as pragmatic and facilitative, or restrictive.

67. One uncertainty is the form transfers may take if they are not denominated in emissions allowances/credits or tonnes of emissions, given that Paris deliberately left open the term "mitigation outcomes" in Article 6.2. In principle, it is conceivable that non-GHG metrics, for example megawatt hours of renewable energy or energy efficiency savings, could be transferred, where they are compatible with the formulation of NDCs. Their GHG impact

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33 For example, the accounting developed for the Kyoto Protocol covered the following main transaction types of international relevance: issuance, external transfer (as opposed to internal transfers within a country), cancellation, retirement (against a target), and carry over (to a subsequent accounting period).

would most likely then need to be estimated, in order to be consistent with the accounting for ITMOs and NDCs. However, in practice, it is likely that most countries implementing trading or crediting systems that involve emitters and project proponents at an entity level will adopt a unit-based approach that uses a GHG metric. Such an approach is more familiar and offers greater opportunity to link with other ETS and therefore operate at scale with other countries.

68. Irrespective of how the ITMO accounting guidance turns out, it will be necessary for each country to adhere to it, if they wish the ITMOs to be used in fulfilment of NDCs. This may mean that countries that are more advanced in their implementation of market instruments may need to make adjustments to be consistent with this guidance.

69. However, countries that are more advanced in their implementation would also be able to share their experience under the UNFCCC work programme and inform its development. There would be value in countries with cooperative approaches already in place or under preparation to examine their needs for inter-system transactions. In addition to filling an important knowledge gap, such work may promote a pragmatic approach to identifying the requirements and rules for ITMOs and for better understanding issues of double counting.

70. It may not be necessary that the full detail of accounting guidance (or for that matter any guidance on environmental integrity, sustainable development or transparency) be developed and agreed through the UNFCCC. It may alternatively be sufficient that basic rules be agreed through the UNFCCC, perhaps in the form of principles, and that the implementation detail is developed by Parties either individually or through "clubs" of countries wishing to work together. Countries may then need to demonstrate that their rules are in conformity with the principles adopted at the UNFCCC, possibly through the technical review process to be developed in the transparency framework under Article 13.

71. The accounting for NDCs, and the use of ITMOs towards them, can be expected to be considerably more complex than the accounting for transfers alone. NDC accounting will have to address the diversity of NDCs and deal with issues such as single-year targets, incomplete coverage of national emissions, targets expressed in non-GHG metrics, etc. While corresponding adjustments could be made relatively easily in the case of economy-wide, absolute and multi-year targets, the complexity of other cases will be far greater.

72. The ITMO and NDC accounting guidance under Article 6.2 can be expected to take at least another 2 to 3 years to develop, given the technical understanding on these matters currently, the overlaps between them, the complexities involved and the differing views of Parties on these matters. On this count, this means that the guidance on ITMO and NDC accounting would be adopted by the CMA in 2018 or 2019 at the earliest.

73. In other scenarios, it may be possible that the ITMO accounting makes faster progress than the NDC accounting rules. The guidance on ITMO accounting, once adopted, is to be applied to all ITMOs from the first NDC period (2020 onwards); the NDC accounting rules are to be adopted by CMA 1 like the results of all other work programmes but their application is not mandatory for the first NDC period (para 32). In practice, however, some countries may not be willing to agree on ITMO accounting guidance in advance of NDC accounting rules. In the

event of NDC accounting rules taking more time, it may be possible to accept ITMO accounting guidance on a provisional basis, with formal adoption later in conjunction with adopting the NDC accounting rules, however such scenarios are speculative for now.

74. In any event, the need to agree on ITMO and NDC accounting rules need not hold countries back from developing or even entering into cooperative approaches, especially if they only need to conduct their first transfers well after 2020 but can expect considerable lead times in implementing their systems. Some countries argue that the phrase “consistent with guidance adopted by the CMA” in Article 6.2 allows for countries to implement their own rules until such time that the CMA guidance has been adopted, although this may be controversial.

4.2 UNFCCC-GOVERNED CREDITING MECHANISM

PARIS PROVISIONS

75. The mechanism established under Article 6.4 represents the next evolution in centrally-governed crediting mechanisms under the UNFCCC. It builds on experience with the CDM and joint implementation (JI) under the Kyoto Protocol but the text contains a number of features with the potential to form the mechanism into something very new.

76. The mechanism is to be under the authority and guidance of the CMA and is to be supervised by a body designated by the CMA. The mechanism is therefore to be governed under the UNFCCC, as is familiar from the Kyoto mechanisms. This allows countries to use the centrally-provided infrastructure and standards to invest in or host mitigation activities, without having themselves to create, service and maintain the infrastructure and standards.

77. The purpose of the mechanism stated in Article 6.4 is to “contribute to the mitigation of GHG emissions[34] and support sustainable development”. Although the draft purpose had only referred to sustainable development earlier in the Paris conference, the reference to mitigation was added to shift the focus of the mechanism towards being a mitigation instrument[35].

78. Article 6.4 goes on to specify the aims of the mechanism:

(a) To promote the mitigation of GHG emissions while fostering sustainable development;

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[34] Although some Parties could not accept a reference to “removals by sinks” in the text, it was understood in the negotiating room that mitigation also refers to removals.

[35] Contrary to the emerging trend, “sustainable development mechanism” is not an appropriate name for the mechanism. It would be useful to give it an appropriate and distinctive name as part of the elaboration of the rules, modalities and procedures for the mechanism.

(b) To incentivize and facilitate participation in the mitigation of GHG emissions by public and private entities authorized by a Party;

(c) To contribute to the reduction of emission levels in the host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfil its nationally determined contribution[36];

(d) To deliver an overall mitigation in global emissions.

79. Although there is no reference to “credits” within the provisions, the third aim above sets out the basic premise for how the mechanism would work – with one Party hosting a mitigation activity and the other being able to use the resulting emission reductions to fulfil its NDC.

80. Overall, between Article 6 and further elaborations contained in decision 1/CP.21, a number of features of the Article 6.4 mechanism are notable:

(a) The mechanism is not limited to projects and programmes, as with the CDM and JI. The Article 6.4 mechanism refers only to “mitigation activities”, thus leaving the door potentially open for projects, programmes, sector-based activities and policy measures;

(b) The hosting of mitigation activities is not limited to developing countries; nor is the use of emission reductions to fulfil NDCs limited to developed countries;

(c) There is provision for “specific scopes of activities”, or windows, in the mechanism that may address a specific subset of activities. This allows for rules to be developed to apply to a specific scope of activities within the mechanism[37];

(d) The wording of “overall mitigation in global emissions”, instead of the more common “net mitigation”, is sufficiently open to allow the full mechanism to go beyond offsetting without each activity having to individually make a net contribution;

(e) A share of proceeds is to be applied to the mechanism to cover its administrative expenses and contribute to adaptation funding.

81. Any international transfer, and use to fulfil NDCs, of emission reductions generated under the Article 6.4 mechanism would constitute an ITMO, and would most likely make use of the provisions for ITMOs in Article 6.2. In this case, it would allow all transfers and use to be

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36 Some view the aim in Article 6.4(c) to be unclear and, more alarmingly, to allow double counting, as it may be read as if the resulting emission reductions both benefit the host Party and are used by the other Party to fulfil its NDC. However, Article 6.5 clearly states that emission reductions may not be used to demonstrate the achievement of two NDCs.

37 Such windows could potentially be specified to cover levels of aggregation in activities (e.g. sectors) or specific activities (e.g. REDD+).

regulated by the ITMO and NDC accounting guidance to be adopted by the CMA, consistent with the strong statement in Article 6.5 that emission reductions may not be used by two Parties to demonstrate achievement of their NDCs.

UNFCCC WORK PROGRAMMES

82. Decision 1/CP.21 requested the SBSTA to develop rules, modalities and procedures for the Article 6.4 mechanism and recommend them for adoption to CMA 1 (para 38)[38]. Many countries are of the view that these rules need to be specified at a higher and less detailed level than was the case for the rules of the CDM and JI agreed in Marrakech (2001) for the Kyoto Protocol, possibly focusing on stating principles and key features while leaving the implementation details to the body tasked by the CMA to supervise the mechanism.

83. This decision specifies that the work on the rules, modalities and procedures for the Article 6.4 mechanism is to proceed on the basis of, inter alia, experience and lessons from existing mechanisms under the Convention and the Kyoto Protocol. The rules for these mechanisms offer a strong starting point for the Article 6.4 rules and can be expected to be useful in helping to determine how rules can be drafted and where it is necessary to diverge.

RELEVANT ASPECTS FOR THE PMR

84. The Article 6.4 mechanism is likely to develop as a broad-spectrum crediting mechanism that allows for all types of activities, potentially making use of special windows in order to trial new areas and/or limit the involvement of any countries opposing the inclusion of specific activity types. This broad approach would help bring all countries on board. For example, although it has been very controversial in the past, it may be possible that activities for reducing emissions from deforestation and forest degradation (REDD+) could be included in this way, as a specific window may serve to shield the remainder of the mechanism from the potential crowding out of supply that concerns some countries.

85. It is likely that all levels of aggregation will be allowed for, from individual projects and programmes of activities to sector-based and possibly policy measures, thus covering the need for scaled-up crediting and the wish of some countries to continue project and programmatic approaches. Windows could potentially be used to house the different levels of aggregation, as these could allow for rules to be tailored specifically to the activities under each window, while allowing other elements of the rules to apply across all windows.

86. There are different views among countries on a number of key aspects of the mechanism:

    (a) Whether activities should only be allowed beyond the scope of a country's NDC. Such a limitation could potentially create incentive to exceed levels of mitigation reflected in NDCs, although some Parties may prefer that the mechanism also be

38 See the appendix for an overview and the full wording of the work requests.

available for financing conditional elements of NDCs. Such a limitation may also in effect block countries with economy-wide targets from using the mechanism and may unintentionally create a perverse incentive to keep NDCs unambitious;

(b) The way in which an overall mitigation in global emissions should be delivered. Article 6 sets this requirement at the level of the mechanism itself, meaning there is no specific requirement that each activity under it individually contribute to net mitigation, as long as the overall impact of the mechanism does so. While the traditional tools of net mitigation (for example, short crediting periods, discounting or conservative estimates) could still be applied at the activity level, these could potentially be supplemented by broader design choices at the mechanism level (for example, integration with non-credited results-based climate finance or a focus on activity and technology types with strong transformative impacts on emissions);

(c) The extent to which the mechanism draws on the infrastructure and standards of the CDM or innovations from the review of the JI guidelines over the last several years. The basic project cycle of the CDM is both tested and familiar, and has been emulated over the years in the emergence of other crediting systems. Many Parties and stakeholders can be expected, however, to seek a quite fundamental simplification of the standards and procedures of the CDM and means to ensure an effective, responsive and apolitical governance structure for the new mechanism;

(d) The extent to which existing projects from the CDM and JI may be migrated into the Article 6.4 mechanism, where they are still operational and meet the requirements of the new mechanism. Such policy continuity would strengthen the confidence of the private sector in the new mechanism. However, questions need to be resolved regarding additionality, activity time frames, the potential carry over of credits beyond 2020, impacts of such a migration on the supply/demand balance, and impacts on mitigation ambition and global emissions.

87. It is important to note that neither the Article 6.4 mechanism or the INDCs of 2015 alter the short or medium-term outlook for credit demand. Of the around 90 countries expressing interest through their INDCs in using carbon pricing or market-based instruments, only Canada, Japan, New Zealand, South Korea, Switzerland and Norway signalled that they would demand emission reductions internationally. Potentially larger emitters, in particular the European Union and the United States of America, are expected to rely upon domestic supply to meet their needs, something which smaller countries have difficulty in doing.

88. This situation may however evolve after the facilitative dialogue to be convened in 2018 and the first global stocktake in 2023[39]. It is clear that there is a great need to increase mitigation ambition and this could be mobilized through the use of carbon pricing instruments. New sources of demand from the market-based mechanism currently under development in the

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[39] See paragraph 27(c) above.

International Civil Aviation Organization (ICAO) and a growing range of results-based finance initiatives also remain as key future prospects for the short and medium terms.

89. In view of all the above considerations, it can be expected that the rules, modalities and procedures of the Article 6.4 mechanism will take at least another two to three years to develop. This is likely given the differences in interests among Parties, in particular with regard to the scope of activities, relationship to NDCs, access to simplified measures and means to secure overall mitigation. These differences, combined with the lack of demand before 2020, mean that the rules would not be adopted by the CMA before 2018 or 2019.

90. It will be important for countries interested in developing their own crediting systems to monitor the development of the Article 6.4 mechanism, as it has the potential to meet many of their crediting needs. It has potential to support the scaling up of mitigation action, to be simple yet transformative, and to be integrated with other policy instruments and results-based climate finance. Many small and medium sized countries may choose to use this mechanism in place of, or as a supplement to, crediting systems of their own.

91. Factors that may inform this choice may include upfront and ongoing costs; the nature and level of domestic demand sources; the suitability of sector coverage; specific needs, such as the inclusion of co-benefits or greater simplicity and complementarity with other policies and results-based finance; institutional capacity; historical policies; perceived credibility; and preferred levels of independence, adaptability and control. Domestically implemented crediting systems may still make use of UNFCCC infrastructure, such as ITMO accounting rules, methodological standards and accreditation for third party verifiers.

92. For some Parties, this policy choice may already be clear. For others, it may take several years before sufficient clarity on the Article 6.4 mechanism has emerged for them to decide. In the meantime, such countries may wish to focus on readiness activities with broad policy applicability, such as data collection and management, baseline-setting, MRV and capacity building. This is currently the scope of some crediting-related MRPs. Nevertheless, the need for policy clarity will become more urgent as MRP implementation becomes more advanced.

4.3 FRAMEWORK FOR NON-MARKET APPROACHES

93. The scope and purpose of non-market approaches was difficult to define in the lead up to Paris, in particular as many Parties saw its components already being covered in other areas of the Convention or the draft agreement text. The final text included in the Paris Agreement still reflects this lack of specific definition, meaning that much still needs to be interpreted.

94. Article 6.8 defines the aim of non-market approaches very broadly as being those that:

(a) Promote mitigation and adaptation ambition;

(b) Enhance public and private sector participation in the implementation of NDCs;

(c) Enable opportunities for coordination across instruments and relevant institutional arrangements.

95. Article 6.9 defines a "framework for non-market approaches to sustainable development" but specifies its purpose only as the promotion of these approaches. Decision 1/CP.21 gives some clarity on the immediate tasks ahead by requesting the SBSTA to undertake a work programme that considers how to enhance linkages and create synergy between, inter alia, mitigation, adaptation, finance, technology transfer and capacity building, and how to facilitate the implementation and coordination of non-market approaches (para 39) [40]. A decision on the work programme is to be taken by CMA 1 (para 40)[41].

96. It is now up to the SBSTA to develop further clarity on what is to be achieved through the framework for non-market approaches. Signals given by Parties at the SBSTA in May 2016 ranged from the establishment of institutional arrangements and funding to support the implementation of non-market policy instruments, to the provision of climate finance that does not involve the unitization or transfer of emission reductions.

97. To a degree, the consideration of non-market approaches mirrors PMR experience and work, which increasingly recognizes that countries need a broad range of complementary market and non-market policy interventions. Such thinking is prevalent in the work to consider the impact of interactions with other policy instruments. It is also apparent that readiness activities under the PMR may well benefit the development and implementation of non-market approaches, such as for example the work on GHG data management or MRV.

98. Nevertheless, given the current lack of clarity over the direction and pace of these negotiations, the PMR may wish to prioritize other work, while monitoring the development of the framework for non-market approaches to identify potential synergy for its work.

5. CLIMATE FINANCE

99. The discussions on finance had been underway for many years prior to Paris and much had already been agreed. The discussions on finance in Paris were therefore primarily to bring together various threads of the commitments and infrastructure agreed in the last years and establish them within the architecture of the Paris Agreement.

100. This was led by elevating the issue of finance all the way to the purpose of the Agreement in its Article 2. This is followed in Article 9 by confirming the continuing role of developed countries in providing finance and assisting developing countries. However, a key new step in Paris was to set in place an encouragement to developing countries to also provide such support, albeit on a voluntary basis.

101. Decision 1/CP.21 gives explicit recognition to the annual finance goal of USD 100 billion made by developed countries at COP 15, by deciding that developed countries intend to continue

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40 See the appendix for an overview and the full wording of the work requests.

41 The nature of the decision to be taken by CMA 1 is unclear, as decision 1/CP.21 is ambiguous as to whether the CMA 1 decision should set up the work programme or already contain the results of a work programme already completed by the SBSTA.

with this goal until 2025 and that it will be raised higher than this thereafter (para 53). This is significant, as this finance goal had previously only been noted by the COP.

102. Paris was also significant on climate finance in that it clarified that the provision of funds by developed countries may come through mobilizing climate finance from a wide variety of sources, instruments and channels, and not only from public funds (Article 9.3). This brings an acceptance of private sector finance and mobilization through carbon markets. It more clearly opens the way for a stronger integration of public and private finance sources and it can be expected that donor countries will leverage private funds as much as possible.

103. This recognition can be expected to dovetail with increasing attention on the measurement of the emissions impact of climate finance, which is already raising interest in results-based frameworks for the distribution of climate finance. Combined, these forces can be expected to raise interest still further in measures that can link climate finance and carbon markets.

104. It is also important to note that, under the transparency framework set out in Article 13, countries will need to quantify the finance and other support that they provide. This will include finance provided through carbon pricing instruments, such as upfront investment or ex post payment for credits in relation to crediting systems, and payment for traded allowances. The modalities for estimating and attributing such flows are currently not well understood and would benefit from development in parallel with such policy instruments.

105. Several components of the post-Paris work programmes set up by decision 1/CP.21 are particularly relevant to climate finance[42]:

(a) The COP is to initiate a process at COP 22 to identify indicative quantitative and qualitative information for Parties to report on biennially with regard to available and provided levels of public finance, for adoption by CMA 1 (para 55);

(b) The SBSTA is to develop modalities for the accounting of financial resources provided through public interventions, for adoption by CMA 1 (para 57).

6. IMPLICATIONS FOR THE STRATEGIC DIRECTION OF THE PMR

106. This section sets out implications of the Paris Agreement for the strategic direction of the PMR. More specific recommendations for the work of the PMR are set out in the next section.

107. The PMR has already undertaken measures in its effort to remain relevant to the needs of its members and the evolution of the external environment. These include a first independent evaluation of the PMR[43], a series of regular discussions on the strategic orientation of the

[42] See the appendix for an overview and the full wording of the work requests.

[43] Partnership for Market Readiness First Independent Evaluation Report, Development Portfolio Management Group, April 2015.

PMR, the implementation and further development of a system for operations monitoring and performance evaluation, and the strengthening of knowledge management activities.

6.1 OBJECTIVES OF THE PMR

108. The objectives of the PMR[44] have to date remained unchanged since the inception of the PMR, despite some adjustments in the work having been undertaken.

109. Over the years, the objectives have been fulfilled to varying degrees. The independent evaluation of the PMR concluded that the first objective of providing funding is largely being met (subject to the conclusion of grant agreements) while the third objective of the discussion platform enjoys the most success. The second objective on piloting, testing and sequencing new mechanisms concepts and synergy has been limited by reduced carbon market demand for credits and the timing of MRPs and their associated grant agreements. The fourth objective on knowledge dissemination has been somewhat successful, although its full potential is yet to be realized, and the fifth objective on sharing lessons learned, including with the UNFCCC processes, has been limited by the stage reached to date with MRPs.

110. The independent evaluation recommended that the objectives, while being still largely valid, should be revisited, in particular to:

(a) Take into account the way the focus and scope of the PMR and its external environment have evolved. In particular, the PMR began with an emphasis on "market readiness" in anticipation of the emergence of international carbon markets, but has broadened its focus to carbon pricing instruments more generally, including those such as carbon taxes which do not of themselves establish a carbon market;

(b) Focus on intended outcomes and long-term impacts. The current objectives tend to emphasize the activities to be implemented under the PMR rather than present the purpose and direction of those activities;

(c) Clarify what is in practice meant by the objectives in order to establish achievements and timeframes that the PMR is accountable for.

111. Work to update and revise the objectives is now underway in the PMR.

112. The current analysis finds that the objectives of the PMR remain broadly appropriate after the Paris Agreement but that the case made in the independent evaluation for updating and revising the objectives is now even stronger, driven by the urgent need for countries to make concrete their choices among available policy instruments and/or implement them in time to give effect to their NDCs from 2020 onwards. Many ICPs have not yet decided on carbon

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44 See paragraph 3 above.

pricing instruments they wish to implement and their MRPs are accordingly focused on core technical components and infrastructure that are usable in a variety of policy applications.

113. This status is not surprising, as the level and scope of the readiness support needed is great and decisions on carbon pricing instruments are linked to the preparation of NDCs and their implementation plans. The PAWP was developed to provide countries with a stronger technical basis to support such political decisions. It is also not helpful that current estimates of credit demand for the pre-2020 period, and indeed the early post-2020 period, are not encouraging for supplier countries. In addition, the independent evaluation also highlighted the need to accelerate the finalization of grant agreements in order to commence the work mapped out by the MRPs. Of the 15 MRPs approved so far, 8 grant agreements have now been finalized between the World Bank and the relevant country.

114. In this context, table 1 recommends several considerations that could be integrated into the PMR's work to update and revise its objectives[45]. Some recommendations would involve a stronger expectation that ICPs move to the implementation of carbon pricing instruments with the support of the PMR. Clearer objectives along these lines would be consistent with the urgency from Paris to strengthen implementation and with recent measures in the PAWP to link additional funding to political support for carbon pricing instruments.

TABLE 1
RECOMMENDATIONS FOR THE OBJECTIVES OF THE PMR

Current PMR objectives	Recommendations
1. Provide grant financing to countries for building market readiness components	The substance of the objective remains relevant. While "market readiness" may be understood to include the choice and implementation of specific policy instruments, this objective could more clearly state an aim of PMR to support the implementation of carbon pricing instruments or, further, that carbon pricing instruments make an substantial contribution to mitigation action.

45 Although the recommendations are mapped against individual objectives, a revision along the lines suggested by the independent evaluation would make greater structural changes.

Current PMR objectives		Recommendations
2.	Pilot, test and sequence new concepts for market instruments, both for domestic and new international mechanisms, and to identify potential synergies between national market based instruments at an early stage	The substance of this objective mostly remains relevant but could focus directly on the implementation of carbon pricing instruments rather than "piloting, testing and sequencing". It would still be possible for early implementation reviews to lead to policy adjustments where necessary. If upfront testing of specific policy aspects is warranted, small and targeted piloting exercises could be conducted on behalf of multiple countries, while possibly also postponing these aspects of the policy design for a later implementation stage. It could also be possible to collaborate with other initiatives, such as the Transformative Carbon Asset Facility (TCAF), in conducting targeted piloting exercises. "Synergies" needs to be understood to include elements needed for ITMOs and their use towards fulfilment of other counties' NDCs.
3.	Create a platform to enable policy makers of government agencies, practitioners, and public and private entities to share experiences and information regarding elements of market readiness, to learn from one another, promote south-south cooperation, and explore and innovate together on new instruments and approaches	The substance of the objective remains relevant. "Exploring and innovating together" needs to be understood to include facilitating direct country-to-country exchanges, where there are common or regional issues to address in the development or implementation of policy instruments.
4.	Create and disseminate a body of knowledge on market instruments that could be tapped for country-specific requirements	The substance of this objective remains relevant. The need for such knowledge is now even greater with action needed under the Paris Agreement.
5.	Share lessons learned, including with the UNFCCC	The substance of this objective remains relevant. The needs of the UNFCCC process are now specifically defined by the pre-2020 dialogue processes and the work programmes under the Paris Agreement.

6.2 STRATEGIC PRIORITIES AFTER PARIS

115. The discussions since late 2013 on the strategic orientation of the programme have sought to keep the PMR aligned with emerging needs among its members and anticipate changes in the wider international policy environment. The first such discussion, at the seventh Partnership Assembly (PA), considered several lessons already drawn from the work of the PMR and a number of measures to deepen support to ICPs and broaden the reach and scope of the PMR[46]. This and subsequent discussions have led to a number of new work areas, including:

46 Strategic orientation for the future of the Partnership for Market Readiness (note PA7 2013-2).

(a) The development of the PAWP, under which support is provided to ICPs for upstream policy analysis in assessing mitigation scenarios and possible policy instruments, which in turn can contribute to national processes to prepare NDCs and NDC implementation plans;

(b) The creation of Technical Partners (TP) as a new category of PMR participants that are already developing carbon pricing instruments[47];

(c) The use of additional funds to support activities that complement existing MRP activities in ICPs and Targeted Technical Support in TPs;

(d) The expansion of ICPs to a maximum of 20 and the number of assistance-receiving TPs to a maximum of two;

(e) The development (outside of the PMR) of the TCAF as means of innovating and funding new forms of carbon credits.

116. The adjustments in the PMR outlined above have successfully anticipated much of the impact that has now become reality through the Paris Agreement. The PMR is already offering support to ICPs in the context of their NDCs, is seeking to overcome obstacles and barriers to the implementation of carbon pricing instruments, and is reaching out to new members and beyond to extend its assistance and lessons.

117. The Paris Agreement does not reverse any of these activities or trends, but rather calls for a further round of adjustments to the work of the PMR in order to help it maximize its potential impact in supporting countries in their mitigation activities.

118. A number of strategic priorities for such adjustments and additions appear particularly key in light of the Paris Agreement. Some are not new, and are already the subject of PMR work, but the Paris Agreement adds extra reinforcement and urgency:

(a) **Further prioritize activities that accelerate the transition from readiness to implementation.** The urgency of having policies in place for the 2020 NDC period, or preferably earlier, requires activities at all levels where they can advance the choice, design and implementation of carbon pricing instruments;

(b) **Further strengthen support for integrating carbon pricing into NDCs and LEDS.** The next years until 2020 are likely to be a period of intense policy implementation, NDC revision and NDC implementation planning, as well as LEDS development. This will make the next years a key window of opportunity for developing new policy instruments and receiving the political support for decisions to be made;

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47 Alberta, California, Kazakhstan and Quebec have since joined as TPs. Kazakhstan receives technical assistance from the PMR for the development of its emissions trading system.

(c) **Expand support for crediting systems.** It will be some years before all countries will be in a position to decide how best to balance use of their own crediting systems versus the crediting mechanism to be elaborated under Article 6.4. In the meantime, there are opportunities to feed technical work from the PMR into the development of the Article 6.4 mechanism, better understand the relationship between international and national systems and how to choose between them, and resolve how crediting systems and results-based finance can work together. It will also be important to understand what features a crediting system needs in order to elicit demand from buyer countries and be seen as a route for increasing ambition;

(d) **Contribute analytical work on accounting and other common standards.** Market instruments developed with the support of the PMR will need to adhere to rules developed under the UNFCCC on accounting, and perhaps also other standards, if carbon assets are transferred internationally. The work of many PMR countries will put them in a position to use such rules before other countries and they may have a shared interest in contributing to the development of these standards and ensuring their usefulness and workability. There is opportunity to help build a technical consensus on these issues within the PMR and UNFCCC communities and reduce the likelihood of needing to make adjustments later;

(e) **Further engage outside the direct PMR community:**

(i) **Strengthen engagement outside the PMR, especially in the UNFCCC.** The PMR's already significant body of knowledge and experience is beneficial also to other countries and non-state actors;

(ii) **Use more in-country and country-to-country fora.** This can raise awareness of countries' PMR activities with other ministries and stakeholders and can strengthen the implementation of MRPs. More exchange of experience and lessons between countries is good for both MRP and NDC implementation, and can raise the profile of carbon pricing and the PMR at the national level;

(iii) **Help strengthen private sector capacity.** Business can be a key ally for policy makers when developing carbon pricing instruments and needs to be well equipped to work effectively with the instruments when they are in place;

(f) **Initiate discussions on what should follow for PMR after 2020.** Paris has given clarity that carbon pricing will continue to be a key climate policy tool of the future, and has confirmed that this will be in a bottom-up world. The question is now open as to whether the PMR should continue beyond 2020 and, if so, in what form. The need for policy collaboration will not finish in 2020, although it may change.

119. These strategic priorities are explored further in the next section.

7. SPECIFIC RECOMMENDATIONS

120. This section sets out specific recommendations for the consideration of the PMR by elaborating on the strategic priorities presented in the last section. Most of the specific recommendations here relate clearly to the three PMR work programmes: the Country Work Programme (CWP), the Technical Work Programme (TWP) and the Policy Analysis Work Programme (PAWP). The recommendations take as a baseline the activities agreed at PA14 for the July 2016 to June 2017 financial year (FY17).

121. Recommendations are also included in relation to further means through which the PMR could engage with countries and non-state actors outside of the PMR and the specific dialogue processes and work programmes set up under the UNFCCC. As these activities would be cross-cutting in nature, they could be placed within either the PMR work programmes, as appropriate, or could comprise a further work programme focused specifically on engagement and knowledge sharing outside of the PMR membership.

122. The priorities and recommendations offered here do not address activities relating to the framework for non-market approaches, due to the current lack of clarity as to the direction and pace that these negotiations will take. It will nevertheless be important to monitor developments in this framework and consider later if any specific activities are warranted.

7.1 COUNTRY WORK PROGRAMME

123. The CWP refers to the work of ICPs in building readiness in accordance with their MRPs. Fifteen out of the 18 current ICPs have now presented their final MRPs and had their grants approved; eight grant agreements have now been finalized between the World Bank and the relevant country. Activities under the MRPs are scheduled for completion throughout the first period of the PMR, with some MRPs indicating the scheduled completion of the activities in the 2017-2018 period and others utilizing the full period until 2020.

124. Most MRPs were submitted in the 2013-2014 period, well before these countries submitted their INDCs in 2015. However, as most MRPs focus on building core technical components and infrastructure that are usable in a variety of policy applications, the risk of MRPs being left inconsistent with NDCs is not as high as it may seem. Perhaps more pertinent is that, where countries have adjusted their policy intentions after their MRPs, these may lack key elements that would be beneficial to ICPs. This possibility is heightened by countries having opportunity now and in the next years to revise their INDCs when submitting formal NDCs.

125. Such NDC considerations can already be taken into account by those ICPs which are still in the processes of preparing their MRPs or determining their grant agreements. Other ICPs, for which MRPs and grant agreements are already in place, will need to consider whether their NDCs or NDC implementation planning processes indicate significant shifts from the policy assumptions made in the context of the PMR. In the event of such shifts, they can liaise with the PMR secretariat to determine whether adjustments in activities are necessary and whether there is sufficient flexibility within the MRP and grant agreements to cover these.

126. Table 2 sets out a recommendation for the CWP relating to this matter.

TABLE 2
RECOMMENDATIONS FOR THECOUNTRY WORK PROGRAMME

1.	**Allow for reviews of MRP activities to better align them with NDCs** In the event that they consider their NDCs to have significantly changed the policy goals or context that underlie their MRPs, ICPs could approach the PMR secretariat for assistance in reviewing whether adjustments in activities would be beneficial and whether adjustments in either MRPs or grant agreements are warranted. Such assistance could be provided on a case-by-case basis, including through providing experts or consultants if warranted by the significance of the case, in consultation with the delivery partner to minimize disruption to ongoing implementation work.

7.2 TECHNICAL WORK PROGRAMME

127. The TWP complements the CWP by giving programmatic support to elements of MRPs that are common across countries. Its objectives are to facilitate experience and knowledge sharing, develop practical guidance on common issues, identify good practice and common standards, and help build necessary capacity.

128. Activities under the TWP are identified through a strategic planning approach that maps the readiness activities of ICPs against cross-cutting technical components of the TWP and the different carbon pricing instruments being explored. This approach helps ensure that the priority cross-cutting needs of ICPs from the TWP are met and that the full range of relevant carbon pricing instruments (emissions trading systems, carbon taxes, offsets and scaled-up crediting) is considered. The emphasis on implementation in the Paris Agreement lends yet more urgency to these activities.

129. Table 3 sets out recommendations arising specifically from the Paris Agreement and its accompanying decision 1/CP.21 that relate either to potentially new elements which are not yet being addressed through the TWP agreed for FY17 or to existing elements around which there have been doubts regarding their continued relevance.

130. The TWP for FY17 already includes elements, some new or extensions of earlier work, that have become doubly relevant after Paris. For example, the development of case studies will be useful in distilling and sharing lessons from MRP implementation in individual countries. The TWP for FY17 also plans to expand work with an external partner to build the capacity and awareness of carbon pricing instruments in the private sector.

TABLE 3
RECOMMENDATIONS FOR THE TECHNICAL WORK PROGRAMME

1. Undertake analytical work on reporting and accounting for ITMOs

The PMR could conduct analytical work concerning the linking of carbon market instruments being developed under the PMR. It could be made available to other countries and the relevant UNFCCC work programmes, or could serve to help PMR countries develop their own positions for when they engage in the UNFCCC. The work could be conducted in two phases, in line with the Paris outcome:

(a) Pre-2020 needs for the transparent reporting of international transfers, and the relationship between Kyoto targets, pledges and NDCs, that are required to promote environmental integrity and avoid double counting (para 107);

(b) Post-2020 needs for ITMO accounting among countries engaging in cooperative approaches that provide ITMOs for use in fulfilling NDCs. This could focus on transactions, unit features, double-entry bookkeeping and tracking registries and could also address linkages with NDC accounting and take account of subnational and city-level instruments (Articles 6.2 and 4.13).

Any such analysis could draw on PMR technical guidance and practical examples of market instruments under development or already implemented. Any papers prepared under this work could be written in a manner that is accessible to a wide audience, in particular policy makers and experts engaged in the UNFCCC dialogue processes and work programmes.

2. Contribute to national-level standard setting for cooperative approaches under Article 6.2

The PMR could conduct further analytical work, leveraging work results to date, to inform or prepare technical standards that could be applied by countries to cooperative approaches involving ITMOs. Inputs from the PMR could, for example, address MRV, baselines, allocation methods, data management, registries, stakeholder consultation or many other areas, and would therefore be relevant the Article 6.2 requirement for countries to promote sustainable development and ensure environmental integrity and transparency. Inputs could draw on the PMR's technical guidance and practical examples and experience from PMR countries. Such work could facilitate linking but need not imply mandatory application in PMR countries.

3. Expand support for offsetting and crediting

An assessment of the Paris Agreement confirms the value of the "no regrets" approach currently being taken to the work on offsets and crediting. The nature of the Article 6.4 mechanism is still far from being known. In the event that countries wish to use the Article 6.4 mechanism in place of their own crediting systems, or to supplement their own systems, much of what is being gained through current readiness activities will be transferable. Also, the current TWP priorities of baseline setting at the aggregate level, interaction with other policy instruments, MRV approaches beyond the facility level, and demand sources for scaled-up crediting systems are likely to remain relevant.

Further analytical work could be undertaken to support ICPs in:

(a) Understanding the relationship and choice between conducting crediting through the Article 6.4 mechanism versus their own domestically-established crediting systems, building on previous work on the use of international offsets in a domestic context. This would need to address the relationship between national and international crediting systems, including in relation to baselines and MRV, the attribution of emission reductions and avoidance of double counting;

(b) Exploring how crediting systems may achieve an "overall mitigation", not only through activity-specific measures but also through integrating features that bring emission reductions that need not be used as offsets – such as results-based finance and transformative effects.

4.	**Undertake analytical work on the linkage to climate finance** Further analytical work could be undertaken to: (a) Develop models for the design of crediting systems that are also well-suited for use by suppliers of results-based climate finance, including in relation to the blending of finance, appropriate levels of MRV, the attribution and issuance of emission reductions among finance sources, the interface of multiple governance systems, and institutional and procedural settings that are conducive to investment; (b) Develop possible approaches for quantifying the finance and other support provided through carbon pricing instruments, for eventual reporting under the transparency framework of the Paris Agreement, and help build ICP capacity to enable such reporting.	
5.	**Contribute to the UNFCCC work programme on the Article 6.4 mechanism** The PMR could contribute its substantive results, experience and lessons specifically to the work programme on the rules, modalities and procedures for the Article 6.4 mechanism through: (a) A series of synthesis papers and/or capacity building activities on aspects of crediting system design relevant to the Article 6.4 mechanism, drawing on technical guidance and practical examples and experience from PMR countries. These could address issues such as the scope of activities, avoidance of double counting, "overall mitigation", baselines and MRV standards, registries, and the transition from a domestic to an international market; (b) Opportunities to build understanding and support for approaches being developed by ICPs among policy makers and negotiators engaged in the work programme, for example by conducting workshops and outreach to demonstrate the directions that ICPs are taking. Alternatively, the PMR could support PMR members in their engagement with this work programme. This could occur through substantive support on technical matters and/or through facilitating members in identifying common interests and in convening discussions.	
6.	**Expand its support for readiness of the private sector** The PMR could explore ways to strengthen this area of work, including through expanding its partnership activities with external initiatives that support the private sector in building readiness for carbon pricing. This could expand support for business-to-business exchanges and the development of corporate strategies and operational practices to respond to the introduction of carbon pricing instruments (e.g. GHG emissions reporting, compliance and risk management). Partnering with other initiatives may help the PMR keep a primary focus on the issues of its public sector members, while reaching out to a broad spectrum of stakeholders outside the PMR.	

7.3 POLICY ANALYSIS WORK PROGRAMME

131. The PAWP helps enable decisions on policy instruments by supporting "upstream" analysis of mitigation scenarios and the expected impacts of alternative policy instruments. The PAWP was developed to provide countries with a stronger technical basis to support such political decisions being taken, in particular through supporting country-specific modelling and assessing interactions between carbon pricing and other policies. As such, this work can be expected to contribute positively to the ongoing cyle of NDC preparation and revision, as well as countries' preparation of LEDS to provide long-term strategic direction to the NDCs.

132. The PAWP is relatively new, having grown out of the strategic discussions that commenced in late 2013. An initial funding envelope was allocated for FY15, and extended to FY16, under which several ICPs have been supported for country-level analytical work and modelling.

133. For FY17, the PAWP has been further structured into a more comprehensive schematic of country and programme level activities, including support for:

(a) The development and application of modelling tools and approaches;

(b) The modelling and analysis of policy impact and policy interaction;

(c) The modelling and analysis of policy design options and their implications;

(d) Capacity building in modelling and policy analysis.

134. The allocation of funding for country-level activities is to be based on, among other things, the relevance of the activity to the country's NDC and the level of political commitment and support within the ICP to the development and implementation of carbon pricing instruments. At the programme level, a Carbon Pricing Simulation Tool has been proposed as a common platform to deliver the activities to ICPs to supplement the in-country work.

135. These recent changes in the PAWP reflect a priority on ensuring the work undertaken is integrated coherently in the ICPs' work under the PMR and is focused on efforts to develop and implement carbon pricing instruments. As with the TWP, the emphasis on implementation in the Paris Agreement only reinforces the usefulness of these activities.

136. The PAWP is already set to contribute strongly to the need to shift from pure readiness activities to the selection and implementation of specific carbon pricing instruments. Table 4 sets out recommendations for the PAWP arising from the Paris Agreement and decision 1/CP.21 that relate to strengthening some elements beyond what has been agreed for FY17.

TABLE 4
RECOMMENDATIONS FOR THE POLICY ANALYSIS WORK PROGRAMME

1.	**Partner with other initiatives that support NDC and LEDS development** The PMR could, via such partnerships, extend its support for integrating carbon pricing instruments in national climate action beyond the participants of the PMR. Support could, for example, be given to partner organizations through information and analysis tools, which they could in turn use in their support to countries. Direct support to countries could also be made available. Undertaking such support through a partnership may help the PMR keep a focus on carbon pricing issues, rather than being drawn into the considerably wider set of NDC and LEDS issues.
2.	**Support the interaction of MRP and NDC processes at the national level** The PMR could consider ways it can support the use of substantive results, experience and lessons arising from MRP activities in countries' processes to revise NDCs and prepare NDC implementation plans. This could involve support to PMR focal points and project implementation units in their engagement in their countries' NDC processes, for example through assistance in generating useful information and analysis or in convening events. This can be expected to support the cross-fertilization of ideas, with benefits for both the PMR and NDC work, and could help increase the visibility and understanding of carbon pricing instruments, including at senior or ministerial levels.

7.4 FURTHER ENHANCING ENGAGEMENT ACTIVITIES

137. The PMR has quickly built up a vast range of technical notes and experience that should be of considerable interest to potential audiences outside of the PMR, including policy makers involved in the preparation and implementation of NDCs and negotiators under the UNFCCC. While all documentation is available publicly, the PMR could take steps to make the information more accessible for a less technically specialized readership and proactively engage in processes and events where it has much to contribute.

138. As the implementation of MRPs and carbon pricing instruments proceeds, there are also opportunities to more actively gather, assess and share the lessons learned from the work under the PMR, at both country and programme levels.

139. Given the numbers of INDCs containing references to carbon pricing instruments, and the proximity of the next expected NDC submissions, it can be expected that further countries and sub-national authorities will be interested in joining the PMR as ICPs or TPs. The PMR has recently agreed to increase the number of ICPs to 20 and the number of assistance-receiving TPs to 2 for the period through until 2020.

140. A number of the recommendations set out in the earlier tables also address the issue of engagement outside the PMR, where these are closely related to other work under the relevant work programme. Table 5 sets out further recommendations in relation to enhancing the engagement of the PMR that are more cross-cutting in nature.

TABLE 5
CROSS-CUTTING RECOMMENDATIONS FOR ENHANCED ENGAGEMENT ACTIVITIES

1. **Synthesize PMR results to improve access to them outside of the PMR**

The PMR could enhance the sharing of its substantive results, experience and lessons, in particular among policy makers engaged in NDC preparation and implementation processes and UNFCCC negotiators, through preparing succinct, non-technical synthesis papers that collect together results of the PMR's work. These could, for example, highlight scalable and replicable policy instruments being developed with the support of the PMR, approaches to their assessment and selection, and information on their emissions impacts, finance flows and contributions to achieving NDCs.

2. **Engage in the dialogue processes under the UNFCCC**

The PMR could actively engage in the dialogue processes set up under the UNFCCC:

(a) The TEP to facilitate countries in identifying and implementing policies, practices and technologies with high mitigation potential up until 2020, including its associated annual technical papers, summaries for policy makers and the annual high-level events;

(b) The facilitative dialogue in 2018 to take stock of NDCs and enhance their contribution towards the long-term emissions goal set in Article 4.1.

Engagement could involve contributing synthesis papers, contributing additional analytical work or other inputs, and participating in or partnering on events and workshops. Alternatively, the PMR could support PMR members in their engagement in these processes.

3.	**Make greater use of in-country and country-to-country fora** The PMR could make more use of events as part of the work under each of its work programmes: (a) At the national level to engage representatives of ministries and stakeholders not normally involved in PMR work. Events may be policy oriented, focused on raising the national profile of carbon pricing instruments and their potential to contribute to NDCs, or may be technical workshops to bring together a wide range of national experts and stakeholders; (b) Among countries, on the basis of region or interest, to exchange experience and lessons from their implementation of MRPs or carbon pricing instruments. Events could address issues of specific relevance to the countries collectively and search for common solutions. In doing so, they would likely focus on technical matters and bring together a wide range of relevant experts from across ministries and stakeholder groups. Such country-to-country exchange may also seed future ideas for policy collaboration among interested countries. Alternatively, or additionally, joint substantive work could be undertaken by countries where interests or concerns are shared. Events could be arranged locally by PMR focal points but with substantive support from the PMR secretariat or other PMR members. Participation could also be extended to non-PMR countries or subnational authorities, where they have relevant experience or an interest in the issues.
4.	**Explore new modalities for broader participation in the PMR** The PMR could explore ways in which countries and non-state actors outside the PMR can engage: (a) Allow countries, subnational authorities and stakeholders to engage with the PMR without taking on membership, such as through opening some PMR workshops, training or work programme activities to wider participation on a self-funding basis; (b) Initiate a process to explore an extension of the PMR beyond its current phase of 2020. A second phase could target broader participation and could involve different tiers of support to cater for the different stages of readiness among new members. For example, on a basis tier, there could be support for analysing the role of carbon pricing and building generic readiness, while there could be another tier with support for the full implementation, operation and linking of carbon pricing instruments. Full membership under a second phase of the PMR could be extended to states and cities, where they are actively pursuing carbon pricing instruments. This could support the engagement of non-state actors and help the vertical integration of carbon pricing instruments across all levels in countries.
5.	**Explore the development of a comprehensive PMR engagement strategy** The PMR could develop an engagement strategy through which it could manage its engagement outside of the PMR in order to effectively share its substantive results, experience and lessons. Such a strategy would need to cut across all of the work programmes, including by addressing measures such as those in this table. The PMR could initiate this exploration through scoping the possible objectives, audiences and activities under such a strategy, possibly through a working group.

8. CONCLUSIONS

141. The PMR has done a great deal in its first five years to support countries in getting ready for carbon pricing. Some members are more advanced than others. While only some ICPs have launched the implementation of carbon pricing instruments, around half have now entered the implementation phase on their MRPs. This is an essential step to being ready to implement, however the decision on what instruments to implement remains open for many countries. The upstream policy work under the PAWP supports such decision making.

142. With the adoption of the Paris Agreement in late 2015, conditions are now more favourable than in many years to decide on carbon pricing instruments and initiate implementation. Paris adds pressure on all countries to implement and raise ambition in mitigation action; it devoted a full Article to international cooperation through measures such as carbon pricing; it gave recognition to the mobilization of climate finance through private sources and market instruments. More countries can be expected to follow these leads in their new NDCs.

143. After years of uncertainty over whether carbon pricing would be recognized in the new Agreement, Article 6 establishes an internationally-governed crediting mechanism but otherwise hands carbon markets to a decentralized process in which countries decide what they wish to implement. The approach taken in Article 6 is to insert safeguards where they matter most – international transfers, how they may be used towards NDC fulfilment, and possibly on environmental integrity, transparency and sustainable development.

144. These safeguards are consistent with the approach of the PMR to build a carbon market infrastructure which is credible, consistent and compatible ("3Cs"). Article 6 also mirrors the bottom-up approach of the PMR to rely on the national development of policy instruments.

145. Accordingly, the PMR is already well equipped to support countries in the new context of the Paris Agreement, often as a result of adjustments in the work that were already undertaken prior to Paris. Nevertheless, a number of further adjustments or additions to the strategic priorities of the PMR warrant consideration in light of the Paris Agreement:

(a) Further prioritize activities within the PMR that accelerate the transition of countries from addressing readiness issues to implementing carbon pricing instruments;

(b) Further strengthen support for integrating carbon pricing into NDCs and LEDS, building on a key window of opportunity for developing new policy instruments and receiving the political support for decisions to be made;

(c) Expand support for crediting systems being developed with PMR support, while feeding technical work into the elaboration of the Article 6.4 mechanism, mapping out the relationship between national instruments and the Article 6.4 mechanism, and understanding how crediting systems can become a route for increasing ambition;

(d) Contribute analytical work on accounting and other common standards for the cooperative approaches and ITMOs that countries will implement under Article 6.2;

(e) Further engage with countries and stakeholders outside the direct PMR community, especially with the UNFCCC work programmes to implement Article 6, and undertake more work through in-country events and country-to-country exchange;

(f) Initiate discussions on what should follow for the PMR after its current period comes to an end in 2020. Should it continue and, if so, in what form?

146. Specific recommendations of actions for these strategic priorities are given in section 7.

APPENDIX: RELEVANT UNFCCC WORK PROGRAMMES

	Cluster	Reference	Request	Body	Deadline
1.	NDCs	Decision 1/CP.21, para 26	Further develop guidance on features of NDCs	APA	CMA 1
2.	NDCs	Decision 1/CP.21, para 28	Develop further guidance for the information to be provided by Parties to facilitate clarity, transparency and understanding of NDCs	APA	CMA 1
3.	NDCs	Decision 1/CP.21, para 29	Develop modalities and procedures for the operation and use of the public registry for NDCs referred to in Article 4.12	SBI	CMA 1
4.	NDCs	Decision 1/CP.21, para 31	Elaborate, drawing from approaches established under the Convention and its related legal instruments as appropriate, guidance for accounting for Parties' NDCs	APA	CMA 1
5.	NDCs	Article 4.10	CMA 1 is to consider "common time frames for NDCs"[48]	-	CMA 1
6.	NDCs	Article 4.11	The CMA is to adopt guidance on how a Party may "at any time adjust its existing NDC with a view to enhancing its level of ambition"	-	CMA[49]
7.	International cooperation	Decision 1/CP.21, para 36	Develop the guidance referred to under Article 6.2, including guidance to ensure that double counting is avoided on the basis of a corresponding adjustment by Parties for both anthropogenic emissions by sources and removals by sinks covered by their NDCs	SBSTA	CMA 1
8.	International cooperation	Decision 1/CP.21, para 38	Develop rules, modalities and procedures for the mechanism established by Article 6.4	SBSTA	CMA 1

48 No specific work programme was established by decision 1/CP.21 for this matter.

49 It was not specified which CMA session is to address this matter and no specific work programme was established by decision 1/CP.21.

	Cluster	Reference	Request	Body	Deadline
9.	International cooperation	Decision 1/CP.21, para 39	Undertake a work programme under the framework for non-market approaches to sustainable development referred to in Article 6.8 with the objective of considering how to enhance linkages and create synergy between, inter alia, mitigation, adaptation, finance, technology transfer and capacity-building, and how to facilitate the implementation and coordination of non-market approaches	SBSTA	CMA 1
10.	Finance	Decision 1/CP.21, para 55	The COP is to initiate, at COP 22, a process to identify information to be communicated biennially by Parties, in accordance with Article 9.5, with regard to the provision of financial resources	COP	CMA 1
11.	Finance	Decision 1/CP.21, para 57	Develop modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9.7	SBSTA	CMA 1
12.	Transparency framework	Decision 1/CP.21, para 91	Develop common modalities, procedures and guidelines, as appropriate, for the transparency of action and support, building on experience from the arrangements related to transparency under the Convention, and elaborating on the provisions in this Article 13, and define the year of their first and subsequent review and update, as appropriate, at regular intervals	APA	CMA 1
13.	Global stocktake	Decision 1/CP.21, para 99	Identify the sources of input for the global stocktake	APA	CMA 1
14.	Global stocktake	Decision 1/CP.21, para 101	Modalities for the global stocktake	APA	CMA 1

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