



PARTNERSHIP FOR MARKET READINESS (PMR)

IMPLICATIONS OF THE PARIS AGREEMENT ON PMR ACTIVITIES

**Workshop Summary
Monday 25 April, 2016
Lima, Peru**

1.0 Introduction

1. This note summarizes discussions held at the PMR Workshop on ‘Implications of the Paris Agreement on PMR Activities’, which took place in Lima, Peru, on April 25, 2016. The workshop was a timely opportunity to take stock and analyze the Paris Agreement, as adopted by COP 21 in December 2015, as well as to identify any adjustments to the work and operations of the PMR, including its technical, policy analysis and in-country work programs.
2. The workshop was attended by approximately 80 participants from PMR Participants, as well as a number of international experts. The workshop agenda, list of participants, and all presentations are accessible on [the PMR website](#).
3. The workshop was opened by Mr. Venkata Ramana Putti (Program Manager, Carbon and Climate Finance, World Bank Group) and Mr. Eduardo Durand (Director General of Climate Change, Ministry of Environment, Peru). Following these introductory remarks, Ms. Pauline Kennedy (PMR Secretariat) presented the objectives of the workshop and the agenda for the day.

2.0 Context and overview of the Paris agreement

4. The first session provided an opportunity to take stock of the Paris Agreement and its relevant aspects for the PMR activities and work programs. The presentations focused on the PMR objectives, activities and the evolution of the international context since its initiation. They highlighted the relevant aspects of the Paris Agreement for the PMR activities and potential opportunities for the PMR to contribute to its implementation. The presentations were followed by an open discussion in which participants shared their perspective and initial reactions.
5. Mr. Adrien de Bassompierre (Coordinator, PMR Secretariat) presented an overview of the current PMR work programs, and highlighted their evolution overtime which happened in order to better address readiness priorities of PMR Participants, respond to the changing policy environment (including developments under the UNFCCC), and ensure that its impacts are sustained. He also noted one of the findings and related recommendations of the first independent evaluation of the PMR which is related to the PMR objectives evolving overtime and a need for them to be revised accordingly. He also emphasized that the scope of PMR activities had expanded to focus on emissions trading systems (ETS), carbon taxes, scaled-up crediting and the use of offsets. Finally, he posed a number of questions to help frame the discussions during the day, including whether the Paris Agreement influences the objectives or the scope of the PMR, what new opportunities for new PMR are emerging from the Agreement itself, and whether any new activities should be introduced under the Policy Analysis Work Program (PAWP) or the Technical Work Program (TWP).
6. Mr. Andrew Howard (Consultant, Koru Climate) noted that the Paris Agreement sets out the major building blocks of the new international climate regime, despite the fact that further detail on how the Agreement is to be implemented still needs to be determined over the coming years. He noted that the work programs established under decision 1/CP.21 in relation to accounting for the fulfilment of countries’ nationally determined contributions (NDCs), accounting for the transfer and use of ‘mitigation outcomes’, and the evolution of the mechanism established under Article 6.4 would be of particular relevance for the PMR. Finally, he noted that any future developments with regard to how the demand for credits could evolve, to what extent linkages would develop between the ETS’ of different countries or regions, and how the relationship between market instruments and climate finance would evolve and mature over time remain uncertain.

7. With regard to ***national action*** by countries to implement the Paris Agreement, Mr. Howard noted the following implications relevant to the PMR activities and work programs.

a. The obligation to submit and implement their first formal NDCs is expected to result in an immediate and ongoing need for countries to assess their mitigation scenarios and goals, as well as make decisions around the choice of policy instruments to be implemented to achieve those goals. Although countries will face a wide range of choices of policy instruments, it can be expected that there could be an increased commitment to carbon pricing in this regard. This may be further reinforced by a focus on exploring new sources of finance, including through mobilizing private sector finance, and strengthening collaboration between national governments and sub-national jurisdictions and the private sector.

b. Countries are also likely to continue to look into options for strengthening their mitigation and adaptation activities prior to the Paris Agreement taking effect in 2020. To this end, it is expected that the focus would be on implementation and on innovating and testing approaches, including through existing initiatives such as the PMR. Furthermore, there is encouragement to integrate voluntary cancellations and contributions of non-state actors, as well as to understand how the reporting on international transfers of mitigation outcomes can be made transparent.

8. With regard to ***cooperative approaches*** between countries to strengthen the implementation of the Paris Agreement, Mr. Howard noted the following implications relevant to the PMR activities:

a. The reference in Article 6 to internationally transferred mitigation outcomes (ITMOs) is a recognition that countries are able to use market instruments and undertake international transfers of mitigation outcomes for use towards fulfilment of their own NDC targets. The requirement to develop at least basic accounting rules under the UNFCCC for ITMOs gives an opportunity to harmonize core elements necessary for this accounting, including on the basis of double-entry bookkeeping. While there may be a need for countries to adjust their domestic instrument design to take into account these international rules, this also provides an opportunity for countries' on-the-ground experience to inform the development of the international rules themselves.

b. The centrally-governed crediting mechanism under Article 6 is expected to develop a broad scope of activity types (if necessary through designating specific 'windows' that countries can choose to use). The mechanism is intended to be universal in nature, i.e. the hosting of activities and the use of credits to meet NDC objectives is open to both developed and developing countries. Although the mechanism under Article 6 is likely to build on the fundamental structure of the project mechanisms under the Kyoto Protocol, and may provide a new framework for those activities, it is expected to differ in many aspects. In this regard, countries aiming to generate or use credits may wish to engage in the development of the Article 6 mechanism and consider the relative merits of using this mechanism versus implementing their own crediting systems.

c. The framework for non-market approaches under Article 6 is aimed at promoting non-market approaches that assist countries in fulfilling their NDCs, which is consistent with the view within the PMR that market instruments need to be complemented with other policy tools. That said, the scope, objectives and activities of this framework are yet to be clarified.

9. With regard to **accounting and the transparency framework** under the Paris Agreement, Mr. Howard noted the following implications relevant to the PMR activities.

a. For the accounting of ITMOs to ensure the avoidance of double counting, it will be necessary to further clarify aspects relating to how these are created, how they move internationally, how they may be used in fulfilment of NDCs and, where relevant, how they may be cancelled or carried over to new NDC periods. The accounting for ITMOs could define transaction types and processes, unit features, and means for double-entry bookkeeping and tracking registries, in which case the complexity of the system would be limited.

b. The accounting for NDCs can be expected to be considerably more complex, given the current diversity of NDC approaches, in particular where NDCs are not economy-wide, not absolute in nature, not denominated in emissions, or not developed for multiple year periods, etc. The accounting for ITMOs could conceptually be seen as a component of the accounting for NDCs, and the two work programs under the UNFCCC on these matters will need to be conducted in a coordinated manner.

c. The single transparency framework under Article 13 of the Paris Agreement will need to be developed in the coming years and it will also need to cover ITMOs used for the fulfillment of NDC objectives, presumably on the basis of the ITMO and NDC accounting to be developed. It can be expected that such framework will address many issues that are relevant to PMR work, including the use of policy instruments towards the fulfilment of NDCs, the movement and use of ITMOs, GHG data management, measurement, reporting verification (MRV), etc.

10. With regard to **climate finance**, Mr. Howard noted the following implications relevant to the PMR activities.

a. The reference in Article 9 of the Paris Agreement to the need to mobilize climate finance from a multitude of sources, instruments and channels, and not limited to public funds only, is a recognition of the importance of private sector finance and the potential for mobilizing finance through market instruments. This recognition can be expected to dovetail with growing interest, in particular on the part of donor countries, in results-based frameworks such as crediting systems.

b. The readiness of countries to implement and use market instruments, in particular in relation to crediting systems, can be expected to strengthen the enabling environments within those countries to receive, use and report on climate finance.

11. Mr. Howard posed a number of questions at the end of his presentation with regard to how the PMR could respond to the developments under the Paris Agreement. These included how the transition from 'readiness' to 'implementation' may be accelerated, how the PMR's objectives may be amended, how the PMR could increase its support for countries in preparing their NDCs, whether new partnerships could be established, how the PMR could better disseminate the knowledge base and lessons learned beyond its Participants, how the PMR could contribute to the UNFCCC work programs, and whether the PMR's membership should be expanded to new countries.

12. Participants raised a number of issues during the discussion that followed including:

a. Several Participants expressed support for work on accounting and MRV, including potentially through providing inputs to the relevant work programs under the UNFCCC;

- b. Several Participants stressed a need for the PMR to engage more strongly with the private sector in order to help mobilize private sector finance, including potentially through the use of public sector funds to leverage funds from the private sector;
- c. Several Participants stressed the need for the PMR to remain technical in nature and focused on matters of practical implementation, in order to help countries be ready to implement their contributions under the Paris Agreement, including beyond PMR participants;
- d. Several Participants argued for enhanced engagement with other initiatives and greater coordination across the range of initiatives, including across relevant World Bank initiatives;

3. Potential implications of the Paris Agreement for the PMR

13. Following the initial discussions, two dedicated dialogue sessions we organized in order to delve in on the potential implications of the Paris Agreement for PRM activities. During the first dialogue session, Participants focused on implications for the PMR relating to national action, and discussed a number of issues around ways of supporting post-2020 national action among PMR countries, extending the PMR reach on post-2020 climate action, and enhancing pre-2020 national climate action. The second session focused on cooperative approaches including both through ITMOs as well as the new mechanisms, accounting and climate finance. The main findings from these dialogue sessions are summarized below.

3.1 Possible implications for PMR operations and strategic direction

14. Participants were generally of the view that the mission, strategy and operations of the PMR are appropriate when viewed against the outcomes of the Paris Agreement. Discussions focused on the specific work streams and activities that may be undertaken within this broader context.

- a. There is a lot of support and interest in seeing the PMR take a more active role in relation to the preparation and implementation of NDCs. This could include greater engagement with other international initiatives on carbon pricing and the preparation and implementation of NDCs.
- b. There is also strong interest in seeing the PMR broaden its reach beyond the current Participants in order to share experience and lessons learned. This could be done by identifying ways to make the information more readily available and accessible for those working under the various UNFCCC work programs. There appears to be value in preparing a strategy to further explore how the PMR can conduct such engagement beyond its membership.
- c. There is interest in ensuring that technical discussions and their outcomes are communicated to the policy-makers, in order to facilitate their decisions;
- d. In addition, there is an interest in strengthening the country-to-country exchange of experience and lessons among PMR participants and beyond;
- e. Finally, there is also interest in broadening the PMR's support for readiness, in particular through supporting the readiness of the private sector to work with carbon pricing instruments.

3.2 Possible implications for the PMR Country Work Programs

15. Participants generally supported the view to ensure **flexibility to adjust MRPs** where needed in order to maintain their alignment with developments in countries' NDCs. Such flexibility would provide a means to address evolving policy developments and growing ambition over time. At the same time, Participants were of view that there is no need to adjust the formal process under the PMR and it should be sufficient for countries to inform the Partnership Assembly of any such adjustments to their MRPs.

16. There is an increasing need for **wider engagement and for raising awareness of PMR activities at the country-level**, in particular across relevant government ministries involved in the preparation and implementation of NDCs. In this regard, the PMR support to focal points and project implementation units in increasing the visibility and understanding of carbon pricing instruments and helping them make the case domestically for their use, including at senior or ministerial levels, with finance and other ministries, and at both political and technical or sector-specific levels.

3.3 Possible implications for the Policy Analysis Work Program

17. The central focus in the Paris Agreement on NDCs reinforces the importance of countries undertaking **systematic, country-specific analysis of mitigation scenarios and policy options**, including the possible role and impacts of carbon pricing instruments and their interactions with other policy tools. It will also be important that countries are well-equipped to assess their progress over time towards fulfilling their NDCs. The country-level modelling work recently supported under the PMR should be continued and enhanced, including through rolling it out to more countries, focusing carbon price policy choices to be made, and ensuring its alignment with MRPs and NDCs.

18. Participants also stressed that it may be useful to extend the focus of such analytical work to incorporate **co-benefits** of carbon pricing instruments, including in relation to climate resilience. This is aligned with the need for integrated approaches and building a strong case for the political acceptance of such instruments.

19. Finally, some Participants noted that it may be useful to **update the 'Checklist on establishing post-2020 emissions pathways'**, published under the PMR in early 2015 to ensure it is consistent with Paris Agreement.

3.4 Possible implications for the Technical Work Program

A. National actions

20. Participants emphasized that it may be useful for the PMR to facilitate **further country-to-country exchanges**, both among its Participants and with others. This could take place through specific events but it could also occur directly between individual countries or groups of countries. One of the key priority areas for such exchange that was put forward is sharing of experience and lessons from PMR activities and the implementation of carbon pricing instruments, with a specific focus on the technical issues.

21. The experience and expertise gathered under the PMR is also considered to be valuable to countries outside of the PMR. In this regard, it was noted that the PMR could strengthen its efforts to **reach out to such countries and make its lessons and outcomes of country programs more accessible to a wider**

audience (i.e. policy-makers). In addition, it was highlighted that there would be value in preparing specific notes and case studies to synthesize and communicate lessons and practical examples emerging from the PMR country programs, and explore further dissemination strategies in this regard.

22. Participants noted that the PMR should explore ways in helping countries with the development of **integrated MRV and data management systems** that support carbon pricing instruments and NDC monitoring and reporting.

23. Furthermore, it was highlighted that it may be useful for the PMR to undertake further work on the **voluntary cancellation** of credits, as a means to increase demand for credits and strengthen mitigation ambition, for example through preparing a technical note to clarify its possible uses, how it can function and how it may be integrated within the implementation of carbon pricing instruments.

24. Participants also expressed the interest in enhancing the support for **business-to-business exchange** and the building of capacity in the private sector to work with the introduction of carbon pricing instruments.

25. Finally, it should be noted that the discussions on national action did not distinguish strongly between action that is to be undertaken pre- or post-2020, given that this is a continuum of action and that action that is to be implemented and tracked in the post-2020 period of a country's NDC nevertheless needs to be prepared during the pre-2020 period.

B. UNFCCC work programs

26. A number of events and processes have been established under the UNFCCC for the period up to 2020 to facilitate the sharing of information and experience on national action. These include the Technical Examination Process, as well as annual high-level events, technical papers and summaries for policy makers. There would be value in the PMR **engaging in such events and contributing to the existing processes. Such engagement would provide an opportunity for the PMR to facilitate building a technical consensus among its Participants** on topics relating to climate action before and after 2020. Specific topics for the engagement areas could include MRV, accounting and voluntary cancellation.

27. Workshop participants expressed the interest in the PMR being able to contribute to the work programs associated with the Paris Agreement on the accounting for ITMOs and NDCs, as well as to further discussions and the development of the Article 6 mechanism.

28. In this regard, it was noted that the PMR should continue to **facilitate the building of a technical consensus** on issues relevant to the international regime. This process could help inform countries when making their own inputs to the UNFCCC work programs, while not developing common positions or agreeing on common submissions to the UNFCCC.

29. However, some Participants noted that there may be value in the PMR **facilitating groups of interested PMR countries in development of their joint inputs** to the UNFCCC work programs. The engagement of countries in such work would be voluntary and based on the interests of those countries.

C. ITMOs and accounting

30. Participants expressed their interest in the PMR conducting technical work on the ***accounting and arrangements necessary to support ITMOs and their use towards NDCs***. This suggestion was brought forward in view of enabling the international use of carbon pricing instruments towards countries' fulfilment of their NDCs. Also, this work was considered to be particularly urgent for PMR countries implementing such instruments prior to 2020, as they will need to develop relevant standards and infrastructure at an earlier stage than other countries, and because they are to transparently report on any international transfers and use towards meeting Cancun pledges or Kyoto Protocol targets. Finally, it was highlighted that it may be useful to begin this engagement by conducting a needs assessment on such matters and/or developing a 'gap analysis' between accounting rules under the existing UNFCCC mechanisms and requirements currently envisaged for Article 6. Since, over time, it will be important that the accounting and MRV provisions to be implemented for ITMOs fit with wider accounting considerations (for example, NDC accounting, use of credits by international aviation).

31. Some participants noted that the PMR could explore further work related to the ***definition of environmental integrity***, for the purposes of countries ensuring environmental integrity when engaging in cooperative approaches that involve the use of ITMOs towards their NDC fulfilment.

32. In order to facilitate exchanges between countries on the elaboration and application of guidance and rules or practices, some Participants noted that it could be useful if the PMR **assisted countries to participate in such 'clubs'**, including through assessing any gaps in their implementation of carbon pricing instruments that could be supported through such engagement.

D. Article 6 mechanism and crediting

33. There is interest in conducting could expand its ***technical work relevant to the development of the Article 6 mechanism and its relationship to the national implementation of crediting systems***. This technical work could address, among other things, uncertainties associated with the rules and principles of the Article 6 mechanism, the relationship between national, sub-national and international actions, how different initiatives and standards can be integrated and work together, how to ensure the avoidance of double counting, and how to conduct the MRV for crediting. Specific products under this technical work could include:

- a. A series of notes on relevant topics (such as the possible scope of the Article 6 mechanism, the avoidance of double counting, and 'overall mitigation');
- b. A series of in-depth technical papers and/or capacity building activities on topics relevant to the national implementation of crediting systems (for example, baselines, registries, accounting, and the transition from a domestic to an international market);
- c. Other activities, such as support to countries in preparing their submissions to the UNFCCC work programs, the convening of workshops, and the engagement of the private sector.

34. In addition, as the work under the UNFCCC progresses on ITMO and NDCs accounting and on the Article 6 mechanism, some Participants emphasized that the PMR could facilitate any ***adjustments needed to be made to crediting systems that are currently being developed and implemented at the national level.***

In particular, there is much interest in further ***exploring the relationship between crediting approaches and the provision of results-based climate finance***, in order to help countries choose between different approaches and, where necessary, identify implications for the design of their crediting systems.

4. Next steps

35. Based on the outcomes of the discussions and workshop proceedings, it was agreed that the PMR Secretariat would prepare a proposal for the future activities in this area. The proposal would consolidate ideas, while leveraging and building upon the ongoing and planned PMR activities, and taking account of existing priorities and available resources. The PMR Secretariat will circulate this proposal prior to the 15th session of the Partnership Assembly.