

Day 3

Authorization (A6.4 + 6.2) Timing and Revocation

AOSIS

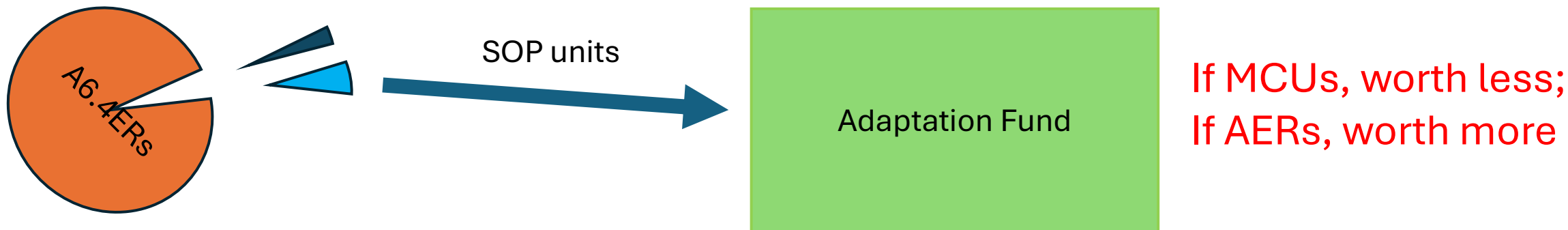
Workshop on Article 6
Session 9

Question 1: Can authorization of A6.4ERs be provided after issuance to turn an MCU into an AER? *If yes, up to what point in the life cycle can the authorization be provided?*

- **No. Allowing late authorization would**
 - **be inconsistent with RMP**, which require Parties to provide a statement on use before issuance.(42)
 - **have a negative impact on the value transferred to the Adaptation Fund** – as SOP contributed from the issuance of unauthorized MCUs would likely be lower than the SOP which would have been realised from the monetisation of authorised A6.4ERs – the price / value premium that comes with corresponding adjustments
 - **have a negative impact on 6.4 market as a whole**, by enabling a large volume of AERs to appear very late in the NDC period (e.g., 2029-31), or potentially even post-NDC period, **flooding the market and depressing prices** as Parties sell excess units ahead of the close of the NDC period
 - **Private sector pressure on MCU holders** to convert and correspondingly adjust, even if MCUs were originally sought as contribution units toward a Party's own NDC, as developers seek greater value (from corresponding adjustment) for the units issued

Negative impact on the Adaptation Fund:

- At time of issuance of A6.4ERs,
 - a 2% share of units is directly cancelled for OMGE and
 - a 5% share of units is directed to the Adaptation Fund for “monetization”
- If MCUs are requested for issuance from the registry, the SOP 5% is comprised of MCUs, which can only be used by purchasers from the AF for purposes that do not require authorization. These have **less value on the market**
- If the 5% had been authorized AERs, they would have gotten a **higher price** because they can be used toward NDC achievement or CORSIA compliance, or any other use without fear of double counting, upon first transfer to the AF.



- **Timing of authorization decision is already flexible** up until request for issuance; no change in rules needed
- Plus many options already available under existing rules if a Party is not ready to authorize, or is concerned about overselling:
 - Option A – choose not to submit issuance request yet, until Party is confident of not overselling
 - Option B – request partial issuance of authorized A6.4ERs now, and more later
- Another option after issuance:
 - Option C – request issuance of all units as fully authorized units with corresponding adjustment but retain all units in national holding acct until decision (if any) to sell

Q2 How to address OMGE and SOP when authorization is provided post issuance?

- **There is no way to fix the loss in value** to SOP that would result from late authorization.
- And even if the host Party were permitted to authorize and correspondingly adjust just the 2% and 5% SOP/OMGE share (effectively purchasing **an option** to convert remaining units, the remaining 92%, if later converted, could cause a glut in the market late in the period and depress prices near the end of the NDC period.

Q3 - Should the authorization of ITMOs (6.2 and 6.4(AERs)) be **revokable** by the first transferring/host Party? If yes, up to what point in the life-cycle and under what circumstances?

- **No!! – revocation not appropriate for 6.4**
- Need market certainty and finality, and avoid double counting risk
- Sufficient protections have been built into project cycle:
 - There is a DNA in place
 - Assume domestic laws are in place
 - Government has approved 6.4 activities
 - DOE has requested registration based on validation
 - Government has requested issuance via DOEs
 - SD Tool will address social and environmental safeguards as well as projects risks
- Private sector tools will evolve (e.g. to support replacement)

Q3 continued

- **No need to establish a process for revocations under 6.2**
 - Parties are expected to address potential problems in their cooperative approach arrangements
 - Parties already required to **describe** how they would address any problems in their initial report
 - And under 2/CMA. 3, para 18(i) – initial report shall **describe** how each CA will minimize and avoid negative environmental, economic and social impacts; respect obligations on human rights etc.