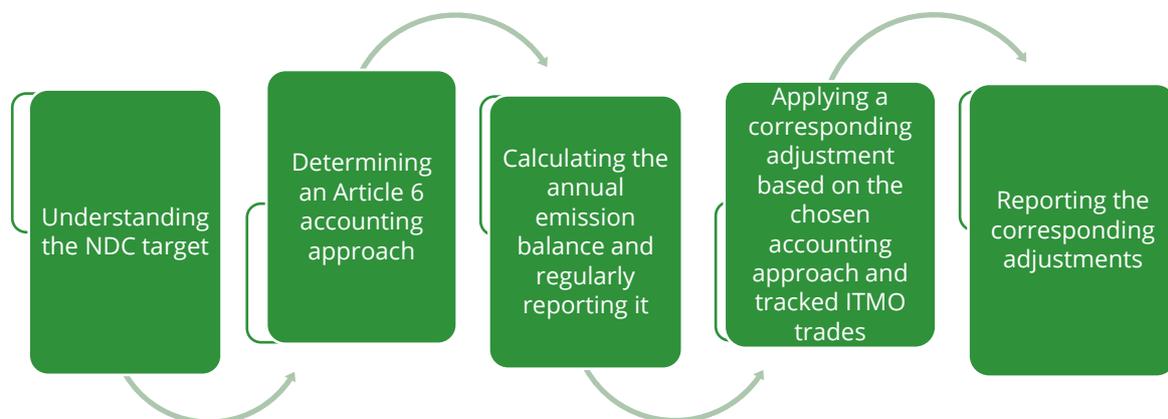


A GUIDE TO APPLYING CORRESPONDING ADJUSTMENTS

A corresponding adjustment is the process of accounting for carbon market actions against the national mitigation commitments. It can be understood as “double bookkeeping”: if one Party sells an ITMO, it is recorded as “debit”, if a Party buys an ITMO (and uses it), it is recorded as “credit”. Therefore, when an ITMO is sold, the underlying mitigation can no longer be accounted for towards the NDC mitigation targets.

Mitigation has the effect of lowering the GHG emissions recorded in the national GHG emissions inventory. The international transfer of mitigation outcomes must be balanced out of “re-adding” the GHG emissions quantified to have been mitigated. The adjusted emission balance is then used to check whether the NDC target has been met. The process of accounting for carbon market collaboration can be divided into different steps, as outlined in Figure 1.

Figure 1: Steps for performing corresponding adjustments





Step 1- Understanding the NDC target and how to account for it

There are several types of NDC targets that are accounted for differently:

- **Absolute emission targets** that specify a level of emission that is to be achieved. Such a target can directly be compared to the emission balance as shown in the inventory.
- **Relative emission targets** that set a lower emission level relative to a reference year or compared to a reference scenario. To determine whether this target has been met, the adjusted emission balance is compared to the emissions of the reference year or the estimated emissions of the reference scenario.
- **Intensity emission targets** that specify a level of emissions in relation to a specific unit (gross domestic product (GDP), production of an output; inhabitants, etc).
- **Non-GHG based targets**

In addition, NDC targets can be expressed for:

- **Several years** as an emissions pathway or as a carbon budget/annual carbon budget. This is referred to as a multi-year target in the Article 6 rulebook.
- **A single target year** (e.g., 2030).

NDC targets encompass all or specific sectors/categories within a GHG inventory. If the latter is the case, only the emissions recorded in the inventory for these sectors and categories are compiled to the balance of emissions that is used to check whether the NDC target has been met.

Step 2: Determining an Article 6 accounting approach

Case 1: Country with a multi-year target

If the country has a multi-year target, it must calculate either a multi-year emissions trajectory or a multi-year carbon budget. Subsequently, the CA is applied for all ITMO transfers of the years covered by the NDC implementation period: This involves adding the tCO₂e amount for all outgoing ITMOs and subtracting the tCO₂e amount for ITMOs used to fulfil the target.



Case 2: Country with a single-year target

For a country with a single year target, it has the option to choose either:

- **A continuous, multi-year accounting approach**, where the host country calculates a trajectory or a budget that is representative of the pathway to achieving of the NDC target year and accounts against that pathway as if it would have a multi-year target. The trajectory/budget approach for single year targets allows for continuous CA and NDC accounting throughout the NDC implementation period. Every tCO₂e certified, authorised, and transferred is accounted for in the context of the NDC. The availability of ITMOs for transfer without compromising the NDC target depends on the "conservativeness" of the trajectory set by the accounting method. This approach incentivises a continuous carbon market but may pose technical and political challenges when setting a trajectory for a single year target.
- **An averaging approach**, where the country calculates every year the average amount of ITMOs it has transferred throughout the years of the NDC implementation period. Accounting in the target year is then based on the average number of ITMO transfers. The averaging approach is relatively straightforward to implement and tends to be rather conservative. However, it only yields a "representative" outcome if there is frequent trading throughout the NDC implementation period. Finalizing accounting before the last year of the NDC implementation period is not possible with this approach, posing a risk for governments in terms of a potential mismatch between supply and needed acquisitions. Compared to a more stringent trajectory approach, this method provides seller countries with the flexibility to sell more without jeopardising NDC achievement. Conversely, buying countries would need to purchase higher amounts to compensate for a given mitigation deficit. This approach has faced criticism from international experts, and it remains uncertain which countries will be able to apply it.

Step 3: Calculating an annual emission balance

The annual emission balance represents the aggregate of emissions from sources and removals by sinks within the scope of the NDC. To calculate the balance, it is important to identify the sectors and categories covered by the communicated NDC targets. Subsequently, the corresponding data is extracted from the national GHG inventory. The national emission balance is calculated for every year and reported in the BTRs.



Step 4: Applying a corresponding adjustment based on the chosen accounting approach and tracked ITMO trades

Upon adopting a suitable accounting approach, the host country is tasked with tracking authorised, transferred, cancelled, or used ITMOs through the registry¹. The host country then calculates the total amount of ITMOs for which a corresponding adjustment is necessary and reports the adjusted emission balance in the BTR.

Step 5: Reporting the corresponding adjustment

As a part of Article 6.2 reporting requirements, participating Parties must report on the method for corresponding adjustments applied throughout the NDC implementation period in both their initial reports and regular information submitted as an annex to the BTR.

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¹The tracking of ITMOs is further detailed the Information Note *Article 6.2 Registries* on the Article 6 page *What is needed for national implementation?*