

# Article 6 of the Paris Agreement

## Harnessing carbon markets for international collaboration, higher climate ambition, and equitable climate finance

**Article 6 of the Paris Agreement allows countries to work together, through the trading of carbon credits, to reduce greenhouse gas emissions.** If well-designed, Article 6 can help us channel resources to countries to reduce greenhouse gas emissions and achieve their climate commitments under the Paris Agreement more rapidly, equitably, and cost-effectively. This is meant to allow for higher ambition for both mitigation and adaptation actions, and to promote sustainable development and environmental integrity.

There are three cooperative approaches described in the text of Article 6, commonly referred to by the paragraphs in which they appear (e.g., 6.2 refers to Article 6, paragraph 2).

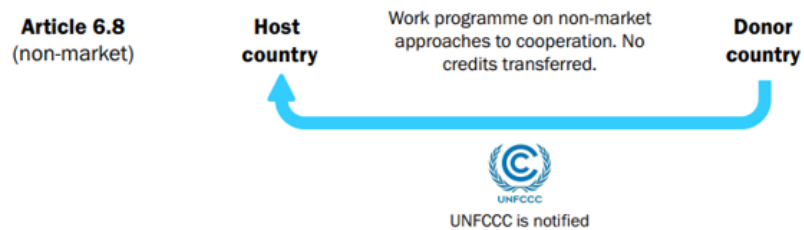
- Article 6.2** provides an accounting framework for bilateral or 'minilateral' (small groups of countries with shared interest) cooperation that results in the transfer of credits between two or more countries. The article does not dictate what these specific cooperative approaches should be, examples could include project-based or jurisdictional/sectoral approaches, or the linking of emissions trading schemes between countries. In general, Article 6.2 offers flexibility to participating countries to cooperate using the Article 6 guidelines as the guardrails for their cooperation. Switzerland and Peru signed the first ever Article 6.2 agreement in 2020.



- Article 6.4** establishes a central mechanism to trade credits from emissions reductions generated through specific projects or activities. The Article 6.4 Supervisory Body—comprised of 12 individuals nominated by all five UN regional groups plus least developed countries and small island developing states—oversees the mechanism and is responsible for developing and reviewing eligible methodologies, among other things. The 6.4 mechanism is widely considered the successor to the Kyoto Protocol's Clean Development Mechanism (CDM).



- **Article 6.8** sets out a work programme on non-market approaches whereby countries can provide support to other countries without trading carbon credits. While this article remains the least well-defined of the cooperative approaches, it is intended to facilitate the provision of financial and technical support and sharing of best practice in implementing domestic mitigation actions (e.g. implementing carbon taxes).



## Why is it important?

**The tools under Article 6 have potential to help countries meet and exceed their climate commitments under the Paris Agreement, including by mobilizing climate finance for emissions reductions and removals.** If well-designed, this could be a helpful tool to bridge the finance gap and mobilize money where it's needed most: creating a way for developed countries to shift money, knowledge, and other resources to developing countries to meet their Paris Agreement goals as their populations, economies, and demands for energy grow.

EDF analysis estimates that high integrity international carbon market cooperation could enable countries to nearly double their mitigation ambition compared to first NDCs at no additional cost, provided they re-invest cost savings in additional emissions reductions.<sup>1,2</sup>

## What is already agreed?

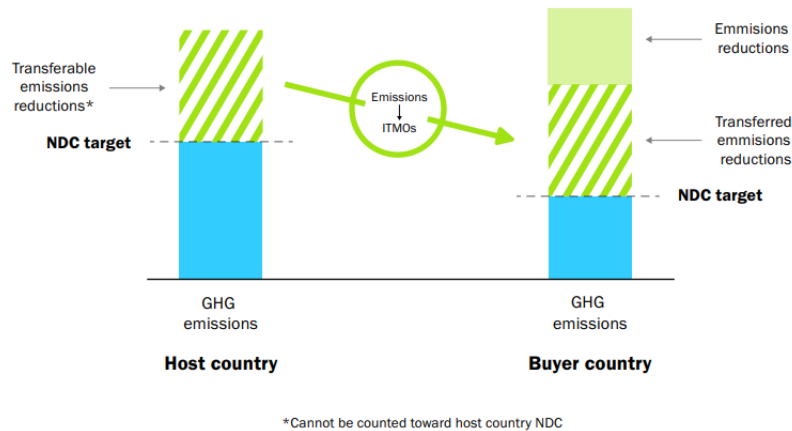
The UN climate talks at COP26 in Glasgow produced a Paris Agreement rulebook for international cooperation through carbon markets.

These Article 6 “rules of the road” do the following:

- Require “authorization” of Article 6.2 credits (known as internationally transferred mitigation outcomes, or ITMOs) by host countries, if host countries decide to make them eligible for use towards NDCs or “international mitigation purposes” (e.g., use by airlines for compliance purposes). This triggers corresponding adjustments and reporting requirements.
- Require the use of “corresponding adjustments” when credits are authorized, with the purpose of avoiding double counting. Corresponding adjustments can be likened to double entry bookkeeping. Host countries that decide to authorize and transfer credits cannot count these emissions reductions toward their own climate

targets. This enables buyer countries to count the credits towards their targets instead. Countries could also agree to share the credits, and account for it accordingly.

**Figure 8: Article 6 and NDCs**



- If credits created under Article 6.4 are internationally transferred to another country, then the guidance developed for Article 6.2 will be applied. This includes the requirement for a corresponding adjustment.
- Create a separate category of “unauthorized” credits, which permits countries to forgo authorization if the credits will not be used towards an NDC or “international mitigation purposes.” These include credits transacted in the voluntary carbon market.
- Provide a pathway to channel investment toward sustainable development.
- In addition, a “share of proceeds” meaning a percentage of the revenue generated to be set aside for adaptation efforts through a “share of proceeds” (SOP) (financing) for adaptation—complementing other sources of international finance.
- Deliver an overall mitigation in global emissions (OMGE) through a mandatory partial cancellation rate applied to credits issues under the 6.4 mechanism. An OMGE refers to the requirement that any international transfers of emissions reductions must ensure that global emissions are reduced overall. In the context of the Paris Agreement, the overall mitigation in global emissions is delivered when a portion of the emission reductions resulting from an activity credited is not used by any country to implement or achieve its NDC. The aim is to ensure that aggregated global emissions decrease as a result of engaging in Article 6.
- Establish the rules, modalities, and procedures for the Article 6.4 mechanism, while phasing out the Clean Development Mechanism (CDM).

At COP27 in Sharm el-Sheikh, negotiators began the process to “operationalize” Article 6. They made progress in three areas:

- **Reporting.** Agreed some of the reporting formats that participating countries must use.
- **Review.** Established a process to review the information that participating countries are required to submit to the UNFCCC.
- **Infrastructure.** Provided guidance on multiple elements of the Article 6 tracking infrastructure (e.g., registries) and clarified how these elements relate to each other.

## What remains to be decided? (as of November 2023)

The Article 6.4 Supervisory Body continues its mandated work on the new centralized mechanism. Under its 2023 workplan, the panel must approve methodologies, develop recommendations on removal activities, develop a mechanism registry, accredit operational entities, and facilitate the transition of CDM activities to the mechanism. It is important to note, however, that recommendations must be approved—and can be overruled—by the COP.

**In addition, Article 6 negotiators are working to finalize a number of details, including (1) reporting formats for the submission of quantitative information, (2) the timing and revision of authorizations, (3) 6.2 tracking infrastructure and (4) the 6.4 mechanism registry.**

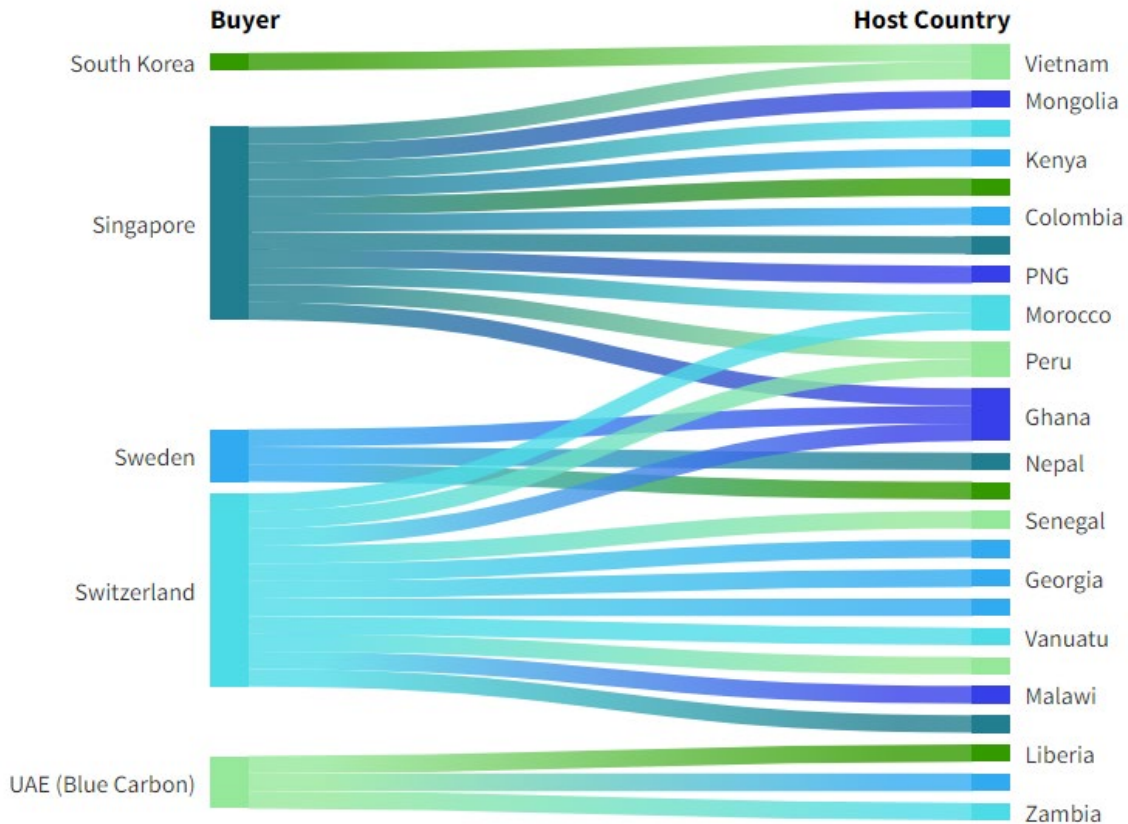
## How is it being implemented?

While the Article 6.4 mechanism and other aspects of Article 6.2 will take more time to fully develop, countries can begin to cooperate using Article 6.2, which provides an accounting framework for bilateral or multilateral cooperation that results in the international transfer of mitigation outcomes.

Countries are forging ahead to collaborate on climate action, and some notable milestones include:

- Switzerland and Peru signed the first Article 6 agreement in 2020, creating a bilateral framework for the transfer of mitigation outcomes. Switzerland has since inked similar deals with half a dozen other countries, including Ghana.
- Switzerland and Ghana announced at COP27 the first authorization of internationally transferred mitigation outcomes (ITMOs).
- Japan launched at COP27 the Article 6 Implementation Partnership, a capacity-building initiative with 60+ countries participating.
- India finalized in early 2023 a list of activities eligible to generate credits for transfer under Article 6 (e.g., green hydrogen, offshore wind, emerging mobility solutions).
- Switzerland submitted to UNFCCC its first 6.2 “initial report” on cooperative approaches with Ghana, Thailand, and Vanuatu.

Bilateral international carbon agreements announced to date, with buyers on the left and sellers on the right. *Source: IETA*



To participate effectively in Article 6, countries will need to develop new policies to determine how to regulate their cooperation, determine institutional structures for governance of the cooperation, and infrastructure such as registries required to record transactions.

### What support is available to countries?

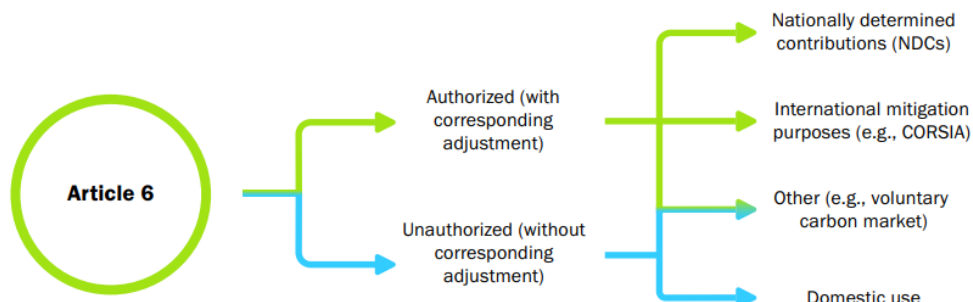
Even as countries begin to collaborate on climate action, there is a need for capacity building support from the international community. Priorities include understanding and implementing Article 6 participation requirements, developing strategies to guide Article 6 engagement, and aligning this engagement with NDC implementation plans and sustainable development goals.

The UNFCCC and other organizations have launched programs to support developing countries in Article 6 participation, including UNFCCC's Article 6 Capacity Building Work Programme, UNDP's course on Operationalizing

Article 6.2 of the Paris Agreement, the World Bank's Partnership for Market Implementation, Japan's Article 6 Implementation Partnership, and the Asian Development Bank's Article 6 Support Facility.

## How does Article 6 interact with NDCs?

One key feature of Article 6.2 is the use of “corresponding adjustments” to avoid double counting of emissions reductions or removals. This prevents the same mitigation outcome from being counted toward the achievement of two countries' NDCs. In other words, if a host country authorizes an ITMO for transfer, it cannot use these mitigation outcomes toward the achievement of its own NDC.



Corresponding adjustments are required whenever a credit is authorized by a host country. This requirement applies even if the credit comes from a sector or activity that is not included in the host country's NDC. Potential host countries are currently grappling with questions around the volume of ITMOs they may be able to authorize and transfer without jeopardizing the achievement of their NDCs.

When emissions reductions or removals are transferred, the transferring country adds the tonnes of CO<sub>2</sub>e back to its greenhouse gas emissions balance, while the purchasing country subtracts transferred emissions reductions or removals from their emissions balance.

Unauthorized credits, created by the rules agreed at COP26, can be used for voluntary or domestic purposes, and they are not associated with corresponding adjustments. At COP27, negotiators further clarified that credits issued by the centralized Article 6.4 mechanism but not authorized by host countries—known as “mitigation contribution A6.4ERs”—may be used inter alia “for results-based climate finance, domestic mitigation pricing schemes, or domestic price-based measures, for the purpose of contributing to the reduction of emission levels in the host [country].”<sup>11</sup>

## How does Article 6 interact with the voluntary carbon market (VCM)?

The VCM reached record-breaking volume and value over the last five years and, despite slower growth in 2022, there remains significant interest in the implications of Article 6 for the VCM.

Article 6 creates a path—but not an obligation—for project developers and host countries to categorize some VCM credits as “authorized,” indicating that the purchaser's claim to that credit will be unique and that the emissions reduction will not be used to meet the host country's target. These credits would be authorized by host countries but sold in the VCM (rather than used towards the host country's NDC or for international mitigation purposes).

There is an active debate around whether or not corresponding adjustments should be applied in the VCM, and the implications of corresponding adjustments to the VCM (e.g., on price and traded volumes) remain unclear. Regardless, the market is likely to distinguish between authorized VCM credits and those that are not.

## How does Article 6 incorporate nature?

Nature-based solutions—including protecting, restoring, and managing natural ecosystems like forests, mangroves, and peatlands—are eligible under Article 6.2, since ITMOs explicitly include emissions reductions and removals. Countries, however, have latitude to further define which reduction and/or removal activities they want to include in their bilateral agreements, based on national priorities. India, for example, has opted to use Article 6 to mobilize finance specifically for emerging technologies.

The 6.4 Supervisory Body is reviewing and developing methodologies for all sectors, including nature-based activities, for use under the new mechanism.

## How does Article 6 deliver finance for adaptation?

In general, countries can use international carbon market cooperation under Article 6 to channel investment toward sustainable development, complementing other sources of international climate finance. Article 6 also provides specific support for adaptation.

Under 6.4, there are two processes that deliver funding to the Adaptation Fund. There is a “share of proceeds” (SOP) or levy under the new 6.4 centralized mechanism. This levy is set at 5% of A6.4ERs at issuance. There will also be a monetary contribution related to the scale of 6.4 activity or to the number of A6.4ERs issued, to be set by the Supervisory Body.

Under 6.2, countries are “strongly encouraged to commit to contribute resources for adaptation, in particular through contributions to the Adaptation Fund.” In doing so, they’re meant to take into account the level of support provided under 6.4. While the delivery of resources for adaptation is voluntary, reporting is mandatory.

## How does Article 6 interact with the CDM?

Negotiators addressed three aspects of CDM transition: credits, activities, and methodologies.

*Transition of credits.* Certified Emissions Reductions (CERs)—emissions units issued by the CDM—may be used towards the first or first updated NDC, if the CDM project activity generating the credits was registered in 2013 or later. The CERs must be transferred to the mechanism registry and identified as pre-2021 emission reductions, (2) the CDM host country is not required to apply a corresponding adjustment and is not subject to SOP, and (3) temporary CERs or long-term CERs are not eligible for use.

*Transition of activities.* Project activities that have been registered under the CDM (or are listed as provisional, per the temporary measures adopted by the Executive Board) may transition and be registered under the 6.4 mechanism, provided that they ultimately comply with agreed 6.4 rules, modalities, and procedures. Requests for transition of activities must be made to the Secretariat and CDM host country by the end of 2023.

*Transition of methodologies.* The Supervisory Body is directed to review the CDM baseline and monitoring methodologies, with a view to applying them (revised, if appropriate) to the 6.4 mechanism.

## **How does Article 6 address grievances?**

COP26 established an independent grievance process under Article 6.4 rules, stating that “stakeholders, activity participants, and participating Parties may appeal decisions of the Supervisory Body or request that a grievance be addressed by an independent grievance process.”<sup>12</sup> This is an improvement upon CDM, which lacked processes to address grievances.

The grievance process—like the Article 6.4 mechanism—has yet to be operationalized. There are, however, civil society calls to urgently begin technical work on an independent grievance process, ensure its independence, and align it with human rights principles.<sup>13,14</sup>