

Article 6 of the Paris Agreement

What you need to know post-COP28



United Nations
Climate Change



COP28 UAE

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Introduction

At COP26 in Glasgow in 2021, the carbon market saw a big milestone. After several years of negotiations, the section of the Paris Agreement that deals with international cooperation and carbon markets, Article 6, was finally agreed.

However, since COP26, there have remained many unresolved questions about how Article 6 could work in practice, and what it means for wider carbon markets. Since then there has been steady progress on both Article 6.2 and 6.4.

So here's a reminder of what the Article 6 rule book actually says, as well as an update on the progress made, and what questions and disagreements still remain.



Key Concepts

Mechanisms under Article 6

Article 6 features two market-based mechanisms for international collaboration.

Article 6.2 allows decentralized bilateral trade between Parties. Internationally transferred carbon reductions or removals are known as ITMOs (Internationally Transferred Mitigation Outcomes).

Article 6.4 allows countries to issue carbon credits through a new centralized mechanism governed by the UNFCCC. It is intended to be a replacement for the Clean Development Mechanism (CDM) of the Kyoto Protocol. Credits issued under Article 6.4 are called 6.4 Emissions Reductions (ERs), which can become ITMOs if traded between two countries.

A third mechanism, Article 6.8, covers non-market cooperative approaches. It remains unclear exactly what form these will take.

Article 6.2	Description A market-based mechanism which allows decentralized bilateral trades between Parties	Example Switzerland buys ITMOs from Ghana for use towards its NDC
Article 6.4	Description A centralized market-based mechanism governed by the UNFCCC for issuing carbon credits	Example Indonesia issues 6.4ERs which can be sold to state or non-state buyers, for a number of possible uses (see page XX)
Article 6.8	Description Non-market based approaches to international co-operation	Example TBC - the details on Article 6.8 are still vague. It is likely to involve donations and sharing expertise, so will require little regulation

Key Concepts

Corresponding Adjustments

To prevent double-counting or double-claiming, a Corresponding Adjustment in carbon accounting will be required when traded carbon is used for international compliance purposes.

Double-counting and double-claiming have long been considered a threat to making credible climate claims using carbon credits. The rules agreed under Article 6 make it mandatory for parties to apply a carbon accounting correction known as a Corresponding Adjustment (CA) when trading credits:

- 01 towards their NDCs, or
- 02 for “Other International Mitigation Purposes” (OIMP) such as the aviation compliance scheme CORSIA.

When a CA is applied, transferred carbon reductions or removals are discounted from the selling country’s emissions accounting before they can be counted in the buyer’s.

OMGE and SoP

All Article 6.4 carbon trades will fund climate adaptation in developing nations and result in net negative emissions through two automatic cancellations.

The first, 5%, known as a Share of Proceeds (SoP), will go towards the Adaptation Fund, a scheme to finance climate adaptation in developing nations.

The second, 2%, will simply be deducted to ensure that all carbon trades result in Overall Mitigation of Global Emissions (OMGE). In other words, carbon trading is not a zero sum game, but directly reduces emissions in addition to accelerating progress through cooperation.

While these percentages are small, they do set a precedent for scaling further ambition.

Where we are now

In the two years since COP26, Article 6 implementation has moved slower than some had expected, most notably with a failure to agree any decision text under Article 6 at COP28. However, significant progress has been made towards operationalizing the mechanisms.

Article 6.2

Many regard Article 6.2 as already operational, as Parties have signed bilateral agreements and the first transfer of ITMOs is imminently expected.

However, following the impasse at COP28, we are still missing some important clarifications about the rules of international carbon trading which affect Article 6.2.

- One of these areas is the level of oversight that the UNFCCC should have over Article 6.2 activities and the role and position of non-state entities, such as CORSIA, within A6.2 trading.
- Revocation of Corresponding Adjustments is another ongoing point of disagreement. This would allow selling countries to rescind their CA for credits in some specific circumstances. Some Parties argued at COP28 that this provision is needed to allow fraud to be addressed, while other Parties opposed allowing revocations because they would undermine confidence in the market.

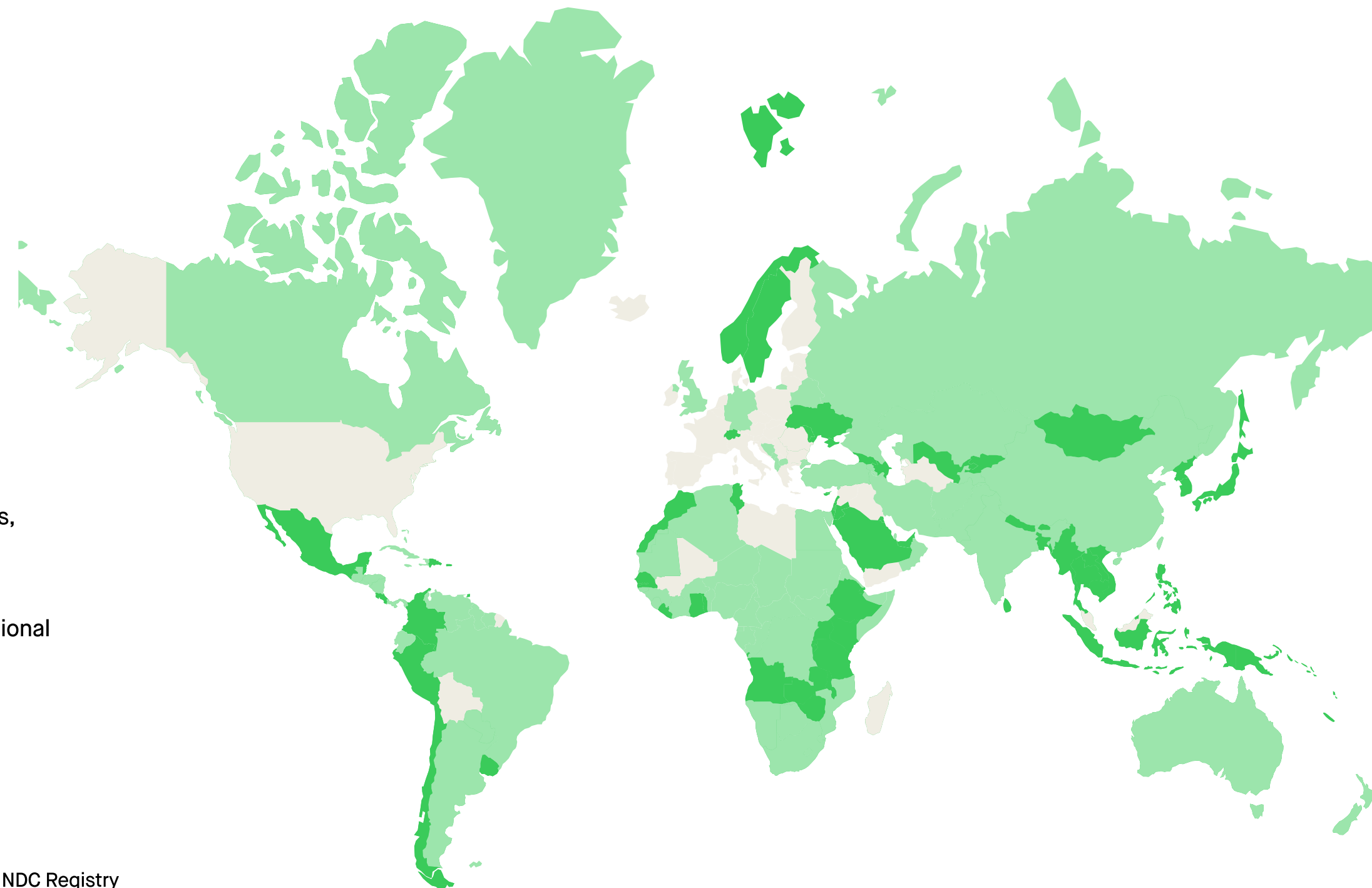
Despite the slow progress, trading under Article 6.2 is going ahead anyway.

- Bilateral agreements continue to be signed between Parties intending to cooperate through Article 6.2, with a wave of announcements at COP28.
- The first transfer of ITMOs has been finalised, from Thailand to Switzerland.
- So far two countries, Rwanda and Malawi, have unilaterally authorized credits in the VCM to be Correspondingly Adjusted.
- Partnerships between the private and public sectors, such as the partnership between Sylvera and Singapore, will further inject momentum into the process.

Where we are now

Map of Article 6 participation

- Countries actively engaged in at least one cooperative approach through bilateral agreements, MOUs or participation in pilot projects.
- Countries that signalled their intention to use international market mechanisms or broad international support to meet their NDCs or increase ambition.
- Does not mention or without information



Source: International Emissions Trading Association, UNFCCC NDC Registry

Where we are now

Article 6.4

Article 6.4 implementation has once again been delayed after negotiators failed to agree on text at COP28.

For much of 2023, negotiators focussed on the assessment of methodologies and approaches to removals under Article 6.4. In the weeks leading up to COP28, two key documents were published by the A6.4 Supervisory body - one document on guidance for methodologies, and the second for guidance on removals.

Negotiating parties were divided on both documents and ultimately failed to adopt them for implementation.

Interoperability of the Art 6.4 registry with the international registry used for Article 6.2 is also at an impasse, with many opposing interoperability.

How did we get here?

- 09 What happened at COP26?
- 11 What happened at COP27?
- 13 What happened at COP28?
- 15 What we think we know

Each year the signatories of the Paris Agreements, known as the Parties, meet at a COP (Conference of the Parties). Article 6 was first agreed at COP26 back in 2021. Here are the highlights from each COP since.

What happened at COP26

Not only was Article 6 signed at COP26, but we also got some early clarity on how these mechanisms will work and how they relate to wider climate policies.

01 Article 6.4 is the successor to the Clean Development Mechanism (CDM)

The precursor to the Paris Agreement, the Kyoto Protocol, had its own carbon trading mechanisms, including the CDM. Although the CDM issued a huge number of credits, many of which are still available on the market today, it has been criticized by some countries for having a patchy record on environmental integrity. Specifically, it has been accused of allowing “hot air”, or poor-quality credits, to be issued and traded.

Some countries have long argued that a new mechanism should be created to replace it and learn from its successes as well as its shortcomings. The Article 6.4 mechanism will hopefully be able to achieve this.



What happened at COP26

03 Two bodies oversee the implementation of Article 6

There are two distinct bodies that make recommendations on two sets of questions to the COPs, which then take the final decisions. The two bodies are the new Supervisory Body for the Article 6.4 crediting mechanism and the UNFCCC's Subsidiary Body for Scientific and Technological Advice (SBSTA).

The membership of the 6.4 Supervisory Body was finally agreed in July 2022 after much wrangling, and was able to present some draft texts at COP27, but was limited by the short timeframe it had to achieve its objectives. In 2023 it was able to make more progress and presented draft texts to COP28, but these were not accepted.

The Subsidiary Body for Scientific and Technological Advice (SBSTA) will report on:

Whether avoided emissions projects should be allowed to count towards NDCs and any other claims.

How CAs should work.

How the automatic cancellation of credits that lead to SoP, AF and OMGE should work.

What the special circumstances for Least Developed Countries (LDCs) and Small Island Developing States (SIDs) should be.

The new Article 6.4 Supervisory Body will:

Review CDM accreditation standards and procedures.

Establish new procedures and methodologies for the mechanism to replace the CDM.

Make recommendations on projects relating to greenhouse gas removals, such as afforestation and reforestation projects.

What happened at COP27

After COP26's breakthrough deal, the work on Article 6 at COP27 focused on agreeing the technical details necessary for implementation. Among the procedural decisions, there were also debates that reflected the divergence in Parties' fundamental vision of what market mechanisms should look like. Some of the outcomes most likely to affect carbon markets included:

01 The first transfer under Article 6.2 was authorized

Even ahead of COP26 countries such as Switzerland had started to agree specific partnerships in anticipation of a deal on Article 6. Since the details of Article 6.2 were first agreed, countries have continued to sign agreements and memoranda of understanding (MOUs). At COP27, Ghana announced they had authorized the first transfer of ITMOs to Switzerland. This reflects that although the exact details of the mechanism are still being ironed out, there are no barriers to Article 6.2 cooperation starting now.

02 Some rules for CDM transitions were clarified

Projects that wish to transition from the CDM to the Article 6.4 mechanism now have clarity on the process they must follow.

The standard and procedure for transition will be effective from 1 January 2024.

03 The issue of authorization and Corresponding Adjustments remained a hot topic for Article 6.2...

Authorization was a particularly controversial issue for discussions on Article 6.2. Authorization by the host country is the process, which turns a carbon credit into an ITMO and triggers a CA. Discussions focussed on the timing of this, and also whether authorization could be revoked at a later date.

Ultimately, the draft language on this was removed from the final text, as no agreement was reached.

What happened at COP27

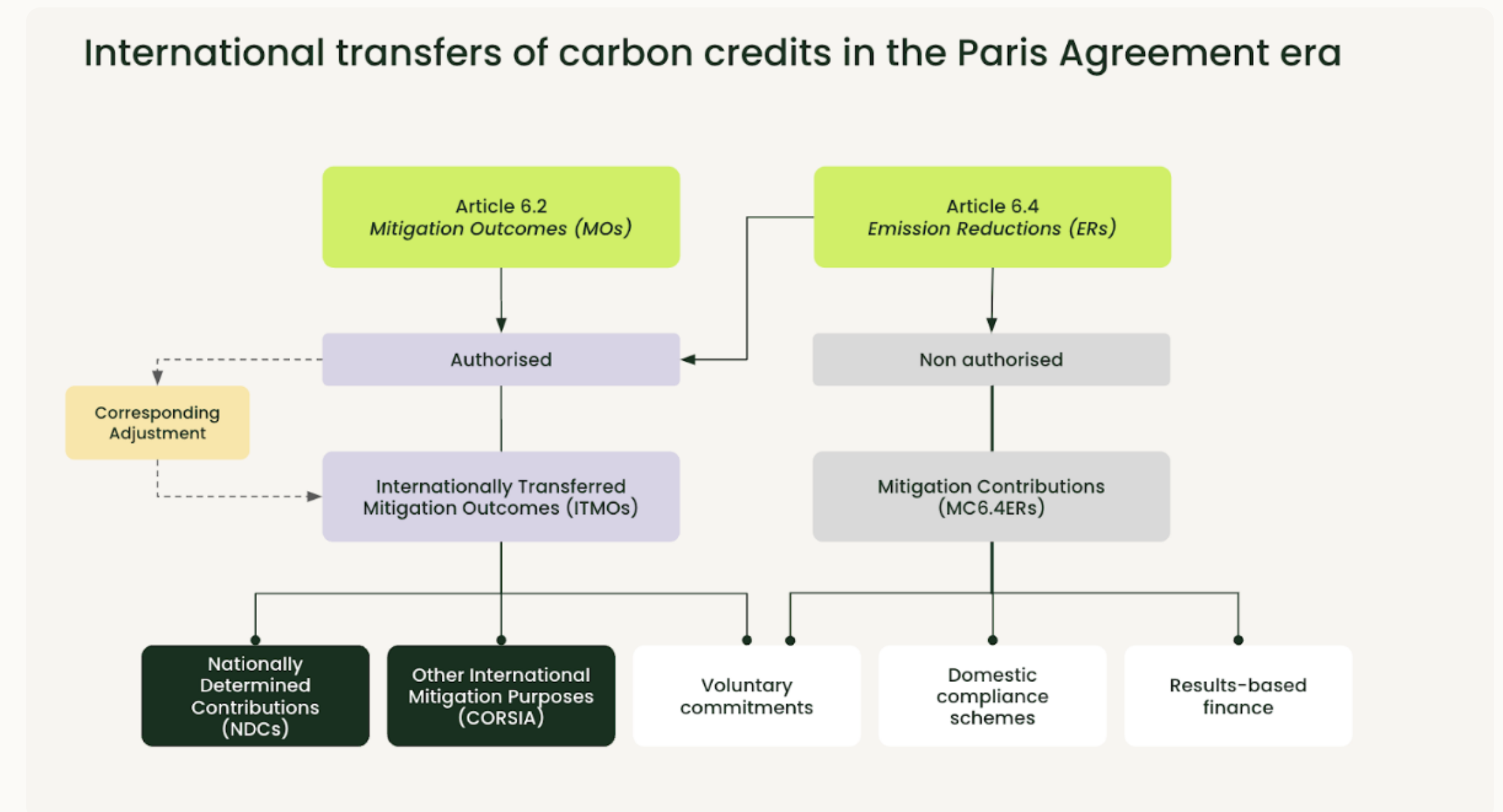
04 ...and for 6.4, leading to a new category of credits

The existing 6.4 guidance did not require all credits to be authorized and have a CA applied. There was much debate about this in and around the COP27 negotiations, especially as this will have significant implications for how these credits can be used and what claims can be made. These agreements are very likely to have impacts on claims and norms in the VCMs too.

It was agreed that 6.4ERs to be used towards NDCs or for OIMP must be authorized and have a CA applied. Non-authorized 6.4ERs are now also known as “mitigation contribution 6.4ERs” or 6.4 MCERs. These will still have the same fees applied, as well as SoP and OMGE cancellations, but cannot be used for mechanisms such as CORSIA or towards the buyer’s NDC.

The agreed text lists how they can be used: “inter alia, for results-based climate finance, domestic mitigation pricing scheme, or domestic price-based measures.” The key term here, which has already been poured over, is inter alia - a legal term meaning ‘among other things’. So, although the list focuses on domestic uses, it does not rule out international transfer of 6.4 MCERs, as long as they are not used for international compliance purposes. As it stands, it is understood that 6.4 MCERs also cannot be used for offsetting purposes.

This seemingly very technical dissection of the legalese actually has fundamental implications for the future of carbon markets. The claims that buyers can make from using carbon credits are what determines the demand for them. What is ultimately decided for 6.4 is likely to be reflected in VCMs too.



What happened at COP28

Compared to the low expectations before COP28, the early win for the Loss and Damage Fund and groundbreaking inclusion of language to 'transition away from fossil fuels' were successes.

01 COP28 was a good COP for the VCM

A roundtable on Finance Day that featured US climate envoy John Kerry and ministers from Singapore, the UK, Ghana and Indonesia, marked the most substantial political endorsement the VCM has yet received. In addition to John Kerry, other influential figures, including EU Commission President Ursula von der Leyen and former UK Prime Minister Tony Blair, championed efforts to revive the market as a pivotal means of driving investment toward real climate solutions that would otherwise go unfunded.

The VCM landscape saw many other promising announcements and proposals, including guidance from the CFTC, solidifying carbon credits' position as an important emerging commodity class, and a Consultation Report from IOSCO to promote the integrity and orderly functioning of VCMs, adding another level of trust and financial integrity to the market.

Crucially, prominent entities like SBTi, VCMI, GHG Protocol and ICVCM joined forces to establish an End-to-End Integrity Framework, which more clearly outlines how they collectively guide the voluntary decarbonization journey. For corporates, this will provide clarity on how carbon credits fit into their overall net zero strategies and should build confidence in investing in the market.

Other prominent VCM commitments included:

- 1 John Kerry also shared updates on the Energy Transition Accelerator, set to be fully operational by Earth Day 2024 and mobilize up to \$200 billion in energy transition finance for developing countries by 2035.
- 2 The LEAF Coalition announced groundbreaking emissions reduction purchase agreements with Costa Rica and Ghana, amounting to over \$60 million.

What happened at COP28

04 Challenges and Limited Progress in Article 6 Negotiations

Article 6 negotiations proved more fractious than anticipated, with disagreements on technical issues like the relationship between different registries and the format for declaring trades.

As discussed above, Article 6.2 is operational though it awaits agreements on key ongoing issues, while the operationalization of Article 6.4 is once again delayed.



What we think we know now

Article 6 quality should continue to be scrutinised

The Article 6 text welcomes collaboration with the aim “to allow for higher mitigation ambition and to promote sustainable development and environmental integrity”. However, failing to ensure a minimum level of quality for the carbon credits - technically known as authorized Internationally Transferred Mitigation Outcomes (ITMOs) - would mean the mechanism is failing in its aim.

This is particularly an issue for Article 6.2, with its higher fragmentation and weaker oversight than Article 6.4. Advances in supply-side integrity within the Voluntary Carbon Market (VCM) and compliance carbon markets such as the Carbon Offsetting and Reduction Scheme for International Aviation (CORSA) could serve as inspiration.

CAs will not be required for all voluntary transactions, at least for now. But the claims that can be made from using credits with no CA might change.

In the aftermath of COP26 there was significant debate among VCM players over whether CAs would help or hinder climate ambition and environmental

would help or hinder climate ambition and environmental integrity in VCMs. Since then the VCM has reached some consensus that CAs will not be required when credits were voluntarily used to increase companies’ climate ambitions, unless the host country or standard requires one.

However, it is still to be determined what climate claims companies can credibly make on the back of credits that either have a CA attached or not. The eventual decision reached on this is likely to have significant implications for credit demand, especially from private-sector buyers.

Uncertainty around this, as well as the implications of adjusted credits on host country NDCs, has contributed to some of the uncertainty limiting VCM growth this year. In addition, specific policy decisions, such as Indonesia’s pause of some credit issuances, are thought to be a result of concerns that future voluntary transactions might require CAs, and therefore hinder host countries in achieving their NDCs .

The discussion around 6.4 MCERs will only add more confusion to this conversation. If using 6.4 MCERs for offsetting is not permitted, it could be that in the future VCM credits without CAs also cannot be used for offsetting. Organizations claiming to be carbon neutral would therefore have to use credits with a CA, which are likely to be in limited supply and are already attracting a price premium. Meanwhile, there might be limited demand for credits without CAs as companies will struggle to justify spending money on them with a worthwhile climate claim.

What we think we know now

Reducing Emissions from Deforestation and forest Degradation (REDD+) under A6.4 hangs in the balance, but may have an easier entry into A6.2

REDD+ was excluded from the CDM, and there has been concern that unless it is explicitly approved in the Article 6 text it might not be allowed in these new mechanisms either.

REDD+ occupies a different position under each of the two market mechanisms within Article 6. Under A6.2, Parties to the UNFCCC are free to pursue bilateral trade in credits from any sector or activity type they choose, including REDD+. This is due to the decentralized nature of A6.2, which allows Parties to set the quality considerations for their ITMOs. Though some Parties have expressed interest in REDD+ ITMOs, we have not seen material progress on it yet. But we may see MoUs signed for REDD+ pilots under A6.2 in the coming year.

On the other hand, activities registered under the A6.4 mechanism can only belong to methodologies approved by relevant UNFCCC bodies.

The 6.4 mechanism is a successor to the CDM, and REDD+ was explicitly excluded from the CDM. Hence, Parties and market participants have been eagerly awaiting explicit confirmation that REDD+ will be accepted into 6.4. The REDD+ conversation under 6.4 is further complicated by speculation about whether 'emissions avoidance' will be permitted under the 6.4 mechanism. In VCMs the term "avoidance" is often used to refer to projects including cookstoves, renewable energy and REDD+ (since several projects are avoided deforestation projects). However, in this context the terminology is different, and REDD+ is thought to fall under "emissions reduction" activities, true to the R and E in the acronym. The question remains unconfirmed on two levels - 1) whether 'emission avoidance' is allowed under A6.4, and 2) whether REDD+ is within the scope of emissions avoidance.

The ultimate position of REDD+ is likely to be determined only in time for 2028. The A6.4 text that came out of COP28 deferred the consideration of 'emissions avoidance' to 2028, which implies that the fate of REDD+ may also remain unsettled until then.

What does this all mean for voluntary carbon markets?

VCM stakeholders have been watching Article 6 with interest. Historically, decisions made about international mechanisms such as the CDM have shaped the development of the VCM. Since Article 6 was agreed upon, concepts such as Corresponding Adjustments and Mitigation Contributions have translated across the VCM and now shape trends in credit use and demand.

The failure to progress Article 6 at COP28 was met with much frustration, but may actually prove a short-term boost to VCM as both buyers and sellers seek alternative mechanisms to finance essential emissions reductions and removals.

If you have specific questions about climate policy and carbon markets, contact us to speak to our team of carbon market experts.

Contact us

Conclusion

In the aftermath of COP28, the challenges surrounding the implementation of Article 6 of the Paris Agreement have come into focus. While COP26 marked a significant milestone with the agreement on Article 6, the journey towards its practical application has many unresolved questions.

The progress made on both Article 6.2 and 6.4 mechanisms has been substantial, yet challenges persist. The slow pace of implementation, particularly evident in the failure to reach decisions at COP28, underscores the intricate nature of international cooperation in carbon markets. Despite setbacks, Article 6.2 is already operational, with bilateral agreements and imminent credit transfers indicating a commitment to collaborative efforts.

Stakeholders in the voluntary carbon market must continue to monitor and adapt to the evolving landscape, considering the potential impact of decisions made under Article 6 on credit quality, claims, and overall market dynamics. The recent endorsements and commitments from influential figures and entities in the VCM provide momentum, signaling a shared commitment to driving investment toward genuine climate solutions.

If you have specific questions about climate policy and carbon markets, contact us to speak to our team of carbon market experts.

Contact us

Glossary

Terms

01 Corresponding adjustment (CA)

The accounting mechanism built into Article 6 to avoid double counting. The amount of emissions traded are subtracted from the buyer's NDC and added to the seller's NDC.

02 Clean Development Mechanism (CDM)

One of the mechanisms of trading carbon under the Kyoto Protocol.

03 Certified Emissions Reduction (CER)

Credits issued under the CDM

04 Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)

International scheme for the aviation industry to achieve carbon neutral growth. Implemented in phases, with the compliance phase starting in 2027.

05 Internationally transferred mitigation outcome (ITMO)

Carbon transferred between countries under Article 6.2.

06 The Kyoto Protocol

The first major international climate-related treaty signed as part of the UNFCCC in 1997 and in force from 2005-2020.

07 Mitigation Contribution 6.4 Emissions Reductions (MC 6.4ERs)

Carbon credits issued under the Article 6.4 mechanism, which have not been authorized by the host country to have a Corresponding Adjustment applied. This has implications for use, see page XX

08 Nationally Determined Contributions (NDC)

Each party to the Paris Agreement must submit an NDC, which includes its emissions targets at least up to 2030 and steps to achieve it. These must be resubmitted every 5 years, with increasing ambition.

09 Other International Mitigation Purposes (OIMP)

Credits issued under the CDM

10 Overall Mitigation of Global Emissions (OMGE)

Every trade under Article 6.4 has an automatic cancellation of 2%, to ensure that as a whole, the mechanism contributes to global emissions falling.

Glossary

Party

01 The Paris Agreement

The latest UNFCCC treaty, agreed in 2015 at COP21 to replace the Kyoto protocol.

02 The UNFCCC's Subsidiary Body for Scientific and Technological Advice (SBSTA)

Body of the UNFCCC that advises parties on the implementation of Article 6, among other things.

03 Share of Proceeds (SoP)

Every trade under Article 6.4 has an automatic cancellation of 5%, to raise funds for the Adaptation Fund, a scheme to finance climate adaptation in developing nations.

04 United Nations Framework on Climate Change (UNFCCC)

An international treaty signed between governments, with the ultimate aim of preventing "dangerous" human interference with the climate system.

05 Voluntary Carbon Markets (VCMs)

The forum for carbon to be traded for purposes not required by national or international policies and regulations. For example, companies that want to voluntarily offset their emissions can purchase carbon credits via VCMs.

06 Emission Reduction (6.4 ER)

The carbon credits issued under Article 6.4 of the Paris Agreement.

07 Supervisory Body (6.4 SB)

The UNFCCC body advising parties on the implementation of Article 6.4.

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