What is Article 6 of the Paris Agreement and why does it matter?

Summary

- Article 6 of the Paris Agreement is a tool to help all countries reach their NDCs through market-based mechanisms.
- These new mechanisms have the potential to unlock mitigation and adaptation projects that can generate an absolute reduction in GHG emissions and contribute to sustainable development.
- This year's Conference of the Parties (COP25) aims to finalise the rulebook on Article 6. Robust rules for these mechanisms need to be agreed to ensure that projects are contributing to environmental integrity and rising ambition, and opposing views about governance and accounting rules have been slowing implementation of Article 6.

Background

Article 6 of the Paris Agreement is a tool available to Parties to help deliver the Agreement's goal to combat climate change and limit temperature rise. It allows countries to use international markets and other non-market mechanisms to achieve their nationally determined contributions (NDCs). As successors of Kyoto Protocols mechanisms,[1] these new instruments commit all countries to deliver an "overall mitigation in global emissions"[2] and move away from schemes focused on offsetting emissions. Article 6 could unlock finance to previously neglected areas when fully operational,[3] but disagreements between countries about rules have delayed the progress.

This briefing will provide an overview of the recent debate regarding Article 6, explain the characteristics of each mechanism it contains (Article 6.2 and 6.4) and outline some key challenges in implementation.

The Paris Agreement

In the run-up to Paris, there were several disagreements between countries about the use of market mechanisms. The G77 & China saw these mechanisms in light of their positive experience with the Clean Development Mechanism (CDM) of the Kyoto Protocol, but were concerned over recognition for bilateral initiatives, which were advocated by many developed and some developing countries.[4] Brazil and the EU underlined the importance of top-down accounting rules governing the carbon markets similar CDM, while the United States and Canada were concerned over federal accountability[5].

In Paris, Brazil and the EU joined forces to shepherd the joint-proposal that became the basis of Article 6's market mechanisms and was essential for reaching an agreement between the countries[6].

What is Article 6?

Article 6 sets out three frameworks to enable cooperation between countries in the implementation of their NDCs. Each should follow four principles: (1) voluntary cooperation; (2) increasing ambition over time; (3) ensuring environmental integrity and (4) promoting sustainable development. It also

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[1] These are the International Emissions Trading (IET), Joint Implementation (JI), and the Clean Development Mechanism (CDM). https://newclimate.org/2018/05/09/opportunities-and-safeguards-for-ambition-raising-through-article-6/

[2] This means reaching an absolute reduction in global greenhouse gas emissions. This is different from previous mechanisms where countries were allowed to trade carbon to offset their emissions and thus could result solely in a relative reduction of emissions. However, parties have only agreed to pursue this goal regarding article 6.4. https://newclimate.org/2018/05/09/opportunities-and-safeguards-for-ambition-raising-through-article-6/

[3] https://sdg.iisd.org/news/expanding-carbon-pricing-and-ensuring-environmental-integrity/ http://gct.qa/admin/Content/UserFiles/GCT_Carbon_Market_Article_01.pdf https://www.carbon-mechanisms.de/en/introduction/the-paris-agreement-and-article-6/;carbon brief

[4] https://ecbi.org/publications/article-6-market-approaches-under-paris-agreement

[5] Ibid., p.5

[6] https://ecbi.org/publications/article-6-market-approaches-under-paris-agreement

recognises that there should be a balance between mitigation and adaptation action[7]. The approaches are:

- **Direct bilateral cooperation** (Article 6.2 and 6.3): The voluntary exchange of "internationally transferred mitigation outcomes" (ITMOs) – where one country's mitigation outcome can be transferred and claimed by another to reach its NDCs[8]. There are no restrictions on the type of cooperation that may arise[9], but Parties have to apply robust and transparent accounting to avoid double counting[10] and follow the four principles, including in governance. The inclusion of "governance" is a response to several G77 countries and China raising concerns over a lack of multilateral oversight of emissions trading schemes[11]. Overall, the article's language[12] is broad and vague to secure an agreement between countries and provide flexibility in creating the market mechanism. For example, there is no definition of 'double counting' or 'overall mitigation of global emissions', leaving countries to interpret/define what they consider in their ITMOs[13].
- **A new sustainable development mechanism** (Article 6.4-6.7): This is a crediting mechanism that should be governed by an international UNFCCC body. Countries – and the private sector if authorised by countries – can transfer 'Certified Emission Reductions Units' (CERUs)[14]. These are tradable units from mitigation activities that have been verified and certified and that provide emission reductions that are additional to any that would otherwise occur[15]. The main aim is to contribute to "overall mitigation in global emissions" and sustainable development. This mechanism builds on Kyoto's instruments (the Clean Development Mechanism and Joint Implementation) but has a broader scope as any country can host projects that can count towards their NDCs[16].
- **Non-market-based approaches** (Article 6.8): This creates a framework for non-market-based approaches that "aim to promote both adaptation and mitigation ambition, enhance public and private participation in the implementation of NDCs and enable opportunities for coordination across instruments and relevant institutional arrangements"[17].

What is Article 6 supposed to do?

Article 6 could play a pivotal role in expanding the scope of emission reduction by driving cost-effective mitigation, unlocking investments and partnerships with other programmes and non-market instruments, and promoting sustainable development. If carefully designed and implemented, it should:

- Increase global effort in reducing emissions by using carbon markets to overcome non-price barriers and lower transition costs to different investors[18]. By providing investors with a stable and clear carbon price signal it could channel funds to climate finance. Since there is no agreed definition of ITMOs and their outcomes, future implementation rules could broaden the

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[7] Ibid.

[8] https://mediamanager.sei.org/documents/Publications/SEI-2017-WP-international-transfers.pdf

[9] For example, Cooperation is possible in other approaches such as energy efficiency and can also be liked to other national and regional instruments (i.e. EU Emissions Trading Scheme). Source International Cooperation Under Article 6 of the Paris Agreement- Reflections before SB 44.pdf

[10] The goal is to avoid counting emission reduction efforts more than once.

[11] https://ecbi.org/publications/article-6-market-approaches-under-paris-agreement

[12] Ibid.

[13] Ibid.

[14] Ibid.

[15] https://unfccc.int/resource/docs/2015/cop21/eng/10a01.pdf

[16] https://mediamanager.sei.org/documents/Publications/SEI-2017-WP-international-transfers.pdf

[17] Ibid., p.3

[18] GAO, S et al., International carbon markets under the Paris Agreement: Basic form and development prospects, Advances in Climate Change Research, https://doi.org/10.1016/j.accre.2019.03.001

scope of mitigation efforts. For example, they might increase options for mitigation in different economic sectors and for non-CO_2 greenhouse gases[19].

- Price carbon for sustainable development: Article 6 could support projects that deliver mitigation and contribute to sustainable development. For example, solar microgrid projects in Africa[20] might generate jobs and development for local communities while contributing to a climate resilient economy.

- Connect with existing emission reduction mechanisms[21]: New frameworks could be linked to existing market programmes, such as the REDD+ (Reducing Emissions from Deforestation and Forest Degradation) or the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) to enable credits to be transferred between schemes. Moreover, it could support partnerships with non-state actors.

- Enable mitigation and adaptation in previously inaccessible sectors: Non-market instruments (Article 6.8) could expand projects to sectors and locations that are usually missed by carbon markets[22]. For example, these mechanisms might help build a country's capabilities to adopt more ambitious mitigation, perhaps through transferring technology that would help lower emissions but is currently inaccessible to that country[23]. Non-market cooperation can create spillover mitigation effects, such as cooperation in efforts towards fossil fuel subsidy reforms[24]. Supply chain greening and efforts to combat deforestation such as REDD+ approaches have also been named as potential areas for non-market approaches.[25]

- Link with other parts of the Paris Agreement: Article 6 mechanisms could be used in conjunction with other articles – like Article 9 on climate finance or Article 11 on capacity building – to fill gaps in public climate funding. The international carbon market could be developed to avoid overlap with other instruments and to help bring coherence and transparency in all forms of cooperation.[26]

What are potential issues with Article 6?

Opposing views during negotiations have slowed the development of the final guidance for Article 6 and its implementation. At COP24, for example, countries failed to agree on accounting rules for both Article 6.2 and 6.4 mechanisms and how to achieve "overall mitigation in global emissions".[27] Unresolved issues could undermine the effectiveness of Article 6 as a tool for tackling climate change. These include:

- **Developing robust accounting rules** that prevent "hot air", where, countries set NDC's with weak mitigation goals, or even higher level of emissions than business-as-usual (BAU) projections,[28] allowing them to pursue only minimal mitigation efforts[29]. If this "hot air" is transferred via ITMOs, it could create an oversupply of credits, reducing incentives for others to

[19] Ibid.
[20] https://www.ieta.org/resources/Resources/GHG_Report/2019/Insights%20-%20Mar%202019v2web.pdf
[21] http://columbiaclimatelaw.com/files/2018/05/Webb-Wentz-2018-05-Human-Rights-and-Article-6-of-the-Paris-Agreement.pdf
[22] https://www.ieta.org/resources/Resources/GHG_Report/2019/Insights%20-%20Mar%202019v2web.pdf
[23] https://newclimate.org/wp-content/uploads/2018/05/180508_AmbitionRaising-Article6Paper.pdf
[24] Ibid.
[25] Ibid.
[26] Ibid.
[27] https://www.carbonbrief.org/cop24-key-outcomes-agreed-at-the-un-climate-talks-in-katowice
[28] https://mediamanager.sei.org/documents/Publications/SEI-2017-WP-international-transfers.pdf;
[29] https://unfccc.int/index.php/process-and-meetings/the-convention/glossary-of-climate-change-acronyms-and-terms#h

reduce emissions or set more ambitious NDC targets in the future[30], and potentially leading to an increase in cumulative GHG emissions.

- Similarly, **developing rules that prevent double counting of emissions reductions**. Certain countries believe that after transferring ITMOs, they have to make corresponding adjustments to their GHG inventories to reflect the trade. For example, if transferring 1 tCO_2e, the acquiring country could increase emissions by 1 tCO_2e above its NDC target, while the transferring country would have to add a corresponding adjustment to make its emissions target of 1 tCO_2e lower[31]. This would avoid double counting of emissions reduction and increase incentives to reduce emissions in sectors covered by their NDC[32]. Several countries including Brazil[33] disagree. There is also no clear rule about whether countries can transfer ITMOs from economic sectors and GHG gases that are not included in the mitigation targets of their NDCs
- **Ensure 'overall mitigation in global emissions' (OMGE) and avoid merely offsetting emissions**. Poorly designed market mechanisms can function as carbon offsetting schemes, and fail to actually reduce emissions overall.[34] As a result, total GHG emissions may stay the same or even increase. This objective aims to avoid the mistakes of Kyoto's Mechanisms and can "only be achieved when a fixed percentage of emissions reductions is set aside and not used by anyone towards any target", according to Carbon Market Watch[35]. Cancellation of previous offsetting schemes has been proposed as a solution to reach OMGE. But, in recent negotiations[36], countries decided to make cancellation of previous offsetting credits voluntary, which weakens Article 6's capacity to contribute to an absolute reduction in global emissions.[37]
- **The need to handle transition challenges related to Kyoto's Mechanisms effectively**. A lack of agreement about how to transition the CDM and the SDM to the new system has focused on issues around credit accounting and the scope of the future market mechanism. Beyond the cancellation of previous offsetting schemes, there are disagreements on whether the SDM should adopt CDM's project-based or a sectoral-level approach[38]. Moreover, the question of whether a share of proceeds from ITMO transfers should be used to fund the Adaptation Fund (AF) is still unresolved.[39] This is important because the AF, which was created to finance adaptation projects in developing countries, is partly funded by a share of proceeds from CDM. As a result, failing to agree on this funding allocation could reduce AF funds and lower its capacity to finance future projects.
- **Human rights and environmental safeguards**[40]: Market mechanisms have been heavily criticized for focusing on emission reduction projects without considering issues of justice and human and planetary health, such as hydroelectric projects.[41] While these projects can contribute to mitigating climate change through the production of clean energy, they can also cause serious human rights abuses and environmental degradation.[42] It is still unresolved

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[30] Ibid.

[31] https://mediamanager.sei.org/documents/Publications/SEI-2017-WP-international-transfers.pdf;

[32] https://unfccc.int/files/bodies/awg-lca/application/pdf/20120519_can_0930.pdf;https://esi.nus.edu.sg/docs/default-source/esi-policy-briefs/katowice-climate-package.pdf?sfvrsn=2

[33] https://www.carbonbrief.org/cop24-key-outcomes-agreed-at-the-un-climate-talks-in-katowice

[34] https://www.theguardian.com/environment/2011/sep/16/carbon-offset-projects-carbon-emissions

[35] https://carbonmarketwatch.org/2018/12/12/omge-article-6-is-going-above-and-beyond-offsetting-eco/

[36] https://esi.nus.edu.sg/docs/default-source/esi-policy-briefs/katowice-climate-package.pdf?sfvrsn=2

[37] https://unfccc.int/sites/default/files/resource/Ministerial%20consultations_Art.%206.2_Second%20Iteration_13dec_18hrs_clean.pdf

[38] GAO, S et al., International carbon markets under the Paris Agreement: Basic form and development prospects, Advances in Climate Change Research, https://doi.org/10.1016/j.accre.2019.03.001;
https://www.carbonbrief.org/cop24-key-outcomes-agreed-at-the-un-climate-talks-in-katowice

[39] https://www.climatepolicylab.org/news/2019/1/9/article-6-down-to-the-wire-nbsp;

[40] https://www.jstor.org/stable/43735038?seq=1#page_scan_tab_contents
https://www.ipcc.ch/site/assets/uploads/2018/02/WGIIAR5-Chap13_FINAL.pdf

[41] https://www.ipcc.ch/site/assets/uploads/2018/02/WGIIAR5-Chap13_FINAL.pdf

[42] http://columbiaclimatelaw.com/files/2018/05/Webb-Wentz-2018-05-Human-Rights-and-Article-6-of-the-Paris-Agreement.pdf

whether Article 6 market mechanisms would adopt human rights and environmental safeguards to avoid these unintended consequences.

What lies ahead for Article 6 and carbon markets?

At the Bonn Climate Conference in June 2019, countries continued discussions that remained from COP24, most related to accounting rules of Article 6.Their aim was to prepare a text on a new trading system under Article 6 that needs to be agreed at COP25 in December 2019.

But, despite making good progress on technical discussions, parties still disagreed on the negotiating text (its status and how to take the text forward). This means that delegates failed to prepare a text that could have been considered ahead of COP25 and that could have eased negotiations at the summit.

Worse case scenario for COP25: countries need to agree on the final rules of Article 6 to ensure the implementation of the Paris Climate Agreement by 1 January 2020. Not approving these rules will lead to a two- to four-year delay in the instrument being fully operational.

This briefing was compiled by researchers in Europe and the US. For more information or questions, please contact info@mission2020.global, or visit mission2020.global.

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