

ARTICLE 6: ISSUES FOR COP26



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A majority of Parties with new or enhanced NDCs anticipate using voluntary cooperation under Article 6 of the Paris Agreement to achieve their NDCs. After Parties were unable to come to agreement on carbon market rules in Madrid, international emissions trading will again be in the spotlight at COP26 in Glasgow.

This paper provides context on the current state of discussions on the unresolved issues in the negotiations and poses questions to consider in order to operationalize Article 6 at COP26.

Box 1: Questions to consider

- Which unresolved Article 6 issues are core to finding compromise for Article 6 overall?
- What Article 6 issues need to be resolved first, before other Article 6 issues can be solved?
- Are there any issues that could be addressed later, while still operationalizing Article 6 at COP26?
- If some exceptions to accounting for Article 6.4 credits from outside the NDC were to be recognized, what would those exceptions be, and what safeguards would be needed to protect incentives for progression?
- If some use of pre-2020 certified emission reductions (CERs) towards were to be enabled, what conditions and/or tools would be needed and for what purpose?
- What would be the starting points for solutions-building on adaptation financing from cooperative approaches?

INTRODUCTION

COP25 in Madrid made progress towards resolving many of the outstanding issues related to the guidance needed for full operationalization and implementation of the Paris Agreement. However, guidance relating to implementation of some aspects of the Agreement is yet to be fully agreed, including Article 6.

The draft decisions on Article 6 of the Paris Agreement, released by the Chilean COP25 Presidency

at the end of the Madrid COP, remain the last “official” negotiation texts:¹

- Draft Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) decision on guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement (CMA 2—Agenda Item 11.a)
- Draft CMA decision on the rules, modalities and procedures for the mechanism established by Article

6, paragraph 4, of the Paris Agreement (CMA 2—Agenda Item 11.b)

- Draft CMA decision on the work program under the framework for non-market approaches referred to in Article 6, paragraph 8, of the Paris Agreement (CMA 2—Agenda Item 11.c).

If implementing rules are robust and well-designed to maintain environmental integrity, Article 6 has the potential to facilitate enhancement of ambition under the Paris Agreement, offer the most cost-effective way to achieve emissions reductions, and incentivize private sector participation. There is, however, little consensus regarding what the actual potential of Article 6 is to enhance ambition overall, given limited quantified analysis.² The uncertainty is compounded by the fact that it is not clear to what extent Parties intend to use Article 6 to achieve their mitigation targets. Of the latest nationally determined contributions (NDCs) that refer to a Party's intention to use international market mechanisms, many only keep open the possibility of doing so without clearly formulated plans whose impacts can be assessed.

At the same time, if the rules surrounding the operation of Article 6 are weak, there is a serious possibility that ambition under the Paris Agreement could be significantly undermined, for example, through double counting, a lack of transparency, weak crediting rules and/or unambitious emissions baselines. Any of these outcomes could also undermine the confidence in the system from the perspective of investors.

Beyond a focus on mitigation outcomes, some developing countries are looking to ensure a balanced and predictable delivery of adaptation financing through a share of proceeds from UN Framework Convention on Climate Change (UNFCCC) carbon markets. Under the Kyoto Protocol's Clean Development Mechanism (CDM), the share of proceeds generated some 38 million credits for the Adaptation Fund from its inception to 2019, worth about US \$200 million.³

The experience of COP25 in Madrid shows that failure to adopt decisions operationalizing Article 6 in Glasgow could undermine the momentum on climate ambition, regardless of what the COP delivers overall. As such, the aim for COP26 should be a good outcome on Article 6 that ensures environmental integrity and contributes to enhanced climate ambition.

THE TECHNICAL ISSUES COMING OUT OF COP25

Article 6 has three components: co-operative approaches (Article 6.2), a centralized mechanism (Article 6.4), and a framework for non-market approaches (Article 6.8). Participation in cooperative approaches must be consistent with any issued guidance. The rules, modalities, and procedures for Article 6.4 are mandatory.

Article 6.2 co-operative approaches essentially envisage arrangements between two or more Parties involving the international transfer of mitigation outcomes in a way that facilitates the achievement of mitigation targets in NDC of the buying country.

Article 6.2 includes high-level principles regarding the implementation of co-operative approaches (e.g., avoidance of double counting, environmental integrity, and transparency). It should be borne in mind that Parties can undertake co-operative approaches under Article 6.2 regardless of whether guidance is agreed under the UNFCCC. However, the absence of robust rules would mean there are no internationally agreed standards to ensure environmental integrity and safeguard ambition under the Paris Agreement, and no agreed system for reporting the details of those cooperative approaches. Transaction costs for countries interested in selling mitigation outcomes could be higher if they have to adhere to different rules and procedures for each buyer.

Article 6.2 could also indirectly influence what is expected in terms of standards for voluntary carbon markets within a country or between companies.

Article 6.4 establishes an international mechanism that credits reductions and removals in greenhouse gas emissions such that one Party can internationally transfer credits to be used by another Party to fulfill the mitigation target in its NDC. There is a high-level requirement that double-counting be avoided. In general terms, the Article 6.4 mechanism can be seen as an evolution of the CDM under the Kyoto Protocol.

There are a number of key differences between Article 6.2 cooperative approaches and the Article 6.4 mechanism:

- the latter will be subject to oversight by a body under the authority of the CMA
- a share of proceeds from transactions under the mechanism must be allocated to cover

administrative expenses and earmarked for developing countries particularly vulnerable to the impacts of climate change to meet the costs of adaptation, and

- Article 6.4 establishes the concept of delivering an “overall mitigation in global emissions” (OMGE). While countries have not yet reached an agreement on how best to operationalize an OMGE, a working definition of it could be understood to mean that it is achieved when carbon markets go beyond a zero net-impact and directly lower global emissions, such that a portion of emissions reductions achieved through carbon markets is used neither by the seller nor by the buyer toward the achievement of its own NDC or climate mitigation goals.

It is important to note that the mechanism under Article 6.4 cannot commence without agreement by Parties under the CMA.

Article 6.8 relates to non-market approaches, for which a governance proposal and workplan was agreed to in Madrid.

COP25 achieved a compromise on most of the main issues relating to implementation of Article 6. However, the following issues remain unresolved:

GUIDANCE ON HOW TO AVOID DOUBLE COUNTING OF CREDITS GENERATED FROM OUTSIDE THE NDC UNDER ARTICLE 6.4.

Avoidance of double counting through robust accounting rules is critical for ensuring that emissions reductions generated in one country can only be counted once toward the achievement of mitigation targets in an NDC. There is a difference of view between Parties as to whether the accounting rules to prevent double counting under the Article 6.4 mechanism should only relate to mitigation activities in sectors covered by a host country’s NDC, or whether the rules should apply to all credits, including those generated outside the sectors covered by a host country’s NDC.

This is an important issue because if credits in sectors outside scope of the host country NDC are not accounted for, environmental integrity cannot be guaranteed, since it will not be certain whether credits are only used once to achieve the mitigation targets of recipient countries. There is also a risk of creating a perverse incentive for countries to delay or avoid broadening the scope of their

NDCs. On the other hand, accounting for credits generated outside the scope of NDCs could make it harder for some host countries to meet their own NDC targets. A significant number of NDCs do not cover all sectors of the economy.

A possible compromise discussed in Madrid was that the application of accounting rules for credits generated outside the scope of a country’s NDC could be delayed, for example to 2025 or 2030.

EXTENDING THE SHARE OF PROCEEDS TO CO-OPERATIVE APPROACHES UNDER ARTICLE 6.2.

Under the Kyoto Protocol’s CDM, 2 percent of credits generated are auctioned and the resulting funds put toward the Adaptation Fund. While Article 6.4 incorporates the concept of share of proceeds for adaptation, Article 6.2 does not.

The main issue is whether share of proceeds should be extended to Article 6.2, and if so, how and to what extent. Those in favor of compulsory extension of share of proceeds argue that it will generate more adaptation funding, and that it would ensure that Article 6.4 is on an equal footing with Article 6.2. Those against extending share of proceeds argue that the omission from Article 6.2 in the Paris Agreement was intentional and introducing a levy now would require its amendment. They also argue that making share of proceeds compulsory under Article 6.2 will not necessarily generate additional adaptation funding—pointing out that under the CDM, the Adaptation Fund survived in large part due to additional voluntary contributions by Parties.

In Madrid, a possible compromise seemed to emerge whereby developed countries would be strongly encouraged to make voluntary contributions under Article 6.2, at a level comparable to Article 6.4. However, it is not clear that this will be the landing zone, and resolution of this issue will, to a very large extent, depend on the context of the wider offer of climate finance for adaptation.

GUIDANCE ON THE USE OF MITIGATION UNITS GENERATED UNDER THE KYOTO PROTOCOL TO ACHIEVE MITIGATION TARGETS IN NDCS, AS PART OF THE ARTICLE 6.4 MECHANISM.

There are differences of view between Parties as to whether the activities under the CDM—or emission reduction and removal units generated under the CDM

(CERs)—should be recognized under Article 6.4, and therefore count towards achievement of mitigation targets in NDCs under the Paris Agreement. Both issues have potential impact on ambition, environmental integrity, and market confidence.

On the issue of activities, Parties seem to agree that at least some CDM activities could transition to Article 6.4, but the conditions for doing so have not yet been agreed—with some Parties pushing for re-assessment based on Article 6.4 standards and others wanting unimpeded transfer.

On the issue of units generated before 2020 under the Kyoto Protocol, some want to keep open the possibility of using these toward meeting NDC targets under the Paris Agreement. This solution raises concerns among other Parties that the ambition of NDCs under the Paris Agreement could be significantly undermined.

The largest impediment to resolution of this issue in Madrid was the significant uncertainty around the number of units that could transition, and the impact this would have on the ambition of NDCs. A possible compromise could be to agree a range of dates to determine which CDM units could be transitioned, and by what date they would have to be used under the Paris Agreement toward meeting NDC targets.

GUIDANCE ON HOW TO CREDIT ACTIVITIES UNDER THE ARTICLE 6.4 MECHANISM— PARTICULARLY THE ESTABLISHMENT OF BASELINES AND DETERMINATION OF ADDITIONALITY.

This guidance is important because it will set the level against which a mitigation activity is assessed for the purpose of generating tradable credits and so determine if emissions reductions are additional to what would have occurred anyway without intervention.

Without clear rules to ensure additionality, Parties with unambitious mitigation targets could generate and sell credits that are used by another Party to meet its target. This could result in aggregate emissions from the two countries being higher than they would otherwise have been without the transfer.

Agreement has not been reached in this area mainly because of the high technical complexity of the issues involved, due in part to the diversity of potential participating country circumstances and mitigation activities.

OVERALL MITIGATION IN GLOBAL EMISSIONS.

Trade of emissions internationally is normally aimed at achieving mitigation in one Party/entity that can be used by another Party/entity to comply with obligations, rather than to reduce global emissions. In this manner, emission reductions achieved in a host country generate credits to be used by the recipient country to achieve its mitigation targets, the rationale being that the reductions generated in the host country are cheaper and more efficient.

However, Article 6.4(d) states that the mechanism should, among other things, aim to “deliver an overall mitigation in global emissions.” One group of Parties is pressing for this to be operationalised by cancelling some of the credits generated by each transaction under the Article 6.4 mechanism, such that they cannot be used to achieve NDC mitigation targets. Other Parties disagree that Article 6.4(d) necessarily has to be operationalized through a mandatory cancellation of credits.

Attempts to extend the OMGE concept to Article 6.2 through a similar approach of cancelling a portion of transacted internationally transferred mitigation outcomes (ITMOs) did not garner support.

GOVERNANCE FOR ARTICLE 6.8.

In Madrid, apparent consensus was found on Article 6.8 in the third Presidency text, but the discussions were reopened this year at the June 2021 sessions. With the establishment of a constituted body for this framework specifically ruled out by most countries but now reopened by certain proponents, it remains to be seen if Parties can re-coalesce around the Madrid text when they meet in Glasgow.

INTERLINKAGES WITH OTHER ISSUES.

There are other aspects of the likely COP26 package that are very closely related to Article 6 both at the political and technical level, including:

- the provision of adequate and predictable finance, including finance for adaptation in the wider context
- implementation of the transparency framework under Article 13 of the Paris Agreement, in particular the tables for tracking progress⁴
- the guidance from the Conference of the Parties serving as the meeting of the Parties to

the Kyoto Protocol (CMP) requested by the CDM Executive Board in respect of the operation of the CDM beyond the Kyoto Protocol's second commitment period, which ended in 2020.

There is also a link to the accounting for any ITMOs or mechanism credits used under the market-based mechanism in the International Civil Aviation Organization (ICAO), the United Nations body that governs civil aviation. It is also possible that Article 6 will influence domestic or proprietary rules governing voluntary carbon markets within a country or between companies.

PROGRESS SINCE MADRID AND STATE OF PLAY

While the formal status of the Article 6 negotiations has not evolved since Madrid, there have been discussions outside and inside the UNFCCC that have helped to deepen the understanding of both the technical issues and different country positions and provide space for the emergence of solutions. These discussions include:

- informal negotiations/discussions under the SBSTA between April and September 2021, including during the SB May-June sessional period in 2021⁵
- a series of Article 6 workshops convened by C2ES in 2020
- informal consultations on Article 6 for Ministers and heads of delegations convened by the COP25 and incoming COP26 presidencies.⁶

Discussions at the political level have also generated greater momentum toward resolution of the outstanding technical issues. At both of the virtual Ministerial sessions on Article 6 (July 7 and 12, 2021) hosted by the COP25 and incoming COP26 Presidencies, and in the London July Ministerial discussion on Article 6 (July 26, 2021), ministers converged on the need to finalize the outstanding mandates relating to the Paris Rulebook on Article 6 to enable full implementation of the Paris Agreement. Discussion focused on three main issues:⁷

- avoiding double claiming through the Article 6.4 mechanism
- use of pre-2020 units to meet NDC targets
- supporting adaptation action through Article 6.

Ministers considered whether:⁸ (i) units generated outside of the scope of NDCs could be excepted from the requirement of corresponding adjustment, for a defined time period; and (ii) some, but not all, pre-2020 units could be eligible for use to meet NDC targets.

Ministers also agreed on the importance of stable and reliable sources of adaptation finance and stressed the importance of not considering the outstanding issues in isolation but instead as part of a package.

Minister Fu of Singapore and Minister Rotevatn of Norway offered to continue informal consultations on Article 6 ahead of COP26, creating momentum to support the political will to close negotiations in Glasgow. Participation in these consultations at the heads-of-delegation level is ongoing.

THE WAY FORWARD

Completion of the Article 6 implementing decisions is politically important for the success of COP26. The recent Intergovernmental Panel on Climate Change (IPCC) report and the UNFCCC NDC synthesis report both highlight the inadequacy of collective climate ambition against the Paris Agreement goals and have served to further increase the pressure on Parties to successfully finalize Article 6 decisions in Glasgow.⁹

At the same time, reaching consensus on the remaining open questions involves convergence on technical issues within Article 6, as well as political issues related to interlinkages with other critical elements of the COP26 package.

Heads of delegation will need to come to Glasgow prepared to resolve issues at the technical level and to brief their Ministers on latest developments and options on the table should Article 6 be elevated to the political level for resolution.

ENDNOTES

- 1 UNFCCC, SBSTA 15, DT.SBSTA51.i12a.3, DT.SBSTA51.i12b.3, DT.SBSTA51.i12c.3 (Dec. 9, 2019), <https://unfccc.int/process/the-paris-agreement/cooperative-implementation#eq-6>.
- 2 Compelling studies have been carried out since 2019 by IETA (International Emissions Trading Association), co-sponsored by The Carbon Leadership Coalition, with the help of researchers and modellers from the University of Maryland, in 2019, and co-sponsored by Climate Focus in 2020. See Jae Edmonds et al., The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges (Sept. 2019), https://www.ieta.org/resources/International_WG/Article6/CLPC_A6%20report_no%20crops.pdf; Szymon Mikolajczyk et al., Modelling of Article 6 Implementation Scenarios: Significance for the EBRD Regions (Climate Focus, Nov. 1, 2019), <https://www.climate-focus.com/sites/default/files/Article%206%20report.pdf>. By the economic savings generated as a result of the use of markets into further abatement action, countries could realize increased ambition at no additional cost at every review cycle.
- 3 Axel Michaelowa et al., Operationalizing the Share of Proceeds for Article 6 (Climate Finance Innovators, June 2016), https://www.climatefinanceinnovators.com/wp-content/uploads/2019/06/Operationalizing-the-SoP_web.pdf.
- 4 See for more information: Jennifer Huang, Transparency of Action: Issues for COP26 (C2ES, June 2021), <https://www.c2es.org/document/transparency-of-action-issues-for-cop-26>.
- 5 UNFCCC, Cooperative Implementation, “June Sessional Period 2021,” <https://unfccc.int/process/the-paris-agreement/cooperative-implementation#eq-3>.
- 6 UNFCCC, Cooperative Implementation, “Informal consultations by the COP 25 Presidency and the COP 26 incoming Presidency – 2021,” <https://unfccc.int/process/the-paris-agreement/cooperative-implementation#eq-2>.
- 7 European Roundtable on Climate Change and Sustainable Transition, **July Ministerial Meeting – Finalising Article 6 in the Paris Rulebook** (July 2021), <https://ercst.org/document/july-ministerial-meeting-finalising-article-6-in-the-paris-rulebook>.
- 8 UNFCCC, Report by Minister Grace Fu (Singapore) and Minister Sveinung Rotevatn (Norway) on the Informal Ministerial Consultations on Article 6 of the Paris Agreement on 7 and 12 July (July 26, 2021), <https://unfccc.int/sites/default/files/resource/Article%206%20Ministerial%20Consultations%20Report%20Back.pdf>.
- 9 UNFCCC, Nationally determined contributions under the Paris Agreement: Synthesis report by the secretariat, FCCC/PA/CMA/2021/8 (Sept. 17, 2021), https://unfccc.int/sites/default/files/resource/cma2021_08_adv_1.pdf; V. Masson-Delmotte et al., eds., IPCC, 2021: Summary for Policymakers. In: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change (Cambridge University Press, Aug. 9, 2021), https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_SPM.pdf.

Other C2ES Resources:

Climate Finance: Issues for COP26, June 2021.

Transparency of Action: Issues for COP26, June 2021.

Outcomes of the UN Climate Change Conference in Madrid, December 2019.

A Brief Guide to the Paris Agreement and 'Rulebook,' June 2019.

Essential Elements of the Paris 'Rulebook,' November 2018.

Elaborating the Paris Agreement: Transparency of Finance, August 2018.



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