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## Article 6 carbon markets explainer<sup>1</sup>

Article 6 of the [Paris Agreement](#) (PA) allows parties to cooperate using voluntary market-based and non-market-based approaches in order to implement their nationally determined contributions (NDCs). The PA defines two market-based approaches: Article 6.2 enables trading of “internationally transferred mitigation outcomes” (ITMOs) between two or more parties. Article 6.4 establishes a central crediting mechanism that will enable “Article 6, paragraph 4, emission reductions” (A6.4ERs) to be generated and traded.

This note provides a brief overview of the guidance on Article 6.2, and the rules, modalities and procedures on Article 6.4 adopted at COP26 in Glasgow.

### I. Article 6.2 - ITMOs

The guidance on Article 6.2 cooperative approaches, which enable trading of ITMOs between two or more “participating Parties”, is contained in the Annex to [Decision 2/CMA.3](#).<sup>2</sup> ITMOs are defined as post-2020 credits from emission reductions or removals that must be real, verified, and additional. They are measured in metric tonnes of carbon dioxide equivalent (t CO<sub>2</sub> eq) or in other non-GHG metrics that are consistent with the NDCs of the participating parties (e.g. kilowatt-hours of renewable energy, hectares of forest etc.).

ITMOs must be authorised by a participating party and can be used for the purpose of achieving NDCs or for “other international mitigation purposes”. The

latter includes, for instance, the Carbon Offsetting and Reduction Scheme for International Aviation (CORSA), or other voluntary carbon markets. Emission reduction units from the Article 6.4 mechanism that are transferred internationally will be referred to as ITMOs.

In order to participate in a cooperative approach under Article 6.2, a party has to fulfil certain conditions, including: communicate and maintain its NDCs, be able to authorise and track ITMOs, and provide a National Inventory Report. The special circumstances of LDCs and SIDS shall be recognised where the guidance on cooperative approaches relates to NDCs.

Article 6.2 requires robust accounting to ensure, for example, the avoidance of double counting (see box

<sup>1</sup> By Zaneta Sedilekova, Clare Hatcher and Olivia Tattarletti. The focus of this briefing paper is on the rules for the two Article 6 carbon markets. It does not cover the non-market approaches of Article 6.8. For information on the latter, visit our Paris Agreement A to Z app available for free on the [Apple App Store](#) and on [Google Play](#) for Android.

<sup>2</sup> UNFCCC, Decision 2/CMA.3, [Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement](#), 8 March 2022.

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below). The guidance sets out different methods to apply corresponding adjustments depending on whether the participating party has a single-year target NDC (e.g. by 2030) or a multi-year target NDC (e.g. for 2021-2030); whether the NDC is measured in t CO<sub>2</sub> eq, or contains non-GHG metrics, or is a policy-based NDC (whereby policies and measures are quantified in CO<sub>2</sub> eq terms).

In order to ensure transparency, parties must follow **reporting requirements**, and provide:<sup>3</sup>

- An initial report no later than when authorising ITMOs. This report shall contain comprehensive information, including relating to participation, metrics, and methods for applying corresponding adjustments, as well as sectors, sources, GHGs and time periods covered by the NDCs.
- Annual information submitted to an “Article 6 database” on authorisation of ITMOs for use towards achievement of NDCs or other international mitigation outcomes, as well as transfers, acquisitions, holdings, and voluntary cancellations of mitigation outcomes or ITMOs by no later than 15 April of the following year.
- Regular information as part of an annex to the Biennial Transparency Reports by no later than 31 December of the relevant year.

Following the reporting, the information will be reviewed by an “Article 6 technical expert review team”.<sup>4</sup> Its reports will include, if applicable, recommendations to improve consistency of the information submitted by the party with the guidance. The reports will be publicly available and forwarded to the technical expert review of the Enhanced Transparency Framework under Article 13.

The infrastructure to **record and track** information is outlined in paras. 29 to 36 of the guidance:

- Each party must have (or must have access to) a registry for tracking ITMOs. The secretariat will set up an international registry for those parties that do not have access to one.
- The secretariat must implement the Article 6 database to record and compile information submitted and to support the review of information submitted by parties.
- The secretariat must establish and maintain a “centralised accounting and reporting platform”

(CARP). For further information on the functions of the registry, the database and the CARP see a helpful table [here](#).

Parties and stakeholders using cooperative approaches are “strongly encouraged” to make a financial contribution to the Adaptation Fund and cancel a portion of ITMOs to deliver an overall mitigation in global emissions (OMGE) (see box below). If such a contribution or cancellation is made, then reporting it in accordance with the guidance is mandatory.

Some issues were deferred for further consideration in 2022. They include elaboration of further guidance on how to apply corresponding adjustments, special circumstances of the LDCs and SIDS, and inclusion of emission avoidance under the definition of ITMOs.

## II. Article 6.4 mechanism

Article 6.4 establishes a central crediting mechanism to contribute to the mitigation of GHG emissions and support sustainable development. It operates under the guidance and authority of the CMA and is governed by a Supervisory Body. It enables the trade of credits from emissions reductions generated through specific projects (“activities”) in host countries. These credits, known as “Article 6, paragraph 4, emission reductions” (A6.4ERs), can be bought by countries, companies and individuals. One A6.4ER equals 1 t CO<sub>2</sub> eq.

The rules, modalities and procedures for the Article 6.4 mechanism are found in the Annex to [Decision 3/CMA.3](#).<sup>5</sup> To participate in the mechanism, host countries have to fulfil certain conditions. These are similar to those of host countries participating in the CDM, but under the new mechanism they will have an increased role (see below in relation to authorisation, determination of the crediting periods etc.).

In order to issue A6.4ERs from an activity, the activity must go through different steps - the “**activity cycle**”.<sup>6</sup> The activity must be designed by a public or private “activity participant” to achieve mitigation that is “additional”. Mitigation, here, includes reducing emissions, increasing removals and mitigation co-benefits of adaptation actions and/or economic diversification plans. Stakeholders of the activity must be consulted. An activity methodology, developed by activity participants, host

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<sup>3</sup> [Decision 2/CMA.3](#), Annex, paras. 18 to 24

<sup>4</sup> [Decision 2/CMA.3](#), Annex, paras. 25 to 28

<sup>5</sup> UNFCCC, Decision 3/CMA.3, [Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement](#), 8 March 2022.

<sup>6</sup> [Decision 3/CMA.3](#), Annex, paras 30 - 62

countries, stakeholders or the Supervisory Body, must be approved by the Supervisory Body. Two notable aspects of the methodology are that it must apply one of a set of approaches for setting an emissions baseline (benchmark for the level of GHG emissions that would have occurred in the absence of the activity) and demonstrate the “additionality” of the activity (see box below).

The next step is for the host country to provide information regarding its approval and authorisation of the activity to the Supervisory Body. As part of the approval information, the host country must inform how the activity fosters sustainable development and relates to its NDCs. It also has to specify whether it authorises the A6.4ERs issued for the activity for use towards achievement of NDCs and/or for “other international mitigation purposes” such as the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), or voluntary carbon markets.

Subsequently, a “designated operational entity” (DOE, independent auditors) must assess the activity against the requirements of the Article 6.4 mechanism and validate it. Following validation, the DOE requests the Supervisory Body to register the activity and the activity participants pay the administrative expenses of registration. If the Supervisory Body decides that the validation meets the necessary requirements, it registers the activity.

Once registered, the activity participants must monitor the emission reductions achieved by the activity and the DOE must review, verify and certify these. Following verification and certification, the DOE requests the Supervisory Body to issue the A6.4ERs.

If the Supervisory Body decides that the verification and certification meet the necessary requirements, it approves the issuance of A6.4ERs. In line with the host country’s approval of the activity, each A6.4ER can be issued for a maximum crediting period of 5 years (renewable twice), or 10 years (not renewable) or, in respect of activities involving emissions removals, 15 years (renewable twice).

Stakeholders, activity participants and participating parties can appeal decisions of the Supervisory Body or request that a grievance be addressed by an independent grievance process.

Following approval of the issuance of A6.4ERs, the mechanism registry administrator (the UNFCCC secretariat) issues the A6.4ERs into the mechanism registry. This registry is to be developed by the Supervisory Body. At issuance, the secretariat shall also:

- Transfer a share of proceeds (see box below).

- Cancel at least 2% of the A6.4ERs to deliver an OMGE (see box below).
- Transfer the remaining issued A6.4ERs in accordance with the instructions of the activity participants.

Looking towards COP27, the Supervisory Body has been tasked to develop and approve new methodologies for the mechanism; to elaborate recommendations for activities involving removals, as well as processes for implementing the transition of activities from the CDM to Article 6.4.

### **Contentious issues resolved at COP26**

#### **Double counting and corresponding adjustments**

Double counting happens where the reduction achieved by a mitigation outcome is counted by more than one country (for example both the seller and the buyer). Double counting poses a risk to the environmental integrity of carbon trading. To address this risk, it was agreed that corresponding adjustments will have to be applied to all ITMOs and A6.4ERs, regardless of whether they are used to achieve NDCs and/or other international mitigation purposes. This means that the host country selling ITMOs or A6.4ERs makes an addition to its emissions level, and the country acquiring it makes a subtraction.

#### **Kyoto Protocol transition**

CDM activities registered, or listed as provisional, under the CDM can transition to the Article 6.4 mechanism with a time frame and subject to conditions that still need elaboration. The transition needs to be requested by 31 December 2023 and the approval then granted by the CDM host party by 31 December 2025. CERs can be used towards achievement of a party’s first NDC subject to some conditions. Mainly, the activity must have been registered on or after 1 January 2013. For the moment, it seems that CERs that do not meet these conditions cannot be used for achievement of an NDC. However, paragraph 75(e) of the Annex leaves the door open to a “future decision of the CMA” that could change this.

#### **Share of proceeds**

The UNFCCC secretariat will take a “share of proceeds” from the A6.4ERs to finance adaptation and administrative expenses. Part of this share is a 5% levy delivered to the Adaptation Fund to finance adaptation in developing country parties that are particularly vulnerable to climate change. A similar contribution is “strongly encouraged” from Article 6.2 cooperative approaches.

#### **OMGE**

The UNFCCC secretariat will cancel at least 2% of issued A6.4ERs to deliver an “overall mitigation in global emissions” (OMGE). This way the cancelled 2% will not count towards any party’s NDCs. This cancellation is mandated in recognition of the fact that simply offsetting emissions does not lead to overall mitigation.

A similar cancellation is “strongly encouraged” for Article 6.2 approaches.

#### **Additionality**

An Article 6.4 activity must be designed to achieve mitigation of GHG emissions that is “additional”. Additional means that the activity would not have occurred in the absence of the incentives from the mechanism. This additionality must be demonstrated, for example, on the basis of relevant national policies, laws and regulations and must represent mitigation that is above the level required by law. LDCs and SIDS can request the Supervisory Body to apply a simplified approach to demonstrate additionality.

#### **Human rights**

Generic language on human rights, indigenous peoples and sustainable development, often repeated from the Paris Agreement, is found in both decisions. However, this language is not very specific and, currently, has limited implications for the implementation of Article 6.

will require support to develop the capacities and the frameworks for measurement, accounting, and verification.

The Article 6.2 and Article 6.4 rules do not exclude forest-related activities or nature-based solutions from the scope of ITMOs and A6.4ERs. Thus, activities under the REDD+ framework (Reducing Emissions from Deforestation and Forest Degradation), such as avoided deforestation or conversion, afforestation and reforestation, and sustainable forest management, could theoretically come under both carbon markets provided that they comply with relevant national and international rules.<sup>7</sup> However, it remains for COP27 to decide whether avoidance activities in any sector, including forests, can qualify as ITMOs or A6.4ERs.

Parties engaging in cooperative approaches will need to bear in mind the reporting requirements under the enhanced transparency framework (ETF, Article 13 of the PA). Under the ETF, all parties will have to report their emissions, progress towards their NDCs and their contributions to climate finance, at least every two years. A party using ITMOs to achieve its NDC (or for other international mitigation purposes) will therefore have to include information related to these transactions in its biennial transparency report. This could include, for example methodologies used; how each cooperative approach promotes sustainable development, ensures environmental integrity and transparency, including in governance, and applies robust accounting; and any other information consistent with CMA decisions on reporting under Article 6.<sup>8</sup>

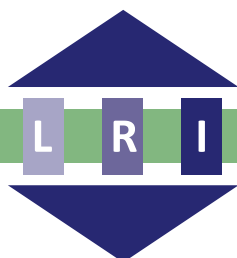
### **III. Outlook**

The infrastructure needed to implement Article 6 is significant and could take years to set up. To assist with this work, the CMA assigned several tasks to various bodies and stakeholders in both Decision 2/ and 3/ CMA.3. At the national level, the ability to implement the Article 6 rules is likely to be important to access the international carbon markets. Developing countries, in particular,

<sup>7</sup> Ecosystem Marketplace, [What does the Article 6 Rulebook mean for REDD+?](#), 16 December 2021.

<sup>8</sup> [Decision 3/CMA.3](#), Annex, paras. 18, 19, 21 and 23 and Decision 5/CMA.3, Annex II, para. 3

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