

Implications of authorized and non-authorized units under Article 6.4

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This advice is provided in response to **Query 29/22**.

Background

The CMA [Decision 3/CMA.3](#) contains the rules, modalities and procedures for the running of the market-based mechanism of Article 6.4. The mechanism replicates many of the features of the Clean Development Mechanism under the Kyoto Protocol, but it also comes with new requirements and possibilities, given the different context of the Paris Agreement.

Among these, is the distinction between so-called *authorized* and *non-authorized* 'Article 6, paragraph 4, emission reductions' (A6.4ERs, or units). These are the units that will be issued from projects that are registered under the new mechanism and deliver verified emissions reductions or removals.

Authorized units

Authorized A6.4ERs are internationally transferred mitigation outcomes¹ (ITMOs) generated from projects in the host State's territory which the State has formally authorized to be used for:²

- 1) the achievement of NDCs of other State Parties; and/or
- 2) so called 'other international mitigation purposes'. This vague expression seems to refer to two other market-based purposes:³
 - a) The CORSIA market-based mechanism under the International Civil Aviation Organization, which will also rely on A6.4ERs to make airlines comply with emission reduction targets.
 - b) Voluntary Carbon Markets transactions, where a host State authorizes the exchange of credits generated under private/independent carbon offset schemes as ITMOs.

However, the expression could also refer to other transnational market-based mechanisms that will integrate ITMOs and A6.4ERs, such as the EU Emissions Trading System or other sub-

¹ [Decision 2/CMA.3](#), Annex, para 1(g).

² *Ibid.*, para 1(f)-(g) and [Decision 3/CMA.3](#) Annex, paras 42-43.

³ The Nature Conservancy, 'Article 6 – Common Questions', https://www.nature.org/content/dam/tnc/nature/en/documents/Article_6_Common_Questions_V2.pdf

national or regional emissions trading schemes.

- ➔ All authorized units will require corresponding adjustments from the host State,⁴ meaning that the host State will subtract a corresponding number of authorized units to the level of achieved emissions reductions for its NDC. In other words, the host State cannot use authorized units that are transferred away to account for the achievement of its own NDC.

Non-authorized units

Non-authorized units are A6.4ERs issued according to the rules and processes of Decision 3/CMA.3, which the host State has not authorized for use towards the achievement of NDCs or for 'other international mitigation purposes'. These units do not require corresponding adjustments to be applied. There is uncertainty as to what exactly can be achieved with non-authorized units, apart from the host State using them to achieve its own NDC.⁵ In this sense, non-authorized units could stem from projects that *fall outside* the host State's NDC sectoral coverage, should this be a non-economy-wide NDC as it is the case for many LDCs.

Query

a. Are there any different processes for authorized and non-authorized units according to the Glasgow Decision 3/CMA.3?

The following is the only difference between the two: the host State is only obliged to apply a corresponding adjustment for the first transfer of authorized units⁶. This means that the emissions reduced or removed through the project, once transferred away, cannot be accounted for the achievement of the host State's NDC. A host State has wide discretion on determining what type of activities are eligible for authorization and what terms and provisions apply.⁷ For the rest, Decision 3/CMA.3 applies the same requirements and procedures for the issuance of authorized and non-authorized units.

While non-authorized units are not subject to any corresponding adjustments, their issuance will still require the host State to follow the rules, modalities and procedures of Decision 3/CMA.3. This includes a first transfer of 5% of proceeds to the Adaptation Fund and a cancellation of a minimum of 2% of the issued units to deliver an overall mitigation in global emissions.⁸

b. Are non-authorized units going to be subject to reporting and review processes under Article 6?

I understand the question to refer to Article 6.2 and Decision 2/CMA.3. According to the definition of ITMOs in Decision 2/CMA.3,⁹ only authorized A6.4ERs are considered ITMOs. Therefore, as non-

⁴ Decision 2/CMA.3, Annex, paras 6-15.

⁵ The text of the decision defining authorized units [Ibid, para 1(f)-(g)] is ambiguous as to whether they can be used to achieve any NDC or any NDC other than the host State's. However, given that a corresponding adjustment is required for authorized units, it is reasonable to interpret that non-authorized units can be used for the achievement of a host State NDC, since the corresponding adjustment is neither needed nor required.

⁶ Decision 3/CMA.3, Annex, paras 71-72.

⁷ Ibid., para 42.

⁸ Ibid., paras 58-59.

⁹ Decision 2/CMA.3, Annex, para 1(g).

authorized units fall outside the scope of ITMOs, these units will not be subject to reporting and review processes under Article 6.

c. Are non-authorized units going to use the infrastructure under Article 6?

No, for the same reason as above. However, non-authorized units will be issued in the Article 6.4 registry.¹⁰ Hence, there will be a formal issuance and tracking of non-authorized units.

d. What are the opportunities and challenges for LDCs in implementing different tracks for authorized and non-authorized units domestically?

While more extensive research on pilot initiatives or government approaches would offer more clarity, below is a sketch of opportunities and challenges.

Opportunities

As stated above, non-authorized units can be used for the achievement of a host State NDC. In addition, non-authorized units could be used to comply with national climate mitigation mechanisms or processes. For example, a host State could require the use of A6.4ERs for some domestic industries' emission reductions, or private actors in the host State could use the same units towards their carbon neutrality targets. Moreover, non-authorized units could be used for other forms of offset claims that do not rely on international transfers. For instance, a foreign company could buy non-authorized A6.4ERs and use them for carbon neutrality claims in their carbon disclosures, *without any formal first transfer*, should they be allowed to do so under their own jurisdictions. In other words, while non-authorized units will not be accounted under the Paris Agreement for climate mitigation claims in other jurisdictions, this could still happen outside the framework of the Paris Agreement.

In this latter case, non-authorized units can potentially be used for more than one purpose: the claim of a foreign company and the claim of the host State towards its NDC. This jeopardises their environmental integrity as it can give rise to double counting. However, issues of double counting can be avoided if the host State prohibits the use of these non-authorized A6.4ERs for domestic NDC compliance. It would be an alternative form of corresponding adjustment, only done at national level and outside the framework of the Paris Agreement.

Non-authorized A6.4ERs have the potential of creating a niche market of carbon credits which, while complying with the Paris Agreement, would have the advantage of representing real domestic reductions within a host LDC (in the sense that they are not formally internationally transferred).

Challenges

A key challenge is the establishment of a national public infrastructure for the accounting and management of authorized and non-authorized units. LDCs will have to use registries to track ITMOs generated from the Article 6.4 mechanism (i.e. from authorized units), with related infrastructures and bureaucracies. These registries could be extended to work for the generation and management of non-authorized units.

Another challenge regards the demand for these units. Authorized A6.4ERs are Paris Agreement-based, subject to relatively high ESG standards and transferable internationally for NDC compliance

¹⁰ Decision 3/CMA.3, Annex, para 63.

or other compliance purposes. As a result, they have the potential to become the most recognised, and therefore preferred, form of carbon offsets. Conversely, there seems to be little justification for buyers to prefer non-authorized A6.4ERs, other than their nature as offset credits that can be used only within the jurisdiction of a host State. Hence, other than domestic demand or the promotion of non-authorized units as 'real local reductions', there seems to be no other potential in the carbon market for these units.

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