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INTRODUCTION TO ARTICLE 6

Article 6 of the Paris Agreement provides different options for countries to engage in **international cooperation** to address climate change through market and non-market-based approaches. The objective of all Article 6 approaches is to **implement and promote higher ambition in NDCs** both in terms of mitigation and adaptation while promoting sustainable development. Countries participating in international market-based cooperation under **Article 6 pursue different objectives**, including:

- Meeting and enhancing NDC targets;
- Attracting investments,
- Facilitating technology transfer,
- Building capacities,
- Financing "high-hanging" mitigation measures that a country cannot implement without external financial support.

Article 6 establishes a crediting mechanism, the Paris Agreement Crediting Mechanism (PACM, or A6.4M under Article 6.4), as well as a framework for the international exchange of carbon credits that are authorised by countries (under Article 6.2). Authorisation can be given to any carbon credit, whether from a cooperative approach, a carbon crediting programme or the PACM. Due to this fact, authorisations play a key role also for the voluntary carbon market (VCM), as stakeholders in the VCM currently discuss how to ensure that the carbon credits that are sold and bought between private sector actors can be aligned with the PA.

What are the differences between Article 6.2, 6.4, and 6.8?

Article 6.2 of the Paris Agreement regulates so-called “cooperative approaches” and enables the transfer of emission reductions, removals, or allowances between two or more countries by creating an international accounting, tracking and reporting framework for so-called internationally transferred mitigation outcomes (ITMOs). An carbon credit or allowance becomes an ITMO following authorisation by the host country. This means that the country where the ITMO is generated must ensure environmental integrity as well as transparency, by adhering to robust accounting standards and fostering sustainable development.[1] Additionally, the host country must ensure that the mitigation outcome is not counted towards the achievement of its own NDC but instead is transferred to the buyer. The buyer country can then use the ITMO to achieve its own NDC, for international mitigation purposes or for voluntary uses (e.g. offsetting). Both countries must report on their collaboration according to international regulations.

Article 6.4 establishes an international carbon market mechanism that will issue carbon credits, known as Article 6.4 Emission Reductions (A6.4ER), aligning with internationally defined standards to ensure environmental integrity. Oversight of this mechanism is provided by the Article 6.4 Supervisory Body (A6.4SB) and an international registry will be established to manage related activities. Notably, ongoing activities under the Kyoto Protocol’s Clean Development Mechanism (CDM) which have met eligibility criteria and requested to do so, can transition Article 6.4 mechanism (A6.4M). The transfer of the respective CDM activity must be accepted by the A6.4SB and comply with the requirements of A6.4M until the end of 2025.

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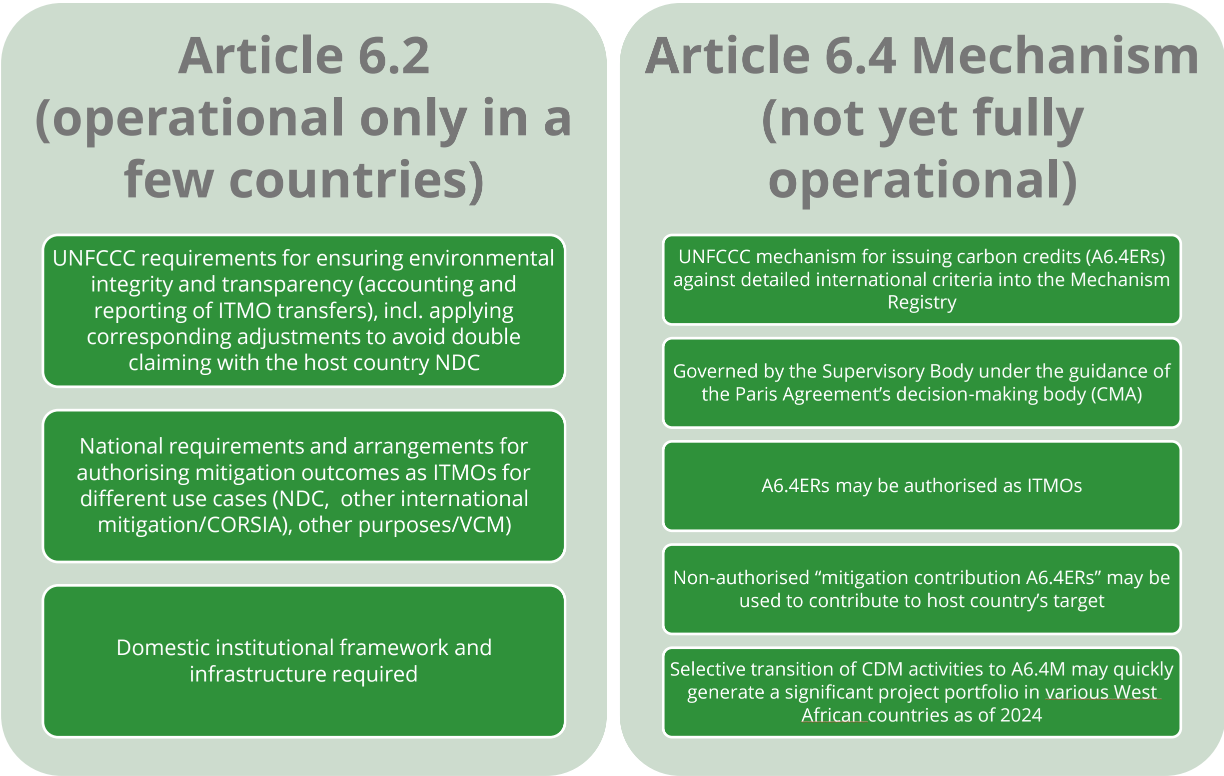
[1] Ahonen, Hanna-Mari; Inclan, Carolina; Kessler, Juliana & Singh, Aayushi (2023): Raising climate ambition with carbon credits. Exploring the roles and interplay of the voluntary carbon markets and Article 6 in contributing to the implementation of national climate targets and raising global ambition.

The table below illustrates the key differences between Article 6.2 and Article 6.4

Figure 1. Role of Article 6.2 and Article 6.4



Article 6.8 encompasses cooperation between countries without the trading of carbon credits "recognising" the importance of non-market approaches (NMA) to (a) Promote mitigation and adaptation ambition; (b) Enhance public and private sector participation; and (c) Enable opportunities for coordination across instruments and relevant institutional arrangements. This form of non-market-based collaboration is aimed at implementing innovative approaches to increase linkages and enhance synergies between climate change mitigation, adaptation, finance, technology transfers and capacity building.[2]

What is Article 6 readiness?

The ability of a country to take full advantage of international cooperation in the context of Article 6 is referred to as **Article 6 readiness**. Being able to implement Article 6 requires appropriate organisational structures, clearly defined institutional responsibilities as well as Article 6-related knowledge of all relevant stakeholders. This includes a wide array of stakeholders across public and private

[2] Michaelowa, Axel; Samaniego, Ximena; Kessler, Juliana; Ahonen, Hanna-Mari; Spence, Chris (2022): Pocket Guide to Article 6 under the Paris Agreement; ECBI, Oxford.

entities as well as civil society. Additional supporting factors for an enabling environment for Article 6 implementation include a strong project pipeline and upfront finance to develop carbon market activities.

Why is a project pipeline important?

In order for a host country to successfully engage in carbon market activities it is crucial to identify a pipeline of potential projects and programs that are suitable for carbon trading[3]. Project developers need to first develop a mitigation activity and then get approval and authorisation by host countries. Mitigation projects for carbon market activities are typically led by the private sector who also bears the financial risk.[4] Corporations can thus help governments to mobilise upfront finance for projects which is crucial for Article 6 implementation.

Why is upfront finance crucial?

Project-based carbon finance can be used to enhance traditional revenue streams with additional income from carbon credit sales which are normally paid out once carbon credits have been sold. Thus, to be able to benefit from funds catalysed through carbon market activities an initial investment from other financial sources is required beforehand. This also means that carbon finance can be seen as a way to pay back investment costs. However, additionality needs to be ensured, i.e. the activity needs to demonstrate that it would not have happened without the revenues from the sale of carbon credits.

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[3] GGGI (2022): GGGI Technical Report No. 25 - Developing Carbon Markets based on Article 6 of the Paris Agreement: Challenges and Opportunities.

[4] Hoch Stephan; Ombuya, Sherri; Waweru, Peris; Greiner, Sandra, Andreo Victoria, Gema; Della Maggiore, Marco; Kelly, Robert; Cowman, Tim; Owino, Thomas; Sosis, Karin et al. (2022): Financing sustainable energy access in African NDCs. Enhancing Ambition Through Linking Carbon Markets and Climate Finance. Climate Finance Innovators.