
ITMO PRICE GENERATION

ITMO prices are typically documented in the mitigation outcome purchase agreement (MOPA)¹ and not publicly disclosed. In the case of project-based activities, negotiations usually occur directly between the activity developer and the buyer(s). However, for sovereign buyers, negotiations can take place directly between the host and buyer country. Higher price transparency is typically only established on secondary markets, where highly standardized carbon assets are traded on exchanges. Next to the threshold of the buyer's willingness to pay, negotiations for ITMO prices can be influenced by benefit-sharing requests, which are increasingly becoming an important element of national carbon market frameworks. These may include a price premium, a share of the MOs remaining in the host country and/or the incorporation of the host country's framework and infrastructure costs into the price.

Approaches to set ITMO prices

ITMO price generation can be based on numerous approaches influencing MOPA price negotiations. One approach is to establish a fixed price, unaffected by market price fluctuations or an indexed price, which shifts depending on prices in other markets. A combination of both includes setting a minimum price (floor) and allowing it to increase based on market conditions. Index prices often incorporate a price floor and ceiling, creating a lower and upper limit for price fluctuations. Another potential approach is to opt for an escalating price, changing periodically depending on a predefined set duration. The agreed-upon price generation is recorded in the MOPA².

¹ This strategic orientation is further detailed in the Information Note MOPA on the Article 6 page *How to evaluate activities and cooperative approaches?*

² GGGI (2023): [Mitigation Outcome Purchase Agreements](#).



Factors influencing ITMO pricing

The pricing of ITMOs involves several factors, and it is influenced by the principles of supply and demand within the international carbon market. Key considerations include:

- **Market Dynamics:** ITMO prices are influenced by market dynamics, reflecting the overall balance between the supply and demand for these mitigation outcomes. Factors such as project types, regional contributions, and global emission reduction goals contribute to market forces shaping ITMO prices.
- **Project-Specific Variables:** The nature of the mitigation activity, the scale of emissions reductions achieved, SD benefits, and the methodological robustness of the project impact the price generation. Projects with high environmental integrity and additional sustainable development benefits may command premium prices.
- **Policy and Regulatory Environment:** ITMO prices can be influenced by the policy and regulatory landscape. Regulatory frameworks, carbon pricing mechanisms, benefit-sharing and governmental support for climate action all play a role in determining the value of ITMOs.
- **International Climate Finance:** The availability of international climate finance can impact ITMO prices. Projects receiving financial support from international sources leads to blended finance approaches which may have a different pricing structure compared to those relying solely on the carbon market. Further, it can impact additionality, For instance, if a project can already be financed through climate finance, the need for revenue from the sale of carbon credits would no longer apply.

Predictability in ITMO pricing is essential for the effective functioning of Article 6. Parties involved in the generation, transfer, and utilisation of ITMOs are encouraged to adhere to transparent reporting mechanisms. Market mechanisms, including standardised approaches and robust accounting practices, contribute to price discovery and market integrity, but have also been highly volatile in the past.

ITMO price negotiation

When entering in bilateral negotiation with a potential buyer country, the specific details regarding the pricing can vary and may not be consistently disclosed across all transactions. However, the following information is typically disclosed or made available publicly, which can help having a benchmark to negotiate the terms of the agreement:

- The **identities of the parties** participating in the transaction (buyers and sellers) may be disclosed. This information helps in understanding which countries or entities are actively engaged in ITMO transactions. Such information can be beneficial to assess whether countries with similar circumstances as a given country has previously engaged in ITMO transactions.



- The **terms and conditions** of the transaction, including any specific requirements or commitments by the parties involved.
- The **total quantity or volume of ITMOs** involved in the transaction is often disclosed. This indicates the amount of emission reductions or removals associated with the transferred units.
- It is important to note that the level of disclosure can vary, and some information, especially sensitive commercial details, may not be made public. Additionally, disclosure practices may evolve, influenced by international agreements, standards, and the development of market mechanisms.

It is recommended that Parties intending to engage in ITMO transactions familiarise themselves with the latest MoUs and bilateral agreements signed between countries. Extracting and comprehending all available information, including the terms and conditions outlined in these agreements, is crucial for informed decision-making.

Authors: Juliana Kessler, Annika Wallengren, Ingrid Wawrzynowicz (Perspectives Climate Group)