

Article 6 – An introduction for the YECAP Training workshop

Bangkok, Thailand

Day 2 - May 16, 2023



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Maps and Regions of the RCCs

- **RCC Bangkok** supports 40 countries from Asia and the Pacific (Hosted by IGES)
- **RCC Dubai** supports 22 Arab States and 8 South Asian countries (Hosted by WGEO)
- **RCC Kampala** supports 19 countries in Eastern and Southern Africa (Hosted by EADB)
- **RCC Lomé** supports 26 countries in 15 ECOWAS member states and 11 francophone countries (Hosted by BOAD)
- **RCC Panama** provides support to 17 Latin American countries (Hosted by UNEP)
- **RCC St. Georges** supports 16 countries in the Caribbean region (Hosted by WINDREF)



Regional Collaboration Centre – Bangkok
Promoting Climate Action in Asia and the Pacific



Regional Collaboration Centre – Dubai
Promoting Climate Action in the Middle East, North Africa and South Asia



Regional Collaboration Centre – Kampala
Promoting Climate Action in Eastern and Southern Africa



Centre régional de collaboration – Lomé
Promotion de l'action contre le changement climatique



Regional Collaboration Centre for Latin America (RCC Panama)
hosted by UN Environment Programme (UNEP)



Regional Collaboration Centre – St. George's
Promoting Climate Action in the Caribbean



Paris Agreement

- Paris Agreement aims to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius.

- Increase the ability of countries to deal with the impacts of climate change, and at making finance flows consistent with a low GHG emissions and climate-resilient pathway.
- Requires all Parties to put forward their best efforts through “Nationally Determined Contributions” (NDCs) and to strengthen these efforts in the years ahead

PARIS CLIMATE AGREEMENT



PARIS2015
UN CLIMATE CHANGE CONFERENCE
COP21·CMP11



Carbon Markets

- Carbon markets are trading systems in which carbon credits are sold and bought → **Emission Trading**
- One tradable carbon credit equals one tonne of carbon dioxide or the equivalent amount of a different greenhouse gas reduced, sequestered or avoided (1 tCO₂e).
- **Carbon finance will be key for the implementation of the NDCs**, and the Paris Agreement enables the use of market mechanisms [through Article 6](#).
- Around the world, interest in carbon markets is growing – [83 percent of NDCs](#) state the intent to make use of international market mechanisms to reduce greenhouse gas emissions.

<https://climatepromise.undp.org/news-and-stories/what-are-carbon-markets-and-why-are-they-important>



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Carbon Markets can support NDC implementation

- Carbon markets **incentivize climate action** by enabling parties to trade carbon credits generated by the reduction or removal of **GHGs from the atmosphere**, such as by switching from fossil fuels to renewable energy or enhancing or conserving carbon stocks in ecosystems such as a forest.
- **More than two thirds of countries are planning to use carbon markets to meet their Nationally Determined Contributions (NDCs) to the Paris Agreement.** Countries such as Chile, Ghana, Jordan, Singapore and Vanuatu (examples) are already building end-to-end, state-of-the-art digital infrastructure to support their participation in international carbon markets.

About carbon pricing and carbon markets

NDC achievement

Mandatory carbon pricing

Voluntary action

Party accounted emissions

Carbon taxes/fees
Emission Trading Systems (ETS)

Voluntary offsetting (e.g. by businesses and individuals)

Specifically designed activity approach for Article 6.2

Article 6.4

Out of the box
Project & programme-based approaches (carbon standards)



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Regional Collaboration Centre – Bangkok
Promoting Climate Action in Asia and the Pacific

Mr. Jens Radschinski

Carbon Markets

Voluntary market

For compensating emissions as part of **net-zero or climate neutral targets**

Motivation = self-set targets

Buyers = corporates / individuals

Units: voluntary credits

Self-regulations – codes of best practice emerging

Compliance market

For achieving **NDCs domestically**

Motivation = compliance with mandated pricing instrument (carbon tax, ETS, etc.)

Buyers = compliance entities (corporates)

Units: emission allowances & offset credits

Domestic or sectoral regulations

Article 6 market

For achieving **NDCs cooperatively**

Motivation = to increase NDC ambition / achieve NDCs more flexibly

Buyers = Parties

Units: Internationally Transferred Mitigation Outcomes (ITMOs)

International oversight / rules



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Carbon Markets

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Self-regulations – codes of best practice emerging

Example

Company A has a target to become climate-neutral. After reducing its own emissions, it still emits 13500 tCO₂e in 2022

To compensate for these remaining emissions, it purchases and cancels carbon credits representing 13500 tCO₂e from emission reduction projects



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Carbon Markets

Compliance market

For achieving **NDCs**
domestically

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with mandated pricing
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& offset credits

Domestic or sectoral
regulations

Example

Company A participates in an ETS. It has emitted 5600 tCO₂e more than it currently has allowances. To ensure compliance, it will purchase 5600 units in allowances or offsets so that it can surrender 1 compliance unit for each tonne emitted to the regulator

Company B is liable to a carbon tax. It can offset up to 10% of its emissions to reduce its tax liability and chooses to buy and cancel emission credits accordingly

ARTICLE 6 OF THE PARIS AGREEMENT



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Carbon Markets

Article 6 market

For achieving **NDCs cooperatively**

Motivation = to increase NDC ambition / achieve NDCs more flexibly

Buyers = Parties

Units: Internationally Transferred Mitigation Outcomes (ITMOs)

International oversight / rules

Example

Country A reduces its emissions beyond its NDC and generates X units of ITMOs. It sells and transfers the ITMOs to country B.

Country A applies a corresponding adjustment to its inventory, adding X tCO₂e to its domestic emissions.



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Art.6 for the achievement of NDCs

- Countries communicate their targets and actions in nationally determined contributions (NDCs) and are mandated to regularly provide more ambitious NDCs.
- Countries can use markets and non-market approaches to **cooperate for achieving their NDC**.
- The Paris Agreement
 - defines a **decentralized** carbon market approach under Article 6.2,
 - a **centralized** carbon crediting **mechanism** under Article 6.4, and
 - introduces a framework for **non-market approaches** under Article 6.8.

Article 6: co-operation towards NDCs

Cooperative approaches

Articles 6.2 and 6.3 and decision 1/CP.21, paragraph 36

Bilateral/multilateral cooperation between interested countries, involving transfers of the mitigation outcomes produced through such cooperation

The mechanism

Articles 6.4 to 6.7 and decision 1/CP.21, paragraphs 37 and 38

To be **operated centrally** (UNFCCC secretariat), credits emission reductions by public and private sector actors, allows for international transfer of those credits

Framework for non-market approaches

Articles 6.8 and 6.9 and decision 1/CP.21, paragraphs 39 and 40

Facilitates climate action through international cooperation focused on sustainable development and poverty eradication (and **does not involve trading**)



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Art.6 – 6.2 / 6.4 / 6.8

Article 6.2	Article 6.4	Article 6.8
Article 6.2 allows countries to trade emission reductions and removals with one another through bilateral or multilateral agreements.	A mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development established by Article 6.4 of the Paris Agreement	A framework for non-market approaches to sustainable development
They can be measured in carbon dioxide equivalent (CO ₂ e) or using other metrics, such as kilowatt-hours (KWh) of renewable energy.	Article 6.4 is a centralized mechanism similar to the Clean Development Mechanism of the Kyoto Protocol	Promote mitigation and adaptation. It introduces cooperation through finance, technology transfer, and capacity building, where no trading of emission reductions is involved.
Internationally Transferred Mitigation Outcomes (ITMOs)	These credits are called A6.4ERs,	



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Markets and non-markets in the Paris Agreement

❖ Aim of the Paris Agreement

- Holding increase in global temperature to well below 2°C and try to limit to 1.5 °C
- Achieving a balance of emissions and removals
- **Art.6 approaches are tools** to support the achievement of these goals

❖ Ambition in NDCs

- NDCs reflecting highest possible ambition
- Markets should **support, not undermine** that ambition

❖ Progression of NDCs over time

- Each new NDC should show progression in the contribution
- Market should **not discourage** progression



Paris Agreement Rulebook

- The **Paris Agreement Rulebook** refers to the decisions that puts the agreement into **operation**
- A large part of the rulebook is the **Katowice climate package (2018)**, which is a 133-page set of decisions that elaborate rules, guidance and modalities.
- Parties agreed on most of the Paris Rulebook at COP24/CMA1 , except for the rules operationalizing Article 6 mechanisms which were subject of **negotiations for further 2 years**.
- In December 2021 at COP26/CMA3, Parties to the Paris Agreement adopted
 - Decision 2/CMA3 containing **guidance on cooperative approaches** referred to in Article 6, paragraph 2, of the Paris Agreement,
 - Decision 3/CMA3 on **rules, modalities and procedures for the mechanism** established by Article 6, paragraph 4, of the Paris Decision
 - 4/CMA3 containing **work programme under the framework** for non-market approaches referred to in Article 6, paragraph 8, of the Paris Agreement.
- Annexes to these Decisions provides further details



From Paris to the Rulebook

- Since the Paris Agreement in 2015, **Article 6 negotiations** have been one of the most contentious in the history of COPs.
- At COP24, this element was left out of the Katowice Climate Package and discussions at COP25 in Madrid ended up in stalemate and for the second COP in a row there was no decision on the Article 6 rulebook.
- Only at **COP26 (Glasgow)** a first version of Article 6 operationalization was agreed upon through Decisions 1 to 4 of CMA.3 in the “Article 6 rulebook.”
- The Article 6 rulebook sets out how international carbon markets under Article 6.2 and 6.4 will **function in practice**, along with a work programme on non-market approaches under Article 6.8. (while the PA provides an overarching framework)
- The Article 6 elements of the Rulebook addressed the main **elements still under active discussion** in Article 6 negotiations. These elements include: **governance, environmental integrity, interoperability, corresponding adjustment and transparency and sustainable development.**
- **Since Glasgow**, the goal has been to design the rules, modalities, and procedures to further operationalize the different streams of Article 6



Article 6.2 decision

<i>Chapter</i>	<i>Key Details</i>
Ambition in mitigation and adaptation actions	<ul style="list-style-type: none">• Strong encouragement to commit to contribute resources for adaptation towards AF, shall reporting..;• Strong encouraged to cancel ITMOs that are not counted towards any Party's NDC or for OIMP
Description of what ITMO's are	<ul style="list-style-type: none">• Real, verifiable, additional, measured in tco2e or other non-GHG consistent with participating party, mitigation after 2021; Authorized and A.6.4 units transferred internationally.
What a First transfer is	<ul style="list-style-type: none">• Authorized for NDC - the first international transfer of the mitigation outcome• Authorized for OIMP- Authorization, or Issuance, or the use or cancellation of the MO specify by part party
Participation responsibilities	<ul style="list-style-type: none">• Party to PA; Arrangements for Authorizing and track ITMOs; submitted NIR; NDC etc... LEDs etc
Account methods (use for NDC and OIMP) ADD/SUB	<ul style="list-style-type: none">• Single year NDC (Emission trajectory, Averaging)• Multi year NDC (Emission trajectory)• Non-GHG ITMOs ; Policy based NDCs• CA to both covered and not covered under NDC



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Article 6.2 decision

Chapter

Key Details

Safeguards and limits

- Does not lead to a net increase in emissions within and between NDC implementation periods
- Ensure TACCC in tracking progress in implementation and achievement of its NDC

Reporting (What, how and when....)

- Initial report – No later than the authorization of ITMOs or in conjunction with BTR
- Annual report – 15 April of previous year
- Regular information – Annex to BTR by end of 31st Dec of relevant year

A.6 expert review (Who, What , when and how)

- Desk/ centralized review ;
- The Article 6 technical expert review team shall forward its reports for consideration by the technical expert review ETF.

Infrastructure to record & track

- International registry – What information to record, who can open a/c, who operates?, where it parts with ??
- A.6 database : Record and compile the information submitted; who operates?, where it integrate with ??
- CARP : Transparency and to support review, who manages it, what information are published and prepare annual report by sec...



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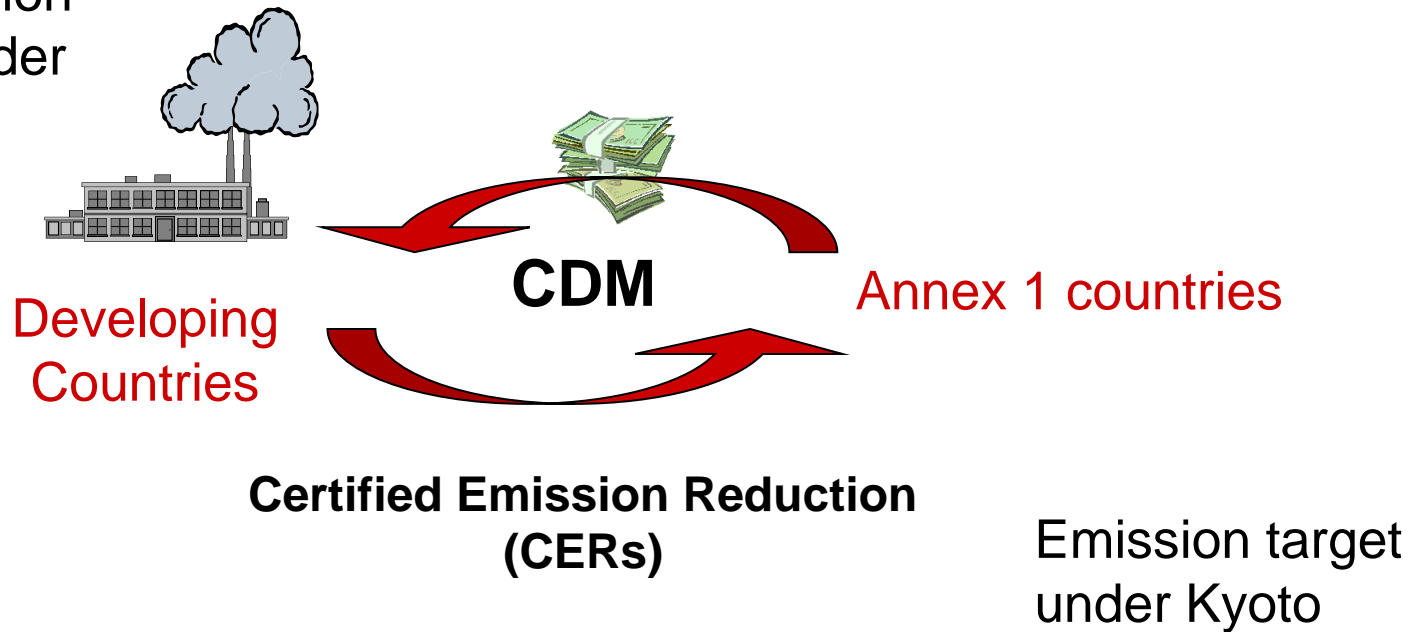
Kyoto Protocol vs. Paris Agreement

Kyoto Protocol	Paris Agreement
<ul style="list-style-type: none">• Top-down approach• Developing countries do not have targets• Developing countries participated in the carbon market as hosts for CDM projects• Compliance risk for Annex 1 countries, no compliance risks for host countries (non-Annex 1)	<ul style="list-style-type: none">• Bottom-up approach• Developing countries commit through their NDCs• Developing countries have targets through their NDCs and can participate as sellers and buyers of mitigation outcomes• Participating countries report to UNFCCC ex post on how mitigation actions contributed to the NDCs of both host and partner country and on consistency with sustainable development and environment integrity requirements

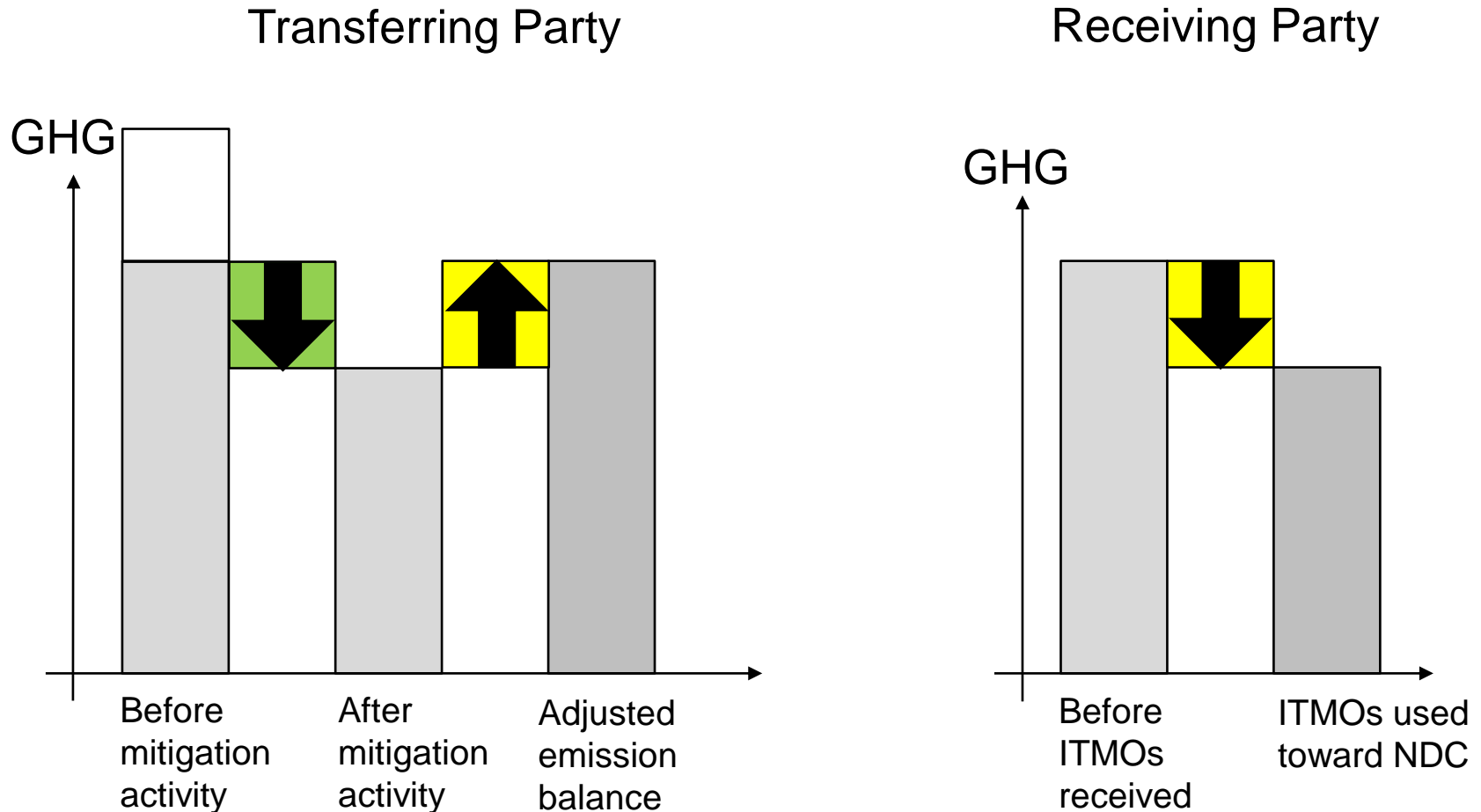


How CDM market worked

No emission target under Kyoto



Corresponding adjustments



Adapted from UNDP/Learning from nature course "Operationalizing Article 6.2 of the Paris Agreement: Achieving ambitious climate action through cooperative approaches"

Scope of the Article 6 activities

EMISSION REDUCTIONS

Can come from **all sectors**, including nature-based solutions, for example:



Transition to Renewable Energy



Reducing emissions from deforestation;
Reducing emissions from degradation;
Sustainable management of forests



Energy Efficiency



Transition to Electric Vehicles

REMOVALS

Can come from engineered solutions and from enhancing carbon sinks, for example:



Engineered Carbon Removal Technology:
Direct Air Capture & Storage



Enhancement of Forest Carbon Stock:
Afforestation
Reforestation

Adaptation, Mitigation and MoI – Without trading of emissions

Can include all types of co-operation without transfer of mitigation outcomes



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Sustainable development priorities

Promoting sustainable development is a key objective of the Paris Agreement market mechanisms.

- Article 6.1 requires any international cooperation towards the implementation of NDCs **‘to promote sustainable development’**.
- Articles 6.2 and 6.4 also reiterate this requirement.
- Decision 18/CMA.1 para. 77 d (iv) calls for countries engaging in cooperative approaches to **provide information** on how each cooperative approach promotes sustainable development’ (UNFCCC, 2018).
- The Agenda 2030 on Sustainable Development Goals (**SDGs**) provide a common, internationally agreed template for operationalising contributions to sustainable development and have the potential to serve as a major step forward in operationalising sustainable development under Article 6 and other future market mechanisms.

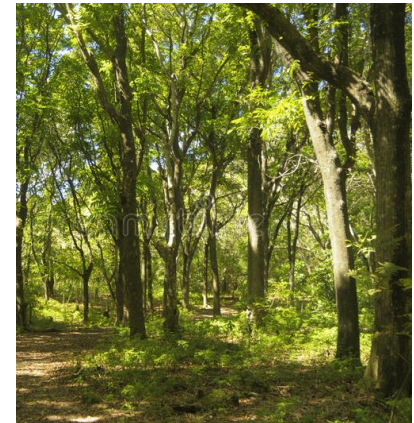
Sustainable development priorities

Art 6.2 Host parties need to describe how **each cooperative approach** will: ... be consistent with the sustainable development objectives of the Party, noting national prerogatives;

Art.6.4 activity Host Party shall, prior to participating in the mechanism, ensure that: It has indicated publicly to the Supervisory Body **how its participation** in the mechanism **contributes to sustainable development**, while acknowledging that the consideration of sustainable development is a national prerogative

For overseeing implementation of Article 6, **host country DNAs** could provide the following clarifications to project developers:

- 1) **Host countries' requirements** for establishing a project's contributions to SDGs
- 2) Clear articulation of **safeguards** against potential risks/negative impacts of market activities
- 3) Procedural requirements for **ex-ante assessment** of SDG contributions and safeguards



Benefits of participating in cooperative approaches

❑ National Budget revenues

- Cooperative approaches can be used to raise revenue to the government, e.g. government can retain part of the revenue or a regulation that requires the transfer to involve share of proceeds.

❑ NDC implementation support

- Revenues can be reinvested in mitigation actions; retaining shares of ITMOs by the government

❑ High-cost mitigation measures

- A host country could be interested in participation in cooperative approaches to get access to otherwise inaccessible technologies, helping them to leapfrog to globally best available technologies: finance for 'high hanging fruits'

❑ Sustainable development co-benefits

- Many climate change mitigation measures are associated with sustainable development co-benefits, such as lower air pollution, increased energy security, and job creation, which may also provide an incentive to develop a given project.



Risks of participating in cooperative approaches

❑ Overtransfer

- Selling low-cost mitigation outcomes that are necessary for meeting the NDC target (“low hanging fruit”)
- To reduce the over-transferring risk, countries must ensure that activities that the country intends to use for the NDC are not part of the mitigation activities used for international transfer under Article 6.2.

❑ Opportunity Cost

- transferred emission reductions can potentially be needed for achieving the NDC targets; an opportunity cost will arise if the transfer of ITMOs results in the need for the transferring country to take other, more costly abatement action for meeting its NDC.

❑ Administration and infrastructure costs

- the implementation of Art. 6.2 processes requires the development of administrative and technical capabilities, which will require (financial) resources. Some countries establish administrative fees for ITMOs transfers, or for approval and/or authorizations to cover these costs and finance Art. 6.2 implementation



Article 6.4 Mechanism

- Baseline and crediting mechanism
- Currently being elaborated
- Under the oversight of the 6.4 mechanism Supervisory Body
- Share of proceeds: 2% for OMGE (mitigation); 5% for adaptation
- Can deliver: A6.4ER with corresponding adjustment
MCU (Mitigation Contribution Units)
- Different from CDM regarding baseline and additionality
demonstration: ambitious baselines, Paris-alignment, avoidance of lock-in, taking into account domestic NDC and policies, etc.

Participation requirement for Article 6.2 and 6.4

Article 6.2	Article 6.4
Is a Party to PA; Maintains NDC	
NIR (as part of BTR)	
Arrangements in place for authorizing and tracking the use of ITMOs towards achievement of NDCs	Has a DNA in place
	Indicated to the SB how participation in the mechanism contributes to SD
Participation contributes to the implementation of its NDC and LT-LEDS and the LT goals of the PA.	
	Specified baseline approaches and crediting periods



Article 6.8: Non-Market based Approaches (NMAs)

- No transfer of mitigation outcomes !!!
- Initial focus areas: mitigation, adaptation, clean energy
- Type of support: finance, capacity building, technology
- Requires the participation of more than one Party
- Environmental and social impact safeguards apply

- Web-based platform (under development) as central element to record NMAs and give an overview of sources of support

Pending items

- **Infrastructure**, as well as **reporting and reviewing**, will still be topics of discussion at future COPs due to the many open points present.
- CMA5 as the intended deadline to finalize a recommendation on the **agreed electronic format**
- creation of a first version of the **centralized accounting and reporting platform** and the Article 6 database with a deadline of June 2024, and a detailed list of requirements is expected from the secretariat for parties to provide their views and inputs.
- request for the secretariat to implement the **international registry**, which is expected to be ready by 2024.
- “Initial Report” and “Biennial Transparency Report”: develop “**modalities for reviewing information that is confidential**”



Pending items

- Definitions of **removals** (Art.6.4)
- Even though some progress has been made by negotiators under Art.6, the approved texts on guidelines are still far from the final version.

Operationalizing Art.6

- Article 6 is not yet fully operative but actually some projects are in the agreement phase especially regarding bilateral cooperation under Art. 6.2.
- Understanding the interlinkages between Article 6 cooperation and host country NDC implementation **is crucial for ensuring that Article 6 cooperation contributes to—and does not undermine—implementation of NDCs or the long term goals of the Paris Agreement. National Article 6 strategies** and criteria should be developed in parallel with NDC implementation planning
- Art.6 Capacity Building



Bilateral International Carbon Agreements

Indo-Pacific Carbon Offsets Scheme

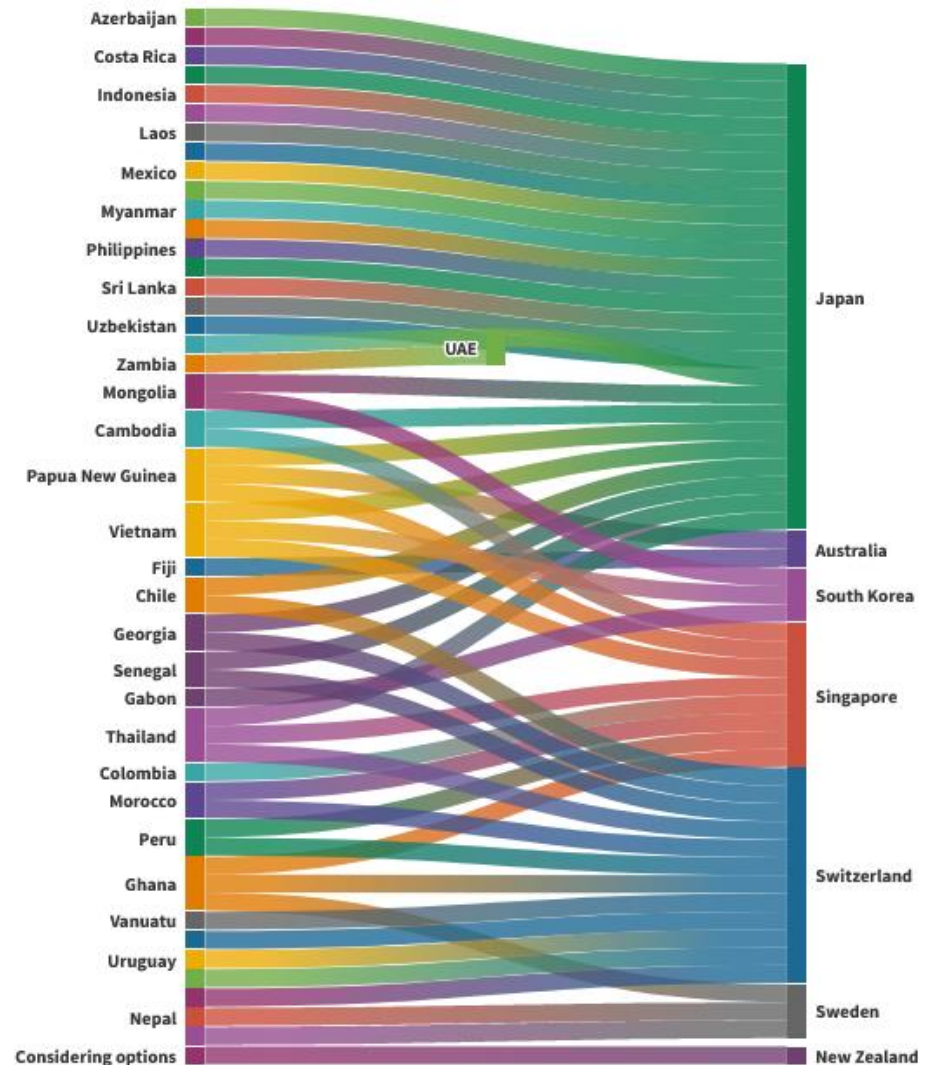
Scheme by the Australian Government to support climate action in the Indo-Pacific. Australia will partner with countries in the region to develop a carbon market that supports emissions reduction projects.

JCM

As of April 2023, JCM partnership document is signed by 26 countries.

The JCM aims to facilitate diffusion of leading decarbonizing technologies and infrastructure, etc., through investment by Japanese entities, thereby contributing to GHG emission reductions or removals and sustainable development in partner countries.

Art.6 cooperation, to develop projects under Art.6.2 of the Paris Agreement



Why does all this matter?

- Article 6 is an important part of the world's “toolbox” for addressing climate change
- Article 6 is the only part of the PA that directly engages the business and private investment sector in directly implementable activities in which they can invest
- In addition to the trading instruments, implementation of NMA is essential to contribute to sustainable development and poverty eradication
- NDCs implementation cost reduced by half as much as (\$250 billion by 2030) or facilitate removal of 50% more emissions (about 5 GT of Co2 e/ year by 2030)
- There is strong real-world potential for cooperative action - shown by existing pilot Article 6 projects, with the UN decisions in Glasgow understanding the overall impact of cooperative action on global mitigation is facilitated
- Centralized mechanism helps in ensuring broader accessibility of markets

Article 6 of Paris Agreement



Article 6 of the Paris Agreement consists of three components:

- Cooperative approaches that involves the use of **internationally transferred mitigation outcomes (ITMOs)** (Article 6.2)
- A mechanism to **contribute to the mitigation of greenhouse gas emissions and support sustainable development** established by Article 6.4 of the Paris Agreement (Article 6.4 Mechanism)
- A framework for **non-market approaches** to sustainable development (Article 6.8)



“The potential benefits to cooperation under Article 6 include cost savings of \$250 billion per year in 2030” – IETA.



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Article 6 Capacity Building Programme

Article 6.2 – Capacity Building Programme including through RCCs in consultation with Parties

- Support the development of institutional arrangements, including reporting
- Help Parties ensure that cooperative approaches support ambition;
- Assist the LDCs and SIDs in meeting the participation requirement

Article 6.4 – Capacity Building Programme including RCC in consultation with 6.4 SB and Parties

- Establish then necessary institutional arrangements to implement the requirement
- Develop the technical capacity to design and set baselines for application in host Parties;
- Capacity-building in development countries to apply the Article 6.4 mechanism, and support for the transition



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THANK YOU



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