

LeadIT Briefing Paper on Article 6 of the Paris Agreement

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What is Article 6 of the Paris Agreement?

Article 6 of the Paris Agreement outlines how countries can pursue voluntary cooperation in emission mitigating activities to achieve climate targets ([UNFCCC, 2024](#)). Through this mechanism, financial support can be directed to a host country to generate carbon credits that can be used by other countries, either towards climate targets, or to raise the global ambition through removal. Article 6 was introduced to enable reduction of hard-to-abate emissions. Progress on the mechanism is thus important in the context of heavy industry.

Cooperation under Article 6 can take shape in three forms:

- **Article 6.2** – bilateral or multilateral cooperation between countries through projects, programs, or policies that focus on climate change mitigation or reduction of greenhouse gas emissions. Article 6.2 activities can generate Internationally Transferrable Mitigation Outcomes (ITMOs), a type of carbon credit, that the buyer country may use towards their Nationally Determined Contributions (NDCs).
- **Article 6.4** – a crediting mechanism overseen by a UN Supervisory Body. Article 6.4 shares similarities with carbon trading under the Kyoto Protocol. Unlike ITMOs, credits generated under Article 6.4, so called A6.4ERs, must be authorized according to UNFCCC guidelines, and may be transferrable among Parties to the Paris Agreement. As of 2024, 6.4 is not yet operational.
- **Article 6.8** – a non-market-based instrument and a results-based funding approach focusing on capacity building and technology transfer that does not involve the creation or transfer of tradeable emission credits.

As of March 25th, 2024, there are 81 bilateral agreements between 9 different buyers¹ and 46 host countries² ([UNFCCC, 2024](#)). The first transfer of ITMOs occurred in December 2023 between Thailand and Switzerland. Currently, Japan and Switzerland have incorporated the use of ITMOs in their NDCs, and others including Sweden are piloting acquisition of ITMOs without the intention of using them towards their NDCs.

What is needed to scale up Article 6?

In the short term, agreement on the binding texts among the Parties to the Paris Agreement is essential to advance Article 6. There are also challenges that could affect the success of Article 6 in the long-term, such as:

- **Ensuring environmental integrity.** To ensure that emission reduction or removals are real, additional, and measured and reported correctly, robust accounting standards are needed. Similarly, double counting of emissions must be avoided. Ensuring this level of detail and transparency throughout Article 6 activities will be key in building trust and

1 Buying countries: Australia, Japan, Monaco, Norway, Singapore, South Korea, Sweden, Switzerland, UAE.

2 Host countries: Fiji, Papua New Guinea, Ethiopia, Kenya, Tunisia, Senegal, Costa Rica, Mexico, Chile, Uzbekistan, Kyrgyzstan, Kazakhstan, Mongolia, Cambodia, Indonesia, Laos, Myanmar, Philippines, Thailand, Vietnam, Bangladesh, Maldives, Sri Lanka, Azerbaijan, Georgia, Saudi Arabia, UAE, Moldova, Ukraine, Palau, Morocco, Dominican Republic, Colombia, Peru, Paraguay, Bhutan, Gabon, Nepal, Malawi, Uruguay, Sweden, Iceland, Vanuatu.

integrity in the system. Related to this, the process of authorization for an Article 6.2 activity is still not entirely clear.

- **Clear Signals of Commitment and Facilitation from Governments.** With climate cooperation under Article 6 being built around country participation, clear indications from governments are key in building long-term stability and reducing investment risk. The country and government level involvement sets Article 6 apart from other voluntary carbon markets (VCMs) that primarily involve private actors. This could be used to leverage Article 6 participation from both private and public actors.
- **Addressing risks of overselling in host countries.** If a country is hosting an Article 6 activity that aligns with their own core activities in reaching NDC goals, then using that activity for ITMO transfers comes with NDC compliance risks. The host country would have to replace those mitigation outcomes at a potentially higher cost.

Recent developments

Following COP28, many question marks remain around Article 6. Although the Supervisory Body is now formed and working on Article 6.4 issues, the operationalization of Article 6.4 may be delayed until 2026. This affects countries without institutional capacity to engage in today's Article 6.2, as the Supervisory Body under Article 6.4 is meant to shoulder some of that responsibility. In other words, the envisioned flow of carbon finance from the global north to the global south that was to follow Article 6.4 is delayed by at least another year. Even with Article 6.4 operational, the lack of clarity in which type of mitigation activities host countries will agree to transfer as ITMOs still needs to be addressed.

In addition to lack of progress under Article 6.4, there is still lingering uncertainty around the interpretation of Article 6.2, specifically around the bilateral nature of Article 6.2 projects and the use of ITMOs. At COP28, the convening parties could not agree on whether an Article 6.2 project can arise through a unilateral process, i.e. without the initial involvement of a buyer country, and whether secondary trading of ITMOs to an unaffiliated buyer should be allowed.

The Removals Recommendations under Article 6.4 appeared to be another point of contention at COP28 due to misalignment with carbon removal standards adopted in the EU. The EU's own Certification Framework for Carbon Removals (CRCF) prioritizes storage of carbon in geological formations, while land-based removals through afforestation and reforestation (ARR), agroforestry, and biochar appears the more realistic type of removal outside the EU.

Relation to Voluntary Carbon Markets (VCM)

VCM is a broad concept that can encompass any voluntary market for carbon credits, that may or may not be linked to the Paris Agreement. The voluntary market stands apart from Article 6 partly in that there is no universal standardization in terms of methodologies for project approval, credit verification, transparency, or accounting standards. To address this, frameworks like Verra and Gold Standard have evolved, and new frameworks and tools are emerging.

VCM credits created from e.g. a carbon removal project can be sold to a buyer that may be looking to offset their own emissions. This differs from ITMOs generated and traded from an Article 6.2 activity, where the emission reductions are transferred to the buying country for use towards that buying country's NDC (or voluntary removal). The host country cannot count the emission reductions towards their own NDC. Despite the differences, VCM activities can still align with Article 6 requirements. For instance, a buyer can express a preference for carbon credits that have corresponding adjustments to address concerns of double counting. A host country that engages in a VCM activity that follows the rules of Article 6.2 can choose to count the emission reductions towards their own NDC if applicable, or to convert the emission reductions to ITMOs for international trade.

Article 6 and heavy industry

Greenhouse gas (GHG) emissions from heavy industry represent one quarter of global GHG emissions ([WEF, 2022](#)). Article 6 was introduced to tackle hard-to-abate emissions, and remedy some of the issues around e.g. transparency and environmental integrity, where its predecessor the Clean Development Mechanism (CDM) came up short. In this sense, Article 6 is more relevant to heavy industry decarbonization than CDM was.

If interest in Article 6 grows on the buyer side, countries seeking to decarbonize heavy industry could explore cooperation as host countries. The country-level involvement could bring broad attention to industry decarbonization efforts that happen under Article 6, but a high degree of scrutiny and political attention could also be expected. From a buyer country perspective, there could be concerns over the use of public funds and questions raised over prioritizing climate action abroad. In the host country, there is the risk of transferring away mitigation outcomes that the host country would need to meet its NDC targets. However, heavy industry mitigation activities typically go beyond what host countries have pledged in their NDCs, so engagement under Article 6 could offer opportunities for additional commitments.

Ensuring additionality of emission reduction activities is at the core of Article 6. With a long-term heavy industry goal of net-zero emissions, not only is additionality important, but aligning this with net-aggregate reductions in the sector would also be a priority. Despite questions on NDC compliance, the increased financing, technology transfer, and knowledge transfer involved with Article 6 cooperation could align with the long-term objective of achieving decarbonization in the sector.

We do not yet know if Article 6 and trading of ITMOs will be linked to carbon pricing and carbon markets in the future. Emission reduction units created under the CDM were tradable in the EU ETS, which may have lowered incentives for decarbonization within the EU, resulting in indirect impact on heavy industry.

It appears more likely that heavy industry activities under Article 6 would fall under Article 6.2 rather than 6.4, considering the higher degree of flexibility. VCM efforts in heavy industry sector already exist, but Article 6 could help raising the bar in terms of standardization and environmental integrity. The government involvement could also help shifting focus and resources in the direction of the heavy industry sector and hard-to-abate emissions. In the short term, clarity, and consensus on the Article 6 framework from the convening Parties will be necessary for Article 6 to grow to its potential.