

# ARTICLE 6

## Q&A on what was decided and next steps after COP26

After six years of negotiations, countries at COP26 agreed on rules for international cooperation through carbon markets (Article 6). While Article 6 gives important guidance on how to ensure environmental integrity, transition the Clean Development Mechanism (CDM) and avoid double counting, there are still details to be determined before the mechanism is up and running. This document is intended to provide an overview of where Article 6 landed and its implications, based on our discussions with negotiators and observers during and after COP26.

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**Views represented below are our own, and may not necessarily reflect the views of these reviewers.**

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# MAJOR UPDATES FROM VERSION 1

## Areas of confusion

When seeking feedback on our initial paper, there were a few topics that generated a wide variety of different opinions and viewpoints. These, we believe, showcase where there is most uncertainty around interpretation of the Article 6 text that came out of COP26:

- **“Avoided” emissions**: There is some disagreement over what is defined as “avoidance” under Article 6.2. Historically, the term has referred to avoidance of oil extraction activities (first proposed by the Government of Ecuador for the Yasuni oil fields). However, some negotiators have said that they do see *forestry* as part of this terminology, which may include REDD+ but may also focus more on other AFOLU approaches towards measuring mitigation of emissions. As Article 6 does not provide a definition of removals, reductions, or avoidance specifically, the full scope of any discussion around “avoidance” will likely remain unknown until the next inter-sessional meeting in June 2022.
- **How will countries actually account for mitigation outside of their NDC (included in the “blue carbon” section)**: If countries sell credits from sectors outside their NDC, there must be a corresponding adjustment. However, exactly how the country must account for these CAs is still unknown; this might be decided in future negotiations or might be decided within each country. This may pose additional risks to buyer countries. If, for example, a buyer country purchases credits from inside an NDC, seller countries should be able to showcase their current progress towards that sectoral commitment and may wait to sell until they know if that target will be met or exceed. This information will not be available for credits outside of an NDC, creating more risk to buyer countries that the purchase may not be raising ambition above existing mitigation targets. Buyer countries can, of course, penalize sellers who don’t meet their NDC but refusing to buy from them in the future. But, in the next NDC iteration, IF the country includes blue carbon, then it would not be able to count the blue carbon tonnes generated previously, because the CA was already applied.
- **Automatic transition of CDM projects**: There are different interpretations on whether existing CDM projects will automatically obtain 6.4ERs units for mitigation activities taking place between 01/01/2020 and either the end of their current crediting periods or 31/12/2025, whichever is earlier, as long as they request to transition by 31/12/2023 (para. 74(a)). This questions related to the interpretation of paragraph 73b, which conditions the transition to the approval of the Supervisory Body.

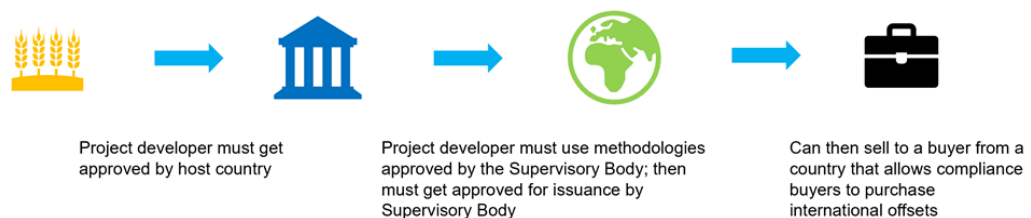
## WHAT IS ARTICLE 6

An agreement about how countries can cooperate and trade mitigation outcomes (essentially, carbon credits) with each other to help meet their climate targets (NDCs) and raise overall ambition. There are three frameworks for trading:

- Article 6.2 (market):** Countries can trade emissions reductions or removals bilaterally or multilaterally. The seller country can sell any additional emissions reductions or removals, after or on track towards meeting its own Paris climate pledge. The buyer country would be any nation that has or will fall short against its own goals.



- Article 6.4 (market):** This mechanism is most similar to carbon trading under the Kyoto Protocol, which established a UN governed body called the Clean Development Mechanism (CDM). The CDM created centralized rules around what types of activities (aka, methodologies) were allowed, how these should be verified, and other rules. The new 6.4 mechanism will follow a similar centralized approach while (hopefully) learning and improving from CDM approaches.



- Article 6.8 (non-market):** Additionally, there might be financing of other, non-market approaches through 6.8. This mechanism is less defined but in general would provide a formal framework for climate cooperation between countries, where no trade is involved (such as development aid).

## CDM TRANSITION

The Clean Development Mechanism, defined in Article 12 of the Protocol, allows a country with an emission-reduction or emission-limitation commitment under the Kyoto Protocol to implement an emission-reduction project in developing countries. Such projects can earn saleable certified emission reduction (CER) credits, each equivalent to one ton of CO<sub>2</sub>.

**I've heard CERs are allowed into Article 6. Does this mean countries and companies should start buying CERs?** Not necessarily. There are a few things to keep in mind here

- **Current uses for CERs:** CERs from projects registered (not issued!) after 2013 can be used for the first NDC *without* a corresponding adjustment. The [New Climate Institute](#) estimates between 320 – 341 million CERs (see image below) could transfer with the 2013 registration cut-off. It's important to note that Article 6.4 only mentions using these CERs in relation to achievement of the first NDC only and countries can decide not to accept CERs towards its first NDC. The text is silent on topic if countries could use both domestic and foreign CDM projects to count towards it NDC, so in our view it will be a national decision.

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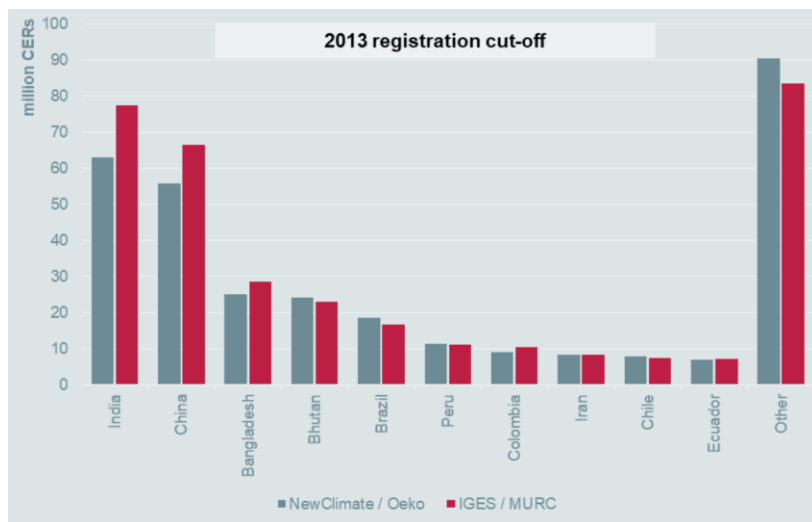
*6.4, Annex, XI, B, 75. Certified emission reductions (CERs) issued under the CDM may be used towards achievement of an NDC provided the following conditions are met:*

*(a) The CDM project activity or CDM programme of activities was registered on or after 1 January 2013;*

*(c) The CERs may be used towards achievement of the first NDC only;*

*(d) The CDM host Party shall not be required to apply a corresponding adjustment consistently with decision -/CMA.314 in respect of the CERs and not be subject to the share of proceeds pursuant to chapter VII above (Levy of share of proceeds for adaptation and administrative expenses) above;*

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Source: [New Climate Institute](#)

**Potential transition:** Article 6.4 will create a Supervisory Body (SB) that will begin to meet in 2022. This will consist of twelve members nominated from various countries (see [here](#) list of nominated members until December 2<sup>nd</sup> 2021). They will decide many of the details about what is traded and how it is traded under 6.4. **This includes assessing and approving methodologies.** The Supervisory Body will start with reviewing methodologies under the CDM.

All CDM methodologies suggested for transfer will have to integrate relevant changes to meet Article 6.4 requirements; it is not guaranteed that all approaches will be approved (indeed, hopefully not all will be approved, given the bulk of research available publicly that has assessed various shortcomings with certain CDM methodologies).

Existing CDM projects are those which (i) have been issued CERs until 2020 and have a crediting period that extends beyond 2020 or (ii) have been provisionally registered under the CDM and are expected to generate credits post-2020 (defined in para. 74). These projects will likely obtain 6.4ERs units for mitigation activities taking place between 01/01/2020 and either the end of their current crediting periods or 31/12/2025, whichever is earlier, as long as they request to transition by 31/12/2023 (para. 74(a)) (see Major Updates from V1 section). After the end of their crediting period or 31/12/2025, these projects can continue to be issued 6.4ERs but will have to comply with a methodology approved by the 6.4 SB (para. 74(d)).

**Demand:** Because CERs will be labelled as “pre-2021 emission reduction”, buyer countries may choose *not* to purchase these credits. [Four signatories](#) to the San Jose Principles - Costa Rica, Colombia, Finland, and Switzerland - have already signaled that they do not intend to buy or sell such pre-2020 CER credits. Despite the uncertainty of the CDM credits under the Paris Agreement, the number of CDM credits

issued [increased by 3% in 2020](#), reflecting a optimistic year in which all major standards increased their issuances.

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*6.4, Annex, XI, B, 73. Project activities and programmes of activities registered under the clean development mechanism under Article 12 of the Kyoto Protocol (CDM) or listed as provisional as per the temporary measures adopted by the Executive Board of the CDM may transition to the mechanism and be registered as Article 6, paragraph 4, activities subject to all of the following conditions:*

- (a) The request to transition the CDM project activity or programme of activity being made to the secretariat and the CDM host Party as defined by decision 3/CMP.1, by or on behalf of the project participants that were approved by that CDM host Party by no later than **31 December 2023**;*
- (b) The approval for such transition of the CDM project activity or programme of activity being provided to the Supervisory Body by the CDM host Party by no later than **31 December 2025**;*

### **Can I still register my project under the CDM while the Supervisory Body hasn't decided on further rules?**

Unclear (see Major Updates from Version 1). The requests for registration, renewal of crediting period and issuance of certified emission reductions for a project related to emission reductions after 31 December 2020 **cannot be submitted** under the CDM Mechanism. However, the CDM guidance establishes that the Executive Board **may continue receiving and processing** the relevant requests and submissions under the temporary measures until the date when the process for submission of requests to the secretariat to transition the requests and other submissions that have been accorded provisional status to the Article 6.4 mechanism becomes operational.

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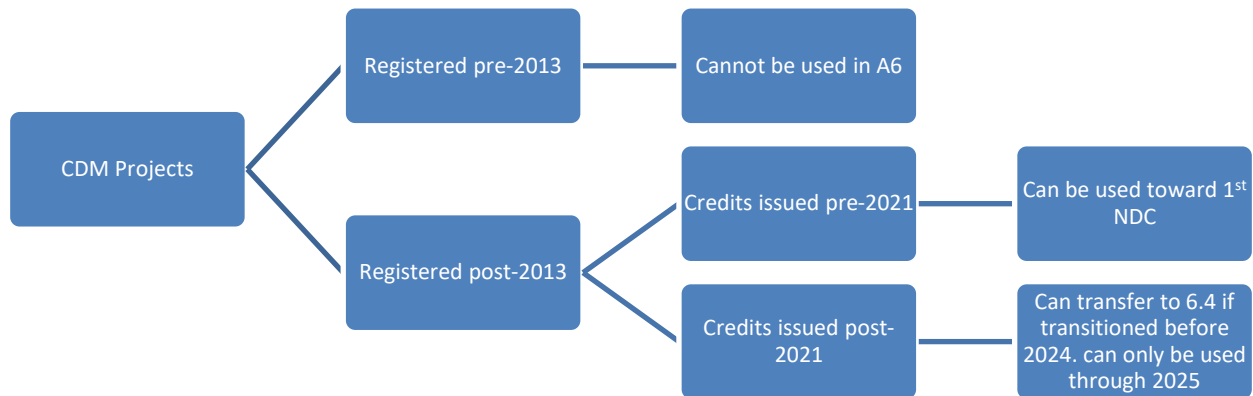
#### **CDM Guidance**

*7. Decides that requests for registration, renewal of crediting period and issuance of certified emission reductions for project activities, as well as the equivalent submissions for programmes of activities, relating to emission reductions occurring after 31 December 2020 **may not be submitted** under the clean development mechanism*

*15. Decides that the Executive Board **may continue receiving and processing the relevant requests and submissions** under the temporary measures until the date when the process for submission of requests to the secretariat to transition the requests and other submissions that have been accorded provisional status to the Article 6.4 mechanism becomes operational, as may be specified by the Supervisory Body;*

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## CDM Transition



## CORRESPONDING ADJUSTMENTS

Corresponding adjustments (CAs) are an accounting measure to ensure that two countries do not count the same emissions reductions or removals. When an emissions reduction is sold to another country or a company internationally, the host nation must make an adjustment to its emissions to account for the transfer of savings to be used elsewhere.

### When a Corresponding Adjustment must be applied?

Corresponding adjustments are required for 6.2 and 6.4 and for all cases when authorized by the host country, including from emissions reductions outside an NDC. No corresponding adjustment is required for pre-2020 CERs, either by the host country or traded to another country, for the first NDC (see CDM TRANSITION section).

#### TERMINOLOGY

- “international mitigation purposes” = CORSIA
- “other purposes” = Voluntary Carbon Market

A CA is also required if authorized for “other international mitigation purposes” by the host party. This includes both “international mitigation purposes other than the achievement of an NDC” (CORSIA) **and** “other purposes as determined by the first transferring participating Party” (Voluntary Carbon Market, VCM). Basically, if a country wants to designate a unit as eligible to trade on the VCM, it will need a CA. However, the text implicitly allows non-authorized credits to be issued, which would not be subject to a corresponding adjustment. This begs the question of whether countries will acknowledge VCM trades in

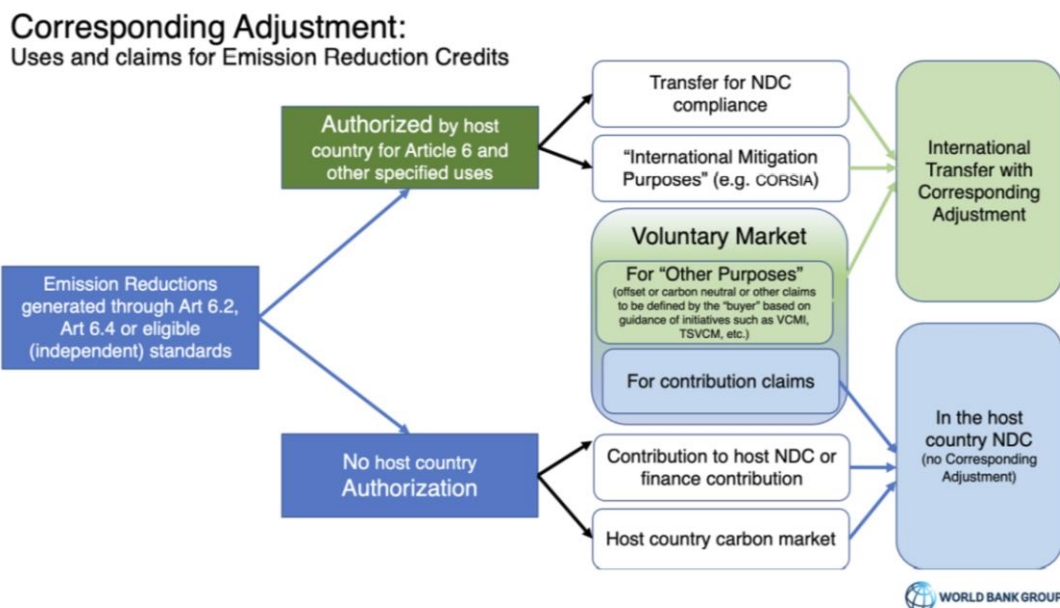


practice, as they could also just ignore the current VCM trades which are not part of Article 6. See image below for a summary of the CA requirements.

In our view, everything hinges on the host country authorization for use toward NDC, use toward “other international mitigation purposes,” or use toward “other purposes as determined by the first transferring participating Party.” The definition of “other purpose” and if it included VCM is also up to the host country.

**Double counting? double claiming?** In our view, the 6.4 guidance would not allow the VCM to double count. If “non-authorized” VCM units are created, the mitigation activity will only be counted in the host country – however, it might be *claimed* by both the host country and the VCM buyer. There are a number of VCM working groups debating whether this potential for double claiming is a risk to the environmental integrity of a VCM sale.

**In summary:** Article 6 units can be traded internationally for use in the voluntary carbon market, without Party authorization and they will not require a CA. There may be reputational risks for private sector buyers using credits without host country authorization or a corresponding adjustment, depending on how guidance around VCM double claiming develops. The existence of a CA may also be seen as more valuable to some buyers because it would eliminate the risk of double claiming, and we may see a premium paid for units that include the CA.



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*6.2, Annex, I, (f) Mitigation outcomes authorized by a participating Party for use for international mitigation purposes other than achievement of an NDC (hereinafter referred to as international mitigation purposes) or authorized for other purposes as determined by the first transferring participating Party (hereinafter referred to as other purposes) (international mitigation purposes and other purposes are hereinafter referred to together as other international mitigation purposes);*

*6.4, 75, (d) The CDM host Party shall not be required to apply a corresponding adjustment consistently with decision -/CMA.314 in respect of the CERs and not be subject to the share of proceeds pursuant to chapter VII above (Levy of share of proceeds for adaptation and administrative expenses) above;*

*6.4, Annex, 72. Where a host Party has authorized A6.4ERs for use for other international mitigation purposes pursuant to chapter V.C above (Approval and authorization) above, it shall apply a corresponding adjustment for the first transfer of all authorized A6.4ERs, consistently with decision -/CMA.3.1*

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## OMGE and SOP

### **I've heard there are various taxes applied to Article 6. What are they and who pays for it?**

There are two: share of proceeds (SOP) and overall mitigation of global emissions (OMGE). Both SOP and OMGE are required for all 6.4 transactions but not for 6.2 (though it is encouraged "on a voluntary basis").

**Think of SOP as both a discount in volume and a tax (\$\$\$):** For all credits issued under 6.4, a levy of 5% **in volume** will go to an account held by the Adaptation Fund. This should be similar to what happened under the Kyoto Protocol, where [2% of CERs issued for a CDM](#) project activity would go to the Adaptation Fund and then [be sold](#) by the Fund's Trusty (World Bank). In addition to the levy of 5%, there will be a **monetary contribution** used to pay administrative expenses in the Adaptation Fund to be set by the Supervisory Body.

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**Article 6.4**

58. At issuance, the mechanism registry administrator shall effect a first transfer of 5 per cent of the issued A6.4ERs to an account held by the Adaptation Fund in the mechanism registry for assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

67. The share of proceeds to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation shall be comprised of:

(a) A levy of 5 per cent of A6.4ERs at issuance;

(b) A **monetary contribution** related to the scale of the Article 6, paragraph 4, activity or to the number of A6.4ERs issued, to be set by the Supervisory Body;

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**Think of OMGE as a discount (volume, not \$\$\$):** For all transactions, 2% of the credits won't go to the buyer. Instead, they will be redirected to a "cancellation account" that the Supervisory Body will set up. So 98% of credits will be transferred to the buyer, and 2% will go to this account not owned by the buyer or seller. This is intended to ensure a net reduction in emissions, rather than just offsetting CO2 released in one country with savings elsewhere.

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**Article 6.4**

69 (a) The mechanism registry administrator shall effect a first transfer of a minimum of 2 per cent of the issued A6.4ERs to the cancellation account in the mechanism registry for overall mitigation in accordance with chapter V above (Article 6, paragraph 4, activity cycle), where those A6.4ERs shall be cancelled;

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## ARTICLE 6 AND NATURE

### Reductions and removals

#### Is nature (land use emissions) included in Article 6.2?

Yes. Although not explicitly referred to in the text, there is sufficient legal basis the land sector, including blue carbon to be eligible under 6.2:

- Paragraph 1b (definition of ITMO) already includes "reductions AND removals". That includes the land sector as per IPCC guidance, and hence REDD+.

- Decision 1/CP.21, para 36, also mentions "anthropogenic emissions by sources and removals by sinks", which includes nature

The inclusion of "emissions avoidance" in the future work programme has raised many interpretations. Although the definition of "emissions avoidance" is not clear, that language was included years ago and

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#### **Article 6.2**

*3. Requests the Subsidiary Body for Scientific and Technological Advice to undertake the following work, on the basis of the guidance in the annex, to develop recommendations for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its fourth session (November 2022) on:*

*(c) Consideration of whether internationally transferred mitigation outcomes could include **emission avoidance**;*

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it is known by most UNFCCC negotiators as a request by Ecuador to be paid to stop fossil fuel exploitation in the Yasuní. See related documents [here](#) and [here](#). This was confirmed by several negotiators (EU, USA, Japan, African Group, Brazil) in webinars following COP26. So far "emissions avoidance" has not been linked directly to "avoided emission from deforestation". However, some negotiators said that they do see forestry, including REDD+, as part of this terminology.

#### **What about removals in Article 6.4?**

There will be additional scrutiny given to anything around removals under Article 6.4, which requests the Supervisory Body to provide further guidance around removals and crediting processes (both technical and nature-based).

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#### **Article 6.4**

*6. Also requests the Supervisory Body to elaborate and further develop, on the basis of the rules, modalities and procedures contained in the annex, recommendations, for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its fourth session (November 2022) on:*

*(c) Activities involving removals, including appropriate monitoring, reporting, accounting for removals and crediting periods, addressing reversals, avoidance of leakage, and avoidance of other negative environmental and social impacts in addition to chapter V of the annex (Activity cycle);*

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## **Blue Carbon**

Mangroves, seagrasses, and tidal marshes are considered blue carbon ecosystems. They are the only coastal ecosystems recognized for their climate mitigation value by the IPCC. While the implication of

Article 6 on blue carbon can be deduced from some of the discussion above, especially on nature-based solutions and corresponding adjustments, it is a growing area and object of many current discussions.

### **Can blue carbon credits be traded under Article 6.2?**

Yes. Article 6.2 was kept open to all sectors including the land sector - which includes blue carbon. Such as forests or any other “nature-based solution”, mangroves, seagrasses and salt marshes are recognized by the IPCC for their potential to reduce and remove carbon from the atmosphere, which is included under the definition of an ITMO.

### **Blue carbon projects are becoming more popular around the world. When and how could the Article 6 guidance impact ongoing Blue Carbon Projects?**

Avoidance of double counting through corresponding adjustments has been a key issue discussed by project developers from all sectors after COP26. According to the Article 6 guidance, a corresponding adjustment would apply for all offsets from blue carbon ecosystems, even if blue carbon is not included in the national inventory or the country’s NDC. The exception is if the country host decides **not to authorize units for Article 6 purposes** and then units could potentially be traded internationally for use in the voluntary carbon market without a corresponding adjustment. Everything hinges on the decision of the host country to provide and authorization. There may be reputational risks for private sector buyers using credits without host country authorization or a corresponding adjustment.

### **How and when will corresponding adjustments apply if the country didn’t include blue carbon targets into its NDC?**

The text is not explicit. Units traded under Article 6 have to be **additional** to the NDC targets. However, if a country does not have blue carbon targets in the NDC, credits could potentially be sold **regardless of the country’s achieving its NDC targets**. In this scenario, blue carbon credits would not be **in addition** to the country’s commitments (there are no commitments after all), so they could be traded immediately. That is a risk but it is likely some buyer countries will penalize sellers who don’t meet their NDC by refusing to buy from them in the future. **But**, in the next NDC iteration, **IF** the country includes blue carbon, then it would not be able to count the blue carbon tonnes generated previously, because the CA was already applied.

**Blue Carbon and non-market approaches:** Article 6.8 also included “blue carbon” as part of the activities that could be further researched for the development of non-market approaches. In our view, this reflects the [momentum](#) that ocean has been gaining under the UNFCCC, rather than implying that blue carbon will *only* be considered as non-market. As mentioned before, emission reductions from blue carbon ecosystems fall under the land sector and would be included in the definition of an ITMO.

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**Article 6.8**

*5. Encourages Parties, public and private sector stakeholders and civil society organizations to actively engage in the research, development and implementation of nonmarket approaches;*  
*(b) Examples of potential additional focus areas of non-market approaches that may be facilitated under the framework (e.g. social inclusivity, financial policies and measures, circular economy, **blue carbon**, just transition of the workforce, adaptation benefit mechanism) and existing relevant non-market approaches that may be facilitated under the framework in the potential additional focus areas that are in accordance with the provisions referred to in chapter II of the annex (Non-market approaches under the framework);*

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## REDD+

**I heard that an explicit mention on REDD+ was excluded from the text. Does it mean Article 6 won't allow REDD+ units to be traded?** No. Article 6 was kept open to all sectors and there is sufficient legal basis for land use emission and REDD+ to be eligible under Article 6.2 even with no explicit mention in the text. As part of the ITMO Definition debate at COP 26, a specific text on REDD+ had been introduced to allow the recognition of the Warsaw Framework under Art 6.2. We supported the exclusion of the text and believe that the inclusion of REDD+ under Article 6.2 is most effectively accomplished by keeping Article 6 consistent with rules that apply to all sectors to create a strong and reliable market mechanism.

**How could units generated from REDD+ be traded under Article 6.2?** Under 6.2, countries must describe how the approach uses conservative reference levels, accounts for leakage, minimizes the risk of non-permanence across several NDC periods, and how it plans to address any reversals (if they occur). If these approaches meet the approval of the buyer country, then the trade can occur. Additionally, there will be an Article 6 technical expert review team that will review agreements and

provide recommendations if there are inconsistent approaches. If various REDD+ projects and programs meet these terms, then there can be ITMO trades.

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#### **Article 6.2**

*Annex, 3, A, (h) Describe how each cooperative approach ensures environmental integrity, including:... (ii) Through robust, transparent governance and the quality of mitigation outcomes, including through conservative reference levels, baselines set in a conservative way and below 'business as usual' emission projections (including by taking into account all existing policies and addressing uncertainties in quantification and potential leakage); (iii) By minimizing the risk of non-permanence of mitigation across several NDC periods and how, when reversals of emission reductions or removals occur, the cooperative approach will ensure that these are addressed in full;*

*6.2, Annex, IV, 27. The Article 6 technical expert review team shall prepare a report on its review, pursuant to paragraph 24 above, that shall, if applicable, include recommendations to the participating Party on how to improve consistency with this guidance and relevant decisions of the CMA, including on how to address inconsistencies in quantified information that is reported under chapter IV.B–C above (Reporting) and/or identified by the secretariat as part of the consistency check.*

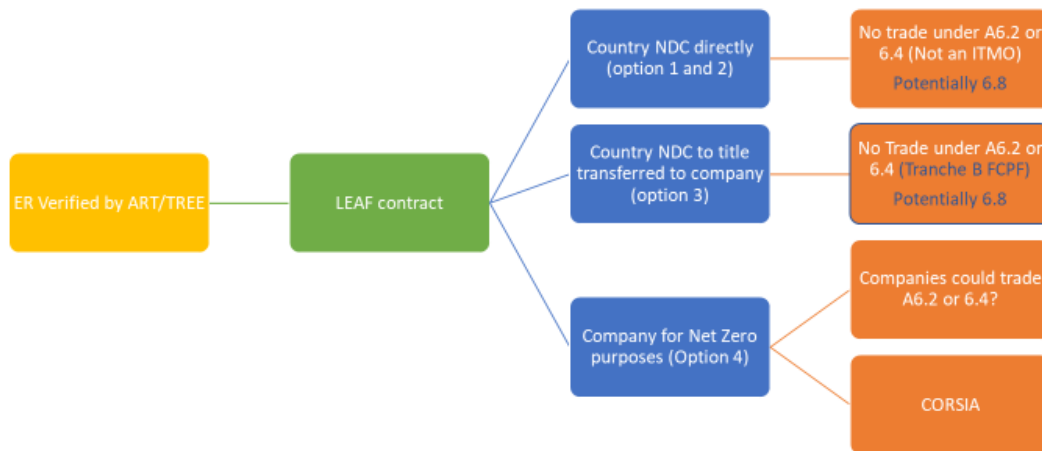
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**What REDD+ standards will qualify under Article 6.2?** Not sure yet. The current text provides no specific guidance on this matter and countries will have ultimate say over what they want to trade under Article 6.2.

**What would not qualify?** Non-market approaches to REDD+, such as the REDD.plus platform, would likely not qualify as its REDD+ units have only been *assessed* under the Warsaw Framework and has not been *verified* as is required for all Article 6 units. As mentioned previously, there was an attempt to circumvent this requirement at the last hour of COP26 but it was unsuccessful. These approaches would likely qualify for funding under Article 6.8, which is meant to support non-market approaches.

#### **Can you be more specific? How will Article 6 impact the four options of ART/TREES, for example?**

The LEAF Coalition/Emergent released an [statement](#) on the implications of COP26 on LEAF transactions. There are four transaction pathways available to and the participants in LEAF Coalition transactions may select the pathway that best suits their needs on a transaction-by-transaction basis. The following is an overview of the processes involved in each pathway.



LEAF OPTIONS	ARTICLE 6
<p><b>Option 1:</b> Sovereign contributors will not use Emissions Reductions toward their NDCs. Payments support mitigation efforts in the supplier jurisdiction. The underlying mitigation may be counted once: towards the Supplier Country's NDC</p>	<ul style="list-style-type: none"> <li>No authorization for LEAF credits to be sold as ITMO. Credits will not be traded internationally</li> <li>This is an example of a non-market payment. Under this option no ER will now be traded under Article 6.2 or 6.4. This could potentially be an example 6.8 non-market payment.</li> </ul>
<p><b>Option 2:</b> Private sector buyers provide results-based payments without taking title to ERs.</p>	<ul style="list-style-type: none"> <li>No authorization for LEAF credits to be sold as ITMO. Credits will not be traded internationally</li> <li>This could be an example of a 6.8 non-market payment or could be an example of how a new voluntary carbon market framework might look like, where the claims by the business are only about how they are helping to meet the host country's NDC.</li> </ul>
<p><b>Option 3:</b> Private sector buyers take title to ERs. Under this option the Supplier will transfer the ERs to the buyer on the ART registry. The supplier country may include the underlying mitigation in accounting for its NDC. The private sector buyer must transparently communicate that the underlying mitigation contributes to the Supplier country's NDC implementation and achievement.</p>	<ul style="list-style-type: none"> <li>Buyers may take title to the associated emission reductions, and will transparently communicate that the underlying mitigation counts towards the supplier country's NDC implementation and achievement</li> <li>However, the Supplier country could also chose not to authorize the export, and theoretically, the credit could still be sold but without a corresponding adjustment</li> </ul>
<p><b>Option 4:</b> Private sector buyers take title to ERs for which the Supplier Country is willing to make</p>	<ul style="list-style-type: none"> <li>This is an example of what we might see under 6.2 or 6.4 (though it would depend on whether</li> </ul>



<p>a corresponding adjustment. Under this option the Supplier will transfer the ERs to the buyer on the ART registry, and the supplier country will apply corresponding adjustments for the underlying mitigation in accounting for its NDC.</p>	<p>the Supervisory Body in 6.4 recognizes ART/TREES as a standard).</p> <ul style="list-style-type: none"> <li>• Transactions will be labeled as authorized by the supplier country in the ART registry. If the host country applies CA in accordance with A6 guidance, the ART registry will label it as adjusted. Companies could sell these credits, but any profits would have to go back to the host countries</li> </ul>
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### Is REDD+ included in Article 6.4?

Article 6.4 will appoint a Supervisory Body to look at existing CDM methodologies and methodologies from ‘other market-based mechanisms’ (which could include REDD+ methodologies, potentially). The Supervisory Body will make a decision about what is allowed, with special consideration to “conservation enhancement activities”, which could partially include land use emissions. Expect some of the Supervisory Body appointees (see [here](#) list of nominated members until December 2<sup>nd</sup> 2021) to have pre-existing and/or political considerations that may restrict approval of REDD+.

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#### Article 6.4

*7. Further requests the Subsidiary Body for Scientific and Technological Advice to develop, on the basis of the rules, modalities and procedures contained in the annex, recommendations for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its fourth session (November 2022) on:*

*(h) The consideration of whether activities could include emissions avoidance and **conservation enhancement** activities*

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## IMPACT ON THE VOLUNTARY CARBON MARKETS

### Does the agreement of Article 6 impact the voluntary carbon markets? How?

Article 6.2 and 6.4 obliquely references the voluntary carbon market when it talks about “other international mitigation purposes.” This includes both “international mitigation purposes other than the achievement of an NDC” (CORSIA) and “other purposes as determined by the first transferring participating Party” (VCM) (see CORRESPONDING ADJUSTMENT SECTION). Basically, if a country wants to designate and authorizes it as a 6.2 or 6.4 unit as eligible to trade on the VCM, it will need a CA. This begs the question of whether countries will acknowledge VCM trades in practice, as they could also just ignore the current VCM trades which are not part of Article 6.

**In Summary:** If it is authorized by the host party, then there must be a CA, even if it is authorized for the VCM. But if it is NOT authorized, then no CA is needed, if it is sold on the VCM. Our interpretation is that countries will be more focused on setting up Article 6 trades first, and will likely not try to regulate the VCM until other mechanisms for trading under 6.2 and 6.4 are in place. We expect most VCM trades will continue to operate outside of country authorization and outside of CAs, as countries will likely not require authorization of CAs for the VCM in the near-term.

### **I'm a company. What can I do now that Article 6 is agreed?**

While the framework for Article 6 has finally been agreed, many of the steps needed for implementation need further guidance at the national level. Speak with national policy makers to see if/when additional decisions will be made, including:

- Countries must designate a national authority for the 6.4 mechanism.
- Countries must indicate how participation in 6.4 contributes to sustainable development “while acknowledging that the consideration of sustainable development is a national prerogative”. As a company, you should be pushing for a high bar around sustainable development, human rights and Indigenous rights as a prerequisite here. Some countries might not start from an ambitious definition.
- Countries must indicate the types of activities that will be considered under 6.4 within the country.

Under Article 6.2, opportunities for engagement will be highly dependent on the specific deals agreed to by countries. It probably won't be possible to give broad guidance on how to engage here.

### **I'm a company. What should I be aware of when participating in Article 6?**

Article 6 defines sustainable development as a national prerogative. That could mean there are some projects that are not held to a high standard. Businesses should push to ensure a high bar for the social and environmental integrity of projects, regardless of the host country. Additionally, Indigenous Peoples, Local Communities and civil society observers had asked for an independent grievance mechanism in Article 6.4. This was not included, and so project developers and buyers should ensure that this is provided at least on a project-by-project basis.

## **NEXT STEPS**

### **Is Article 6 up and running? What are the next steps for Article 6? What rules are still missing?**

Although the basis for the A6 implementation were agreed on at COP26, a few more rules are still needed for the mechanism to be fully operational. Here are a few next steps:

- An Article 6.4 “supervisory body” will start work in 2022 at two meetings, where it will begin to draw up methodologies and administrative requirements for the market.
- Further technical work will develop guidance on how to apply corresponding adjustments, in particular relating to the question of double counting and single-year NDCs.
- Technical work will also look at whether to allow credits from “emissions avoidance”
- In 2028, a review will consider whether to apply additional safeguards or limits on the use of credits under Article 6.2.
- A Glasgow Committee on Non-Market Approaches is established to take forward the development of climate cooperation under Article 6.8, with the committee due to meet twice a year until at least 2027