DEBATE ON
ARTICLE 6 OF THE PARIS AGREEMENT

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Article 6 of the Paris Agreement outlines a framework with nine high-level principles to facilitate carbon markets and emissions trading to help countries achieve their national climate targets. Since the Agreement's adoption in 2015, Article 6 has been one of its most debated components. It aims to support both market and non-market approaches, enabling countries to meet their Nationally Determined Contributions (NDCs) through cooperative carbon trading mechanisms. However, progress on Article 6 has repeatedly stalled due to disagreements over critical issues, including transparency, environmental integrity, and equity. Developing nations have voiced concerns about potential exploitation in bilateral agreements under Article 6.2, while developed countries emphasize the need for flexibility to meet emissions targets cost-effectively. These tensions, which continued through COP26 in Glasgow, have delayed the full operationalization of Article 6. The urgency now lies in overcoming these impasses, as Article 6 holds the potential to channel vital climate finance to developing countries and drive substantial global emissions reductions.

TWO TRADE-OFF OPTIONS -
WHAT IS THE DIFFERENCE BETWEEN ARTICLE 6.2 AND 6.4?

Article 6.2

of the Paris Agreement permits countries to trade emission reductions and removals through bilateral and multilateral agreements, with the terms of such transactions set by the host and buyer countries. The carbon credits exchanged in these transactions are known as Internationally Transferred Mitigation Outcomes (ITMOs).

Article 6.4

in contrast, will establish a global carbon market supervised by the United Nations under the direction of the Article 6.4 Supervisory Body (SBM). Once operational, this market will allow project developers to register projects through the UN-approved process, requiring approval from both the host country and the Supervisory Body before generating carbon credits. These credits, termed Article 6.4 emission reductions or A6.4ERs, can then be purchased by countries, corporations, or even individuals. The mechanisms under Article 6.2 and Article 6.4 reflect two contrasting approaches to carbon trading, each offering unique advantages and posing specific challenges.

Article 6.2

provides flexibility through bilateral and multilateral emissions trading, enabling countries to create terms and methodologies suited to their specific needs. While this autonomy allows for adaptable agreements, critics argue that the lack of centralized oversight could lead to varying standards and potential discrepancies in environmental integrity. Concerns over double-counting and limited safeguards in these agreements could also jeopardize the credibility of emissions reductions.

Positives:

The Article 6.2 mechanism ensures that all carbon credits authorized by host countries undergo mandatory corresponding adjustments, promoting transparency and accountability. Credits have an implicit expiration date, as they must be used within the Nationally Determined Contribution (NDC) period in which they were generated, ensuring that emission reductions are counted promptly.

Challenges:

The mechanism needs more independent oversight, leaving the quality and integrity of emission reductions or removals largely unregulated, and countries have significant discretion in defining critical criteria such as environmental integrity and additionality. There needs to be a clear framework for addressing issues like double counting, transparency, or the use of temporary carbon storage, and the absence of mandatory social safeguards or adaptation levies raises concerns over fairness and sustainability. Furthermore, the potential for non-GHG metrics and vague carbon quantification practices complicates the system, making it prone to abuse.

Conversely, Article 6.4 offers a centralized global carbon market under UN supervision, promoting standardized crediting procedures with stringent registration and verification requirements. Article 6.4, the Supervisory Body, ensures that projects meet clear environmental and social standards and aims for a more consistent approach. However, this oversight introduces additional bureaucratic requirements, which may discourage some countries and developers due to increased time and cost commitments.

Positives:

Article 6.4 introduces mandatory levies on carbon credits to fund climate adaptation in developing countries, including a 5% transfer to the Adaptation Fund and an annual 3% issuance fee from project developers. It also mandates canceling 2% of all issued A6.4ERs to contribute to overall global emission reductions. The mechanism ensures adherence to environmental and social safeguards, including free, prior, and informed consent for indigenous peoples. Additionally, there are grievance redress and appeals provisions, though the process requires further refinement. Baseline and additionality principles are established, with ongoing negotiations expected to refine these into concrete technical provisions.

Challenges:

A significant challenge is the potential inclusion of carbon removal projects with short-lived storage, which could undermine long-term emissions reductions. Transitioning Clean Development Mechanism (CDM) projects to Article 6.4 may allow outdated methodologies to persist until 2025, risking the issuance of millions of low-quality credits. While efforts to avoid up to 2.8 billion questionable credits have been mainly averted, concerns remain about rebranding up to 900 million credits as A6.4ERs. These issues highlight the ongoing risks to the integrity of the carbon credit system under Article 6.4.

The debate between Article 6.2's flexibility and national sovereignty and Article 6.4's uniformity and oversight remain at the heart of ongoing negotiations. Countries work to find a balance that ensures effective climate action and robust environmental integrity.

ARTICLE 6.8 – NON-MARKET APPROACHES

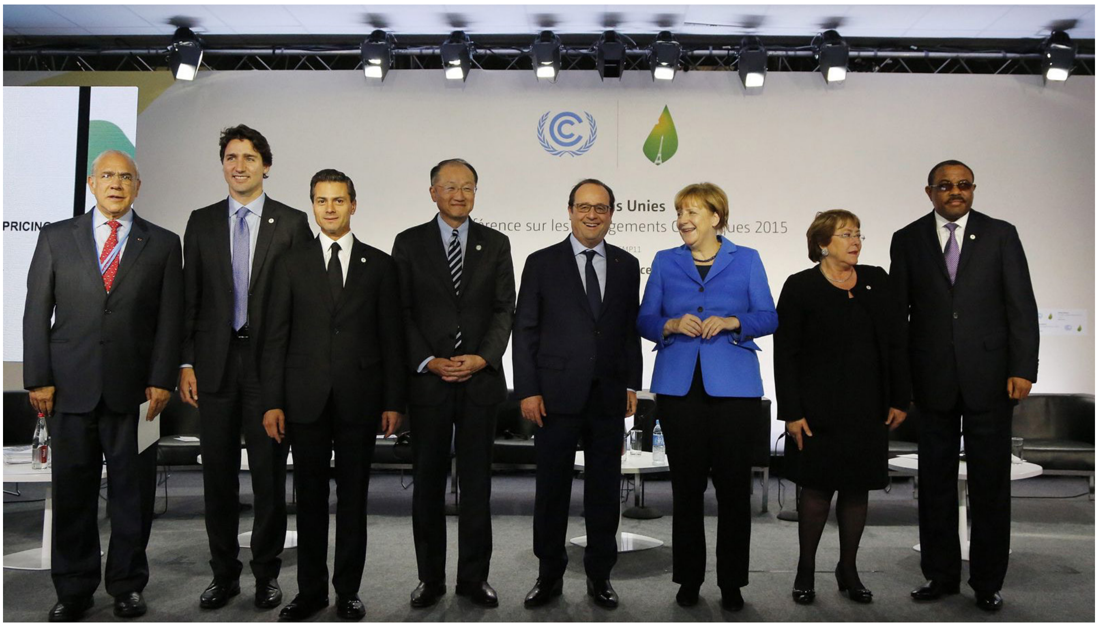
Article 6.8 creates a non-market framework that allows countries to assist one another without exchanging carbon credits. It will establish a centralized platform where countries can submit information about planned mitigation projects and identify areas requiring support. Other countries can then choose to offer financial or technical assistance. This online platform is intended to help match projects with the necessary funding and resources.

DEVELOPMENTS AT COP29

On Day 1 of COP29, parties successfully approved Article 6.4, a critical step toward ensuring that Article 6 can effectively support the global climate agenda. Article 6 aims to sustain a robust carbon market under the Paris Agreement, and with Article 6.4 now approved, negotiators will focus on refining the system to prevent double-counting carbon credits between buyer and seller parties and finalizing the methodologies for implementation.

The endorsement of standards for international carbon crediting projects establishes a dynamic mechanism that can adapt and update, enabling a fair and transparent market. This mechanism is expected to direct substantial resources toward developing countries, potentially saving up to USD 250 billion annually in global climate implementation costs. This advancement reflects unprecedented commitment among countries to collaborate on Article 6, especially following years of gridlock. According to the International Emissions Trading Association, the total trading in the U.N.-backed market could by 2030 cut 5 billion metric tons of carbon output annually. The intent is clear: to build a system that drives faster and more cost-effective climate action while safeguarding against potential misuse.

COP29 is a time for opportunity. Closing the gaps in climate finance and carbon market infrastructure will form a strong base from which countries will be able to efficiently deliver on their respective climate objectives. With this in mind, we anticipate that COP29 will entrench international climate action to be more representative, forceful, and resilient for all.



REFERENCES

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[Carbon trading stalemate threatens global climate progress - World - DAWN.COM]

[Article 6 can make or break carbon markets at COP29. Here's all you need to know. – Clean Air Task Force]

[The agenda was adopted after a long delay with some compromises, and Article 6.4 rules for carbon market rules were accepted, raising concerns]

[COP29 Agrees International Carbon Market Standards]

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