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Article 6 of the Paris Agreement at COP28: What is at stake?

Key points:

- Article 6 (A6) is a key component of the Paris Agreement. It aims to finalise the rules on how countries can use UN governed carbon markets to reduce their emissions and reach their climate targets.
- However, competing objectives mean that instead of helping to slow climate change, A6 could in fact let countries get away with making inadequate emissions cuts.
- While the topline rules have been largely agreed upon, several key details are still under discussion. Negotiations have been drawn out over multiple years and the resulting lack of clarity means that A6 is already being misused. A6 therefore remains an important component of the Paris Agreement to be discussed at COP28.
- Sticking points for COP28 negotiations are likely to include the guidelines for authorising credits, ensuring transparent reporting on trading credits, how to prevent double counting, how to define removals, eligibility of avoidance and REDD+ forestry projects.
- In light of the scrutiny over carbon markets, more attention may also be placed on non-market approaches to provide financing for nature.
- Decisions made are also likely to influence the voluntary carbon market, particularly in relation to double counting and carbon removals.

What is Article 6?

A6 is one of the least accessible and most complex articles in the whole Paris Accord. It allows countries to cooperate voluntarily with each other to achieve the emission reduction targets set out in their Nationally Determined Contributions (NDCs) via the transfer of carbon credits. A6 sets out two market mechanisms and one non-market mechanism.

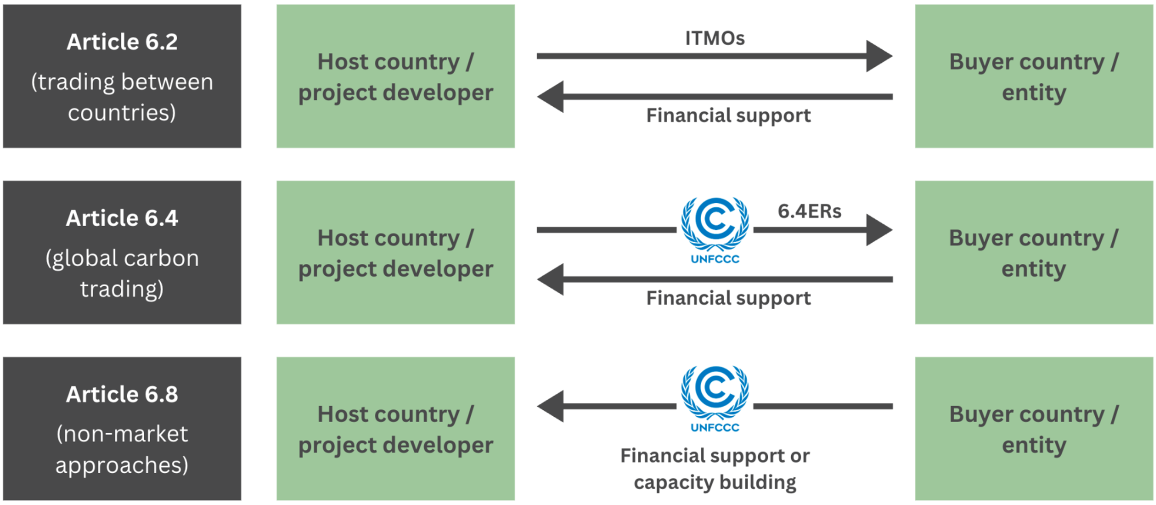
- **Article 6.2 (A6.2):** Allows for bilateral trading of carbon credits between countries to meet NDC targets. Credits traded under A6.2 are called Internationally Transferred Mitigation Outcomes (ITMOs) and can already be traded among countries. This is a decentralised approach, as countries decide on their own guidelines for trading credits.
- **Article 6.4 (A6.4):** Creates a new global carbon market overseen by a UNFCCC entity, referred to as the Supervisory Body (SB).[1] This will likely begin operating in 2024 and will replace the old Clean Development Mechanism (CDM) that enabled carbon trading under the Kyoto Protocol. These credits are called A6.4ERs and can

[1] The Supervisory Body consists of 12 member parties to the Paris Agreement and will have met eight times by COP28 since its formation last year.

be bought by countries, companies or individuals. Unlike ITMOs, A6.4ER credits must be authorised according to UNFCCC guidelines. As well as helping countries achieve their NDCs, A6.4 is designed to support sustainable development and mobilise the private sector to participate in climate change mitigation beyond emission reductions.

- **Article 6.8 (A6.8)**: Provides a formal framework for non-market approaches (NMA) for climate cooperation between countries, where no trading of emissions is involved. For example, technology transfer, capacity building, development aid or taxes to discourage emissions. It is less well-defined than A6.2 and A6.4.

Fig. 1: Carbon trading mechanisms under Article 6



Source: Adapted from The Nature Conservancy (2023)

How do carbon markets work?

There are two types of carbon markets:

- **Compliance markets are regulated markets**. They are used by companies and governments to obtain and surrender emissions permits (allowances) or offsets in order to meet - or comply with - predetermined regulatory targets. They are regulated by regional, national or international carbon reduction regimes, and examples include the California and Chinese markets. Kyoto Protocol market-based mechanisms are also part of the compliance market.[2] A6.2 and A6.4 are both compliance markets.
- **Voluntary markets (VCM) are unregulated**. They function outside compliance markets and enable companies and individuals to trade carbon credits on a voluntary basis. The credits generated by these markets are not allowed to fulfil compliance market demand, unless they are explicitly accepted into compliance regimes. Unregulated VMCs exist because of companies making voluntary net zero and carbon neutrality claims, often for PR purposes. A6 does not apply directly to voluntary markets but is very likely to influence them (see below).

[2] The Clean Development Mechanism (CDM), Joint Implementation (JI) and the EU Trading System (ETS)

Overall, markets allow countries and governments to trade emission reduction credits to help them reach climate targets. The underlying principle is fairly straightforward. For example, country A can buy a credit, the money from which pays for country B to restore a rainforest or a natural carbon sink. Country B benefits from receiving funding for its efforts to restore ecosystems, while country A can use that credit to offset its own hard-to-abate emissions and meet its NDC targets. If the rules are properly defined and implemented, in theory carbon markets can unlock additional finance and cut the cost of reducing emissions.

However, carbon markets have faced criticism for being a distraction from emissions reductions. The quality of credits has come under fire, with critics pointing out that the majority of offsetting projects are not permanent and do not actually reduce or remove emissions. Nature-based offsets, for example, are vulnerable to climate impacts such as extreme weather and forest fires. They are not, therefore, a direct offset (a like-for-like swap) for fossil fuel emissions, so can actually lead to a net increase in emissions. Meanwhile, renewable energy projects are no longer seen as 'additional', as they are already profitable without relying on revenues from selling credits. Reports have also shone a light on the overuse of credits as a scapegoat for poor emissions reductions. Countries and corporates are putting unrealistic demands on offsets, making assumptions that massively overestimate the amount of land available for offset projects.

Why will Article 6 be so important at COP28?

While the framework of A6 - the 'Article 6 Rulebook' - was agreed at COP26, slow negotiations at COP27 have left key details undefined and open to interpretation. Agreeing on the practical details remains one of the main objectives of COP28, with countries and the private sector already gearing up for A6 implementation. The current context for the conference means there are many reasons eyes will be on A6:

- **The integrity of carbon markets has come under fire.** While the VCM has been growing exponentially over the past years, reaching over USD 2 billion in 2022, a series of investigations have raised major red flags over the integrity of the market. An analysis released in January found 90% of Verra's rainforest carbon credits do not represent real emission reductions, and it has been followed by various other reports showing similar results from other projects. As a result, demand and prices have fallen, particularly for nature-based offsets, and the carbon market has since shrunk by an estimated 75%. Corporations have distanced themselves from offsets due to increased scrutiny over credit quality and accusations of greenwashing, as well as crackdowns from regulators on claims of "carbon neutrality". Developing stringent rules for the global carbon market under A6.4 could set a precedent for high standards and restore faith in carbon trading, if paired with regulation to ensure that credits are only used to offset hard to abate emissions.
- **Lack of agreement on details means A6 is being misused.** Countries can already technically start trading A6.2 credits despite there still being many details that need ironing out, including crucial review and transparency processes. This has resulted in the announcement of large-scale deals that potentially lack integrity and do not disclose their methodologies. Carbon markets are being pushed as a climate solution and are growing without any regulations or laws, particularly in Africa. For example, UAE company Blue Carbon has signed four MoUs with African countries to gain rights to massive portions of land and develop carbon credits, with only a small proportion of the benefits going back to the government and local communities. The UAE also recently announced that it would buy USD 450 million worth of carbon credits from the African Carbon Markets Initiative, launched at

COP27, which aims to achieve a 19-fold increase in the size of the African carbon market by 2030.

- **Questions are being raised as to whether, in practice, the use of offsetting aligns with 1.5°C.** There has been growing pressure around the quality of offsets, their longevity (given the rise in climate impacts), and whether the money even reaches those implementing the projects and the land owners. Rules around REDD+, a financing mechanism for forest-based activities, and avoidance credits, credits, generated from avoiding emissions that would theoretically have otherwise been released, could help to alleviate this, setting higher standards and proper review processes. This could ensure that a smaller number of high-quality, expensive offsets become the norm, rather than flooding the market with poor-quality credits that undermine 1.5°C. A new approach, suggested at COP27, is to replace traditional carbon offsetting in A6.4 with "mitigation contribution" credits. This could enable more ambitious climate action as countries and companies could finance emissions reductions without claiming the credits, but details still need to be clarified.
- **We're at a crunch point for land.** Demand for land is increasing as high food prices put pressure on increasing production, leading to indigenous land rights abuses, pressure on farmers and unstable ecosystems. NDCs and corporate targets are drastically over-relying on land for mitigation. The Land Gap Report states that to meet the nature-based mitigation pledges in NDCs alone, a land mass three times the size of India is needed - and that is before corporate targets are taken into consideration. Improving A6 standards and transparency could help to reduce the burden on land.
- **Financing for nature is becoming more urgent.** As scrutiny of forest and avoidance credits grows, negotiations at COP28 may turn towards alternative ways to pay for the protection and restoration of nature. This is essential for adaptation and mitigation - the IPCC estimates that protecting natural forests currently contributes between five to seven billion tonnes of CO2 per year to climate mitigation efforts. Initiatives such as the LEAF Coalition aim to bring the public and private sectors together to mobilise funding for tropical forest protection, and similar announcements may follow. However, like other carbon offsetting schemes, these initiatives have raised concern, including over the threat to indigenous rights and enabling greenwashing. Negotiations on A6.8 - the often forgotten part of A6 outlining non-market mechanisms for making contributions - can help to answer the questions around what the Paris Agreement means for nature, and who pays.
- **Time is running out.** The longer we wait for effective carbon markets - selling only a small number of high-quality offsets for hard-to-abate emissions - to become a reality, the further we delay essential emissions reductions. The release of the IPCC Sixth Assessment Report reconfirms that we cannot afford to invest in ineffective solutions. Straightening out the details of A6 could ensure that ineffective offsetting is not allowed.

What is REDD+ and how does it relate to Article 6?

REDD+ is a UN financing mechanism, outlined in Article 5 of the Paris Agreement. 'REDD' stands for "Reducing Emissions from Deforestation and Forest Degradation," while the '+ encompasses additional activities of conservation, sustainable management of forests and enhancement of forest carbon stocks. Under the REDD+ framework, developing countries can receive results-based payments for emissions reductions when they reduce deforestation.

However, emissions reductions from REDD+ projects should not be treated as carbon credits or be used for offsetting purposes. Reductions are verified under the UNFCCC's REDD+ Measuring, Reporting and Verification process and are known as REDD+ Result Units or RRUs. To verify RRUs, the UNFCCC requires national-scale accounting and reporting to address leakage and permanence. RRUs are also subject to reporting on safeguards. However, UN REDD+ projects are only designed to enable the transfer of money to countries engaging in forest-related activities, so the REDD+ framework misses some essential criteria to qualify as a carbon standard. For example, there is no fixed methodology, with countries given freedom in how they measure results.

REDD in the VCM

RRUs under the REDD+ programme have never been implemented in the UN carbon trading system. However, VCM standard Verra adopted aspects of REDD+ accounting methodologies, enabling credits from REDD projects to be traded in the VCM. In the VCM, REDD is used to describe the category of projects related to avoided deforestation.

Verra is the leading provider of REDD credits and has certified over 97 REDD projects, generating 445 million credits. Verra provides carbon credit project developers with a large amount of flexibility when estimating emissions reductions, enabling them to choose among several different methodologies to calculate the amount of credits their projects would create. As a result, emissions reductions are often overstated, among other issues, and REDD credits have drawn increasing criticism in recent months.

REDD+ under Article 6

It has largely been interpreted that A6 should not include REDD+ activities, as these mainly result in "emissions avoidance" rather than the "emission reduction and removal" cited in A6.2 and A6.4. For use under A6.4, the UN's A6.4 Supervisory Body would have to approve REDD+ related methodologies.

However, some submissions from countries and organisations have called for REDD+ activities to be categorised as emissions reduction or removal activities, rather than avoidance, or already interpret REDD+ in this way and therefore include REDD+ in A6. For example, the Coalition for Rainforest Nations (CfRN), a non-profit and single-issue negotiating block of 50 countries, led by Papua New Guinea and Costa Rica, helped establish the concept of REDD+ in 2005 and is a major proponent of its use. CfRN claims that there are "no legal reasons" that RRUs cannot be used like other carbon credits and traded in global carbon markets.

The CfRN has promoted the idea of REDD+ "sovereign" credits, where countries are able to sell their UN-verified RRUs from REDD+ projects. The CfRN has already set up a platform where host countries can sell UN-verified RRUs to businesses and individuals on the VCM, called REDD.plus. The platform is completely separate from UN infrastructure.

In 2022, Gabon said it planned to issue 90 million RRUs, citing its right to do so under Article 5 of the PA. According to the country's environment minister, "much of Africa is looking at this sale as a litmus test" of whether rich countries and companies are willing to pay developing nations a fair amount to preserve their carbon-absorbing forests. Carbon traders were concerned this would swamp the global carbon market. Gabon, however, failed to find buyers for its credits. Carbon trading lobby International Emissions Trading Association (IETA) took the view that RRUs aren't actually carbon credits and are therefore not fungible for compliance. Additionally, Xpansiv, the world's biggest VCM platform, reversed plans to host trading of RRUs due to technical reasons and lack of demand.

In September 2023, CfRN launched a for-profit spin-off, called ITMO Ltd., which will sell post-2020 RRUs. It has renamed these RRUs as ITMOs, therefore classing them as equivalent to credits traded under A6.2. CfRN has signed MoUs with the Democratic Republic of the Congo, Honduras and Belize to sell their credits through this platform.

It is likely we will see discussions on the eligibility of REDD+ under A6 continue during negotiations in COP28.

What is the status of negotiations ahead of COP28?

While the adoption of the Article 6 Rulebook lays out the fundamental rules for how A6.2 and A6.4 are to operate, negotiations at COP26 and COP27 were slow and left a great deal of work to be done - and the devil lies in the detail.

Parties met at Bonn this June to discuss implementation guidance for A6.2, which was followed by technical workshops. This included topics such as transparency and authorisation of ITMOs, which will be discussed again at COP28. In general, there is a divide between countries who are pushing for a system with "more accountability and supervision, and those who want the bare minimum in place with as few questions asked as possible." A general concern is that the level of technicality in A6 negotiations means even some negotiators struggle to understand discussions.

The Supervisory Body under A6.4 has held meetings throughout the year and will put together a series of recommendations on contested issues - such as methodologies, removals, emissions avoidance, authorisation of credits and registries - for consideration at COP28.

As in previous years, it is essential that while "parties are keen to get things up and running", rushing the negotiation process may jeopardise transparency and proper safeguards for environmental integrity and human rights.

What are the key sticking points?

Article 6.2 (bilateral trading between countries)

While ITMOs are already being traded, there are still some key elements that need to be agreed upon to ensure the functioning and integrity of trading:

- **Ensuring transparency:** At COP27, countries were given a broad scope to decide whether key details of carbon trading should remain confidential, including what type and quantity of offsets have been traded. There are no limits on what information can be treated as confidential. While countries "should" explain why information is confidential, there are no requirements to do so. This is particularly concerning as, unlike A6.4, where credits are subject to UNFCCC authorisation, under A6.2 countries themselves decide if credits meet their standards. Activists and civil society have raised concerns this will make it hard to ensure deals struck between countries are meeting integrity standards.

- **Strengthening the review process:** A review team, made up of technical experts assigned by nations participating in A6.2, is mandated to check deals struck under A6.2 for inconsistencies and ensure all rules are being met. The scope and remit of this team were weakened considerably during the COP27 negotiations. The text states that checks will be "implemented in a facilitative, non-intrusive, non-punitive manner, respectful of national sovereignty and avoid placing undue burden on participating Parties". There are also questions about how confidential information will be treated in this review process. Although the review team is able to carry out checks on 'inconsistencies' that are deemed confidential, they may not be able to make their findings public. Negotiations at COP28 can help give more weight and authority to the review process.
- **Clarifying the authorisation process:** The authorisation process for ITMOs, including timing and the possibility of revoking credits, was debated during talks at Bonn in June. Some countries want flexibility to take back their authorisation at a future date, for example, if they are unable to meet their NDC targets, which could threaten the integrity of trading under A6.2.
- **Eligibility of REDD+ activities:** Some negotiators argue that the use of REDD+ activities towards A6.2 is not explicitly prohibited and that the current text enables their use. Issuing credits from REDD+ activities mainly involves proving that a forest would have been cut down in the absence of funding, which is very difficult to do (see box on REDD+).

Some other ongoing issues are scheduled to be discussed at COP29 in 2024, such as the eligibility of emissions avoidance.

Who is already signing deals under Article 6.2?

There are already 40 bilateral agreements or Memorandums of Understanding (MoUs) made under A6.2. However, out of all of these, only three deals have issued authorisation statements: Switzerland's agreements with Ghana, Thailand and Vanuatu. The first authorisation of ITMOs was announced between Switzerland and Ghana at COP27, with Switzerland now able to claim the emissions cuts from the installation of efficient lighting and cleaner stoves in Ghana towards their own NDC. Japan also has concrete frameworks in place to buy a variety of credits through the Joint Crediting Mechanism (JCM). However, it is still typically a lengthy multi-year process for countries to authorise A6.2 agreements.

Purchasers of credits include the governments of Singapore, Sweden, Switzerland, South Korea and Australia, as well as the UAE-based private company Blue Carbon. Under A6.2, governments can agree for companies to trade ITMOs within the overarching frameworks established by those governments, enabling private sector participation in ITMO transactions.

However, Blue Carbon (which, according to Middle East Eye, is led by a member of the UAE royal family and has no prior experience in carbon management) has come under fire for four bilateral deals announced with Liberia, Tanzania, Zambia and Zimbabwe. For example, one deal gives customary land rights of around 10% of the land area of Liberia to Blue Carbon, which claims to be generating credits by adhering to REDD+ standards. However, key gaps arise. For example, REDD+ credits must be 'additional' - meaning the emissions reductions would not have occurred in the absence of the project - which is not true in the case of Liberia, as the purchased land already includes nature reserves.

Article 6.4 (project-based emission trading)

The A6.4 Supervisory Body (SB) has been set up to establish the rules for a new global carbon market, which is likely to begin operating in 2024. As trading under A6.4 will be overseen by the UN, many key rules need to be agreed upon before the global market for carbon trading can be set up:

- **Developing clear guidelines for authorisation:** Under A6.4, emission reduction credits authorised by host countries to be used towards NDCs or other international mitigation purposes must undergo a corresponding adjustment (CA) to ensure they are not double-counted. This means that if an emission reduction credit is authorised for sale to another country, it must be taken off the host country's balance sheets and only accounted for by the purchaser. However, it remains unclear when exactly a 6.4ER is required to undergo a CA. At COP27 it was suggested that if a country does not authorise the use of credits for trading, these could be used as a "mitigation contribution 6.4ER", where they do not require a CA as they will only be claimed for use by the host country. If more clarity is not provided on the use of contribution credits, they may be double counted and could create what some observers have termed a 'sub-prime market' in carbon credits, which could overestimate progress towards 1.5°C.[3]
- **Eligibility of avoidance and REDD+ credits:** "Emissions avoidance" is inconsistently and poorly defined in terms of carbon credits. Avoidance credits are not currently permitted under A6.4 (or A6.2) - only activities involving the removal or reduction of GHG emissions are included in the scope. However, the Philippines is pushing for emissions avoidance to be included by broadening the definition to GHG emissions "mitigation". If allowed, avoidance credits - which could include some REDD+ projects - could ruin the integrity of carbon trading under A6. If REDD+ credits were to be included in A6.4's scope, the methodology for calculating these credits would require further consideration (see box on REDD+).
- **Definition of removals:** In 2023, the Supervisory Body for A6.4 sought inputs on removal activities through a public consultation process which received high levels of engagement from the carbon removal industry. Further consideration is due to be given to the development of methodologies, including accounting, risk of non-permanence and leakage, with recommendations to be presented at COP28. If descriptions are too lax, they risk allowing credits into the markets that do not remove carbon from the atmosphere on a long-term basis.
- **Development of registries:** Transactions under A6.4 will be recorded in a registry, the features of which are still to be decided. Countries have raised the need for a registry that connects both A6.2 and A6.4 transactions, as well as registries outside the UN system. Developing an effective registry can help improve the integrity and

[3] It was also decided at COP27 that credits (known as Certified Emissions Reductions) issued under the previous carbon trading scheme (the Clean Development Mechanism) established under the Kyoto Protocol registered after 2013 can be transferred to the A6.4 for use against a first NDC without a corresponding adjustment by the host country.

transparency of A6.4. Carbon Market Watch recommends that registries contain an in-depth analysis of each project and project documents, a record of all transactions and holders of A6.4ERs and information on finance reaching project developers.

- **Human rights considerations:** A6.4 includes an "independent grievance process" that would allow individuals and communities negatively impacted by A6.4 projects to appeal decisions of the Supervisory Body or to request that a grievance be referred to an independent body. It is important that the grievance process is effective, transparent and accessible - and is not hijacked by those with vested interests in carbon market development.

One other distinctive feature of A6.4, agreed at COP27, is a requirement that credits issued will have 2% of credits cancelled for Overall Mitigation of Global Emissions (OMGE) and 5% of credits forwarded towards a global adaptation fund to help Global South countries finance efforts to adapt to climate change. This means that conducting transactions under A6.2 is comparatively less costly than under A6.4, and might result in A6.2 becoming the favoured mechanism - particularly as the infrastructure to start trading already exists and it is unclear when exactly trading under A6.4 can commence. Transactions under A6.2 may be conducted with lower integrity, as countries can decide their own guidelines for issuing credits, while UN guidelines have to be used to trade credits under A6.4.

Article 6.8 (Non-market Approaches)

A6.8 remains the least well-defined and discussed approach under A6. As the ongoing scrutiny of VCM reduces confidence in market-based mechanisms and developed countries fail to deliver their fair share of climate finance to developing countries, some countries and civil society groups are likely to shift attention towards A6.8 as an alternative financing mechanism for climate action. For example, the Global Forest Coalition has said that A6.8 is an "opportunity for the global south to find sources of climate finance to strengthen resilience and take real climate action, instead of surrendering land, resources and rights", while the Climate Land Ambition & Rights Alliance highlight that A6.8 could be the better mechanism as it is not limited to a carbon metric, and can better support co-benefits such as the protection of biodiversity and indigenous rights. Additionally, in August, leaders of eight Amazon basin countries signed the so-called Belém Declaration, which highlights A6.8 as an opportunity for establishing funds for protecting the Amazon.

A key issue is that the term non-market approaches (NMA) is so broadly defined that it could mean "anything and nothing". At COP26, the Glasgow Committee was established to continue work on A6.4 and has since put together a technical report including examples of NMAs. Discussions in Bonn this June continued around the COP27 decision to develop a web-based platform, which could potentially match countries in need of climate financing with those providing funds. To be successful in presenting a practical alternative to market mechanisms, there will need to be a larger focus from parties on operationalising A6.8 at COP28.

What impact will A6 negotiations have on the voluntary carbon market?

While A6 does not directly address the interaction between voluntary and compliance carbon markets, decisions made under A6.4 are likely to indirectly influence the VCM, particularly in relation to double-counting.[4] Increasing scrutiny over offsetting claims has pushed the VCM to consider new rules. The Voluntary Carbon Market Integrity Initiative has developed a Claims Code of Practice which addresses double counting. The Integrity Council for the VCM (formed by Mark Carney's Taskforce for Scaling up the VCM) has also released a Core Carbon Principles and Assessment Framework. However, this alone is unlikely to resolve the deep-rooted integrity issues in the VCM.

Alongside these developments, A6 decisions will be key to ensuring carbon markets are used effectively. A key concern is that ambiguity in the A6.4 text opens up the possibility of issuing credits that are not authorised by countries. These 'non-authorised' credits could be traded internationally for use in the VCM without requiring a Corresponding Adjustment - meaning they may be double counted and result in greenwashing if used by companies to make offsetting claims.

Although VCMs don't have to abide by A6 rules, it's unlikely that credible, standard-setting bodies will want to appear as having weaker standards than the UN under A6. There are different positions within VCM standard setters around the use of authorised vs non-authorised credits. Verra and the ICVCM, for example, will continue to sell non-authorised credits - claiming that a CA should not be obligatory in the VCM, whereas Gold Standard does not back selling them. Regardless, both Verra and Gold Standard have begun developing labels for credits that have been authorised by host countries under A6.

Decisions around authorised and non-authorised credit sales on VCMs, as well as decisions around avoidance credits (which make up over 90% of VCMs), and the definition of a high integrity removal, could drastically limit the scale of VCM growth. Additionally, growth in compliance markets through more widespread implementation of A6.2 and A6.4 could reduce the significance of VCMs. While some countries, like Singapore, are investing in growing the VCM, others, like Australia and Japan, are planning to trade domestic carbon credits under A6, instead of utilising the VCM. Many countries have put carbon trading plans on hold until the rules for carbon trading under A6 are finalised.

Actors in these markets should also take note that all countries who have ratified the Paris Agreement have agreed that simple offsetting is no longer acceptable and that credits must deliver climate adaptation finance.

[4] A6 does not directly regulate the VCM, and in principle carbon credits can be issued and purchased without reference to A6