

ARTICLE 6 101

The Paris Agreement sets a long-term goal of limiting the average global temperature increase to “well below” 2°C, with all countries “pursuing efforts” to keep the temperature rise to 1.5°C. The Agreement also aims to achieve global net zero emissions in the second half of the century.

Article 6 of the Paris Agreement allows countries to achieve their Nationally Determined Contributions (NDCs) cooperatively through market-based and non market-based approaches, which can facilitate an increase in ambition over time. Around three-quarters of NDCs refer to access to an international carbon market.

Article 6 could help countries unleash new investment flows and drive innovation through new mechanisms for emissions trading and climate finance funds.

How does Article 6 trading work?

Article 6.2 lays out the provisions to facilitate cross-border transfers of mitigation outcomes; in UNFCCC-lingo, these are referred to as ‘internationally transferred mitigation outcomes’, or ITMOs. These can help countries which already have a carbon price (eg via an ETS or tax), or that are willing to authorise and sell part of their mitigation outcomes abroad to finance further climate actions, to enter into bilateral and plurilateral forms of cooperation. In turn, it will allow countries to increase their climate ambition by participating in a larger market (and economy), driving down greenhouse gas emissions at lower cost than through purely domestic efforts. Transfers of emissions reductions from one country to another will help expand the map of countries participating in a carbon market or carbon pricing policy, and it will help create a fungible, international price on carbon.

Article 6.4 creates a voluntary and centralised mechanism to contribute to the mitigation of GHG emissions and support sustainable development. This new mechanism will replace the former Clean Development Mechanism (CDM) and will be administered by a Supervisory Body with the aim of promoting the participation of public and private entities in mitigation activities, contributing to emission reductions not only among parties involved but also to the overall mitigation of global emissions.

Articles 6.2 and 6.5 clearly highlight that robust carbon accounting rules and measures to prevent double counting of emissions reductions are essential, and at the 2022 UN climate talks, governments agreed on guidance to record and track ITMO transfers by the application of “corresponding adjustments”. This is critical, as it ensures governments do not count the same emissions reductions twice when those ITMOs are being used towards the achievement of countries NDCs or for other international mitigation purposes (eg, CORSIA).

How does Article 6 handle the CDM?

Governments agreed in Glasgow in 2021 to allow CDM projects and programmes of activities to transition to the Article 6.4 mechanism, but they must apply by the end of 2023 to do so and will then need to fulfil the participation requirements for the 6.4 mechanism. Moreover, Certified Emission Reductions achieved by CDM projects or programmes of activities registered on or after 1 January 2013 may be used towards countries’ first NDCs or first updated NDCs, but must be identified as pre-2021 emission reductions in the mechanism registry.

