



IETA GUIDE TO KEY ISSUES FOR GLASGOW COP26

October 2021

This document is intended to provide a guide to the UNFCCC Conference of the Parties (COP26) taking place in Glasgow from 31 October – 12 November 2021 and present an overview of IETA’s positions on some key negotiating issues.

Specifically, this briefing document answers several pivotal questions in the lead up to COP26, and is structured around the following sections:

- What are the key agenda items at COP26?
- What is Article 6?
- Why is Article 6 an issue at COP26?
- What is IETA’s position on the Article 6 issues?
- What are the main “Crunch Issues” on Article 6? Where does IETA stand?
- What has been the progress on Article 6 since COP25 in 2019?
- What will be the starting points for talks in Glasgow?
- What are other big issues in Glasgow?
- What are IETA’s priorities for COP26?

WHAT ARE THE KEY AGENDA ITEMS AT COP26?

There are a number of key agenda items for COP26 in Glasgow. The UK Presidency seeks to:

- ensure that all Parties have submitted enhanced Nationally Determined Contributions (NDCs);
- agree on sources of climate finance and gather commitments from nations to contribute;
- increase collective efforts to adapt to the impacts of climate change, and
- complete the so-called “Paris Rulebook”, the guidelines for the implementation of the Paris Agreement on transparency and cooperation under Article 6.

All of these elements are critical to raise climate ambition and achieve the main goal of the [Paris Agreement](#) – to ensure that the average global temperature increase is limited to 1.5°C and that the world achieves net zero emissions by the second half of the century.

As an organisation that promotes the use of market mechanisms to achieve climate goals, IETA has a particular interest in the completion of the Paris Rulebook, and specifically the guidance for Article 6 of the Paris Agreement.

At the close of COP25 in Madrid in 2019, negotiators nearly reached the finish line on a final agreement on Article 6, with just a few issues outstanding. The drafts left on the table proposed compromises on a number of technical issues. The remaining policy differences have now moved up to heads of delegations and ministers for political resolution in Glasgow, as part of a set of high impact issues.

WHAT IS ARTICLE 6?

Article 6 offers sovereign governments (Parties) the opportunity to pursue cooperative approaches with others as a route to achieving their respective NDCs. Building on experience gained under the Kyoto Protocol, Article 6 sets out three ways for Parties to cooperate in cutting emissions, with the first two using market-based mechanisms.

- **Article 6.2:** relates to cooperation between Parties that results in “internationally transferred mitigation outcomes” (ITMOs) that count towards NDCs. Article 6.2 requires Parties to promote sustainable development and ensure environmental integrity and transparency, and apply robust accounting to ensure, amongst others, the avoidance of double counting between Parties.
- **Article 6.4:** establishes a “mechanism” to contribute to the mitigation of greenhouse gas emissions and support sustainable development. This mechanism is generally considered to be the follow-up to the Clean Development Mechanism (CDM) under the Kyoto Protocol and should “incentivize and facilitate participation in mitigation... by public and private entities”, and “deliver an overall mitigation in global emissions.”
- **Article 6.8:** establishes a work programme to elaborate “non-market mechanisms” to help Parties achieve their NDCs, at national and international level and involving both public and private sectors.

Even though governments have not yet completed the rules for Article 6, some countries have already begun pilot cooperation projects, in which investment flows from one country to the other, and emissions reductions will be transferred from the recipient of the finance to the investing country. For example:

- Switzerland entered agreements with Peru and Ghana in late 2020 to set up frameworks for cooperation on Article 6 – and the Swiss Klik Foundation is now [facilitating](#) potential transactions;
- Sweden [announced plans](#) in 2021 to explore Article 6 Pilot Projects with the Dominican Republic, Colombia, Ethiopia, Ghana and South Africa; and
- Japan has entered MOUs with 17 other countries in a “[Joint Crediting Mechanism](#)” that could become a vehicle for Article 6 transactions.

WHY IS ARTICLE 6 AN ISSUE AT COP26?

Despite the Paris Agreement entering into force on November 4, 2016, Parties have failed to reach agreement on the rules to operationalise Article 6 at the last two COPs – in Katowice in 2018 and Madrid in 2019.

Before the central Article 6.4 mechanism can begin operation, a solid framework, rules and procedures must be established. This mechanism assures market access for any participating country, so it is particularly important for developing countries. However, Article 6.2 offers a pathway for cooperation even in advance of final rules on Article 6. For example, as with the Article 6 pilots, Parties can use independent crediting frameworks, as long as they follow the accounting guidance in Article 6, once

it is agreed. The transparency framework already provides the basic accounting rule, as agreed in rule 77(d) of the Katowice Climate Package in 2018.¹ The establishment of a UN-administered transaction log and registry will further improve the transparency of these transactions and build confidence in international markets.

There are a number of reasons that an agreement has yet to be reached:

- While Parties have generally agreed on how market mechanisms should work under the framework of the Paris Agreement, there is some disagreement over guidelines on baselines and additionality under Article 6.4. Remaining differences are on the degree to which certain provisions should cover different parts of Article 6.
- The Kyoto Protocol's market mechanisms create an important precedent, so negotiations frequently end up in the same kind of deadlocks that characterised KP negotiations.
- Article 6 is of strategic interest to many Parties, and has the potential to deploy significant adaptation and mitigation finance, so negotiations are prone to become highly politicised. This makes the process more difficult.
- Article 6 removes the developed vs. developing countries differentiation that characterised market mechanisms under the Kyoto Protocol, so negotiators have to strike the right balance and find a model that works for everyone.

WHAT IS IETA'S POSITION ON THE ARTICLE 6 ISSUES?

The private sector prefers that governments form a common set of guidelines to assure environmental and market integrity now, so that a truly global market can form promptly to support action at scale around the world.

IETA has set out its views and priorities for Article 6 in a separate paper, some of which are laid out below. We favour a market architecture that delivers transparency and ensures robust accounting of the transfer of emission reductions.

Since then, our view has been underpinned by [research](#) that shows cooperative activity under a robust set of Article 6 rules can significantly reduce the cost of emissions reductions

¹ Katowice Climate Package, Modalities, procedures and guidelines for the transparency framework for action and support referred to in Article 13 of the Paris Agreement. Katowice, 2018.
https://unfccc.int/sites/default/files/resource/cma2018_3_add2_new_advance.pdf#page=18

and enable greater ambition. The research showed that a **combination of efficient trading systems and natural climate solutions could enable nations to double the reductions offered in the first NDCs at no additional cost.**

WHAT ARE THE MAIN “CRUNCH ISSUES” ON ARTICLE 6? WHERE DOES IETA STAND?

Article 6.2:

- **How to define and make corresponding adjustments in national balances to account for transfers of ITMOs, including rules for tracking these transfers.**

IETA supports corresponding adjustments by nations to be reported in their biennial reports to the UNFCCC.

IETA believes corresponding adjustments can be done using double entry bookkeeping reported in the aggregate by the Parties involved in transfers.

- **Should ITMOs be generated only from activities that fall within the scope of a country’s NDC?**

IETA supports a transition to allow out-of-scope ITMOs, so long as the sector involved is brought into the scope of the country’s next NDC. This could be set as a simple 5-year transition, or as a rolling transition where project activities are able to generate credits for one crediting period – and then be brought into the NDC scope not later than 2030.

- **Should a portion of all transfers of ITMOs between Parties under Article 6.2 be cancelled or discounted to guarantee “overall mitigation in global emissions”?**

IETA does not support discounts or cancellations, because the strength of commitments should be fully reflected in ambitious NDCs – and discounts could act like a tax to discourage cooperation.

- **Should a levy be taken from each transfer of ITMOs under Article 6.2 to provide funds for adaptation (Article 7)?**

IETA believes the appropriate place to negotiate adaptation funding is in Article 7. While we support a share of the proceeds for adaptation in Article 6.4 as agreed in the Paris Agreement, we do not support extending it to other types of transfers.

- **Should Parties include voluntary carbon market transactions in their accounting and corresponding adjustments under Article 6?**

IETA believes Article 6 relates to how Parties set up policies for cooperation on mitigation and that voluntary action in voluntary carbon markets should not be included. Governments may of course decide to make corresponding adjustments for voluntary transactions if they wish, but this should not be made mandatory for all countries as this could hinder effective mitigation action by the private sector.

Article 6.4:

- **Whether to allow the transition or carryover of Kyoto Protocol units and projects – and whether to limit that carryover to certain registration years or issuance dates.**
IETA supports a transition of Kyoto Protocol methodologies and infrastructure, and we support allowing projects registered after 2015 (when the Paris Agreement was adopted) to generate credits for mitigation that occurs from 2020 onwards, within their full first crediting periods. For units issued prior to the Paris Agreement, we understand that a vintage limitation may be necessary to control any dilution of mitigation ambition in the NDCs that apply after 2020.
- **Should Parties make a corresponding adjustment to their emissions balances after transferring ITMOs generated under Article 6.4?**
IETA supports a transition period for 6.4 transactions. This could be set for a five-year period – or for a rolling “first crediting period” for an activity.
- **How to levy a fee or share of proceeds to fund the Article 6.4 mechanism, and how to implement an “overall mitigation in global emissions”.**
IETA supports a fee to provide administrative funding for the 6.4 mechanism. We believe the “overall mitigation in global emissions” is best assured through conservative baselines, effective crediting methodologies and robust accounting, not through discounts or cancellations.

WHAT HAS BEEN THE PROGRESS ON ARTICLE 6 SINCE COP25 IN 2019?

The incoming COP26 presidency, led by Alok Sharma of the UK, has held [monthly meetings](#) in 2021 with negotiating blocs and heads of delegation to discuss various agenda items, including [Article 6](#).

In May and June this year, negotiators met virtually for three weeks of informal talks, in which they discussed some of the outstanding issues listed above. However, the sessions did little to advance the substantive work, because many Parties simply restated old positions and reopened issues that were near closure at the last COP in Madrid.

COP26 President-elect Sharma has also held a number of ministerial consultations to develop political momentum to reach agreement at Glasgow. The G7 countries, meeting in the UK in June 2021, pledged to accelerate the transition away from coal power, but the G20 meeting held shortly afterwards failed to agree on the same issue. On 25-26 July – about 100 days before the Glasgow summit – the UK gathered ministers from 51 countries to discuss potential landing zones. Ministers and representatives from approximately 50 countries had a final opportunity to meet and hold in-person discussions at the Pre-COP in Milan from 30 September to 2 October – less than 30 days before COP26 begins.

WHAT WILL BE THE STARTING POINT FOR TALKS IN GLASGOW?

The COP26 Presidency has stated that the starting point for the resumption of negotiations will be the text that was published in Madrid on 15 December 2019. The relevant texts – along with previous versions – can be found at unfccc.int and below:

- [Article 6.2](#)
- [Article 6.4](#)
- [Article 6.8](#)

WHAT ARE OTHER BIG ISSUES IN GLASGOW?

The UK Presidency has already [listed](#) its key goals for the 2021 conference.

Nationally Determined Contributions (NDCs)

The Paris Agreement establishes a schedule of “global stocktakes”, at which Parties will assess their collective progress towards the goals of the Agreement and revise their NDCs as required. The Agreement also invited Parties to communicate their “long-term low greenhouse gas emission development strategies” by 2020. After the postponement of COP26 in 2020, this deadline was pushed back to 2021. A number of countries have already submitted enhanced NDCs ahead of COP26, and more are expected to do so before the end of the year.

Adaptation

The “global stocktakes” set down in the Paris Agreement also require Parties to submit reports detailing their work to enhance adaptation to the impacts of climate change and assisting vulnerable countries in their efforts. The COP26 Presidency is calling for “Adaptation Communications” to be submitted to the conference to summarise Parties’ plans and actions.

Climate finance

At COP16 in 2009, countries pledged to jointly mobilize \$100 billion per year by 2020 to address the needs of developing countries”. According to an OECD [report](#), this target has not yet been met, and delivering greater financial support will be a central theme of COP26.

WHAT ARE IETA’S PRIORITIES FOR COP26?

- We hope for new and enhanced NDCs to become aligned with the Paris net-zero goals to provide clarity for business planning.

- Article 6 guidelines need to be completed – international markets are essential for business to reach net zero goals; few companies can meet net zero alone and most will need to cooperate across sectors, regions and international borders to access high integrity markets for natural climate solutions, geological storage and other removals.
- Climate finance and carbon markets need to scale up in tandem to provide financial resources to developing countries, who are struggling to finance their climate action programmes.

IETA @ COP26 – CONTACT

IETA staff will be monitoring progress of the COP26 negotiations on-site in Glasgow. You'll be able to find our team in-person at IETA's Business Hub (Hall 5) in the Blue Zone. If you'd like to speak to a member of our team, contact press@ieta.org.

ADDITIONAL READING

- [COP 26: Implementing Article 6 of the Paris Agreement](#) (EDF, 2021)
- [Delivering Climate Ambition through Market Mechanisms: Capitalizing on Article 6 Piloting Activities](#) (IISD, 2021)
- [Decoding Article 6 of the Paris Agreement](#) (ADB, 2020)
- [How Article 6 Carbon Markets Could Make or Break the Paris Agreement](#) (CarbonBrief, 2020)
- [COP25 Summary Report](#) (IETA, 2019)