Article 6 Policy Briefs – Authorisation

Introduction

Authorisation is a key element of the Article 6 rulebook as it allows for both the reflection of sovereign rights and provides a necessary common legal infrastructure for the international market established by Article 6. Authorisation is the basis for the international compliance carbon market under the Paris Agreement – it is necessary for an emission reduction or removal to become an Internationally Transferred Mitigation Outcome (ITMO) that can be used towards NDCs or Other International Mitigation Purposes (OIMP).

While the terms 'authorisation' and 'authorised' are mentioned multiple times in the Glasgow decisions, existing guidance provides little detail on when and how this action should take place. The topic has been subject of intense discussion at COP27 and COP28, but no consensus was reached.

Ongoing negotiations focus on the **process and timing** of authorisation, the **content and format** of authorisation statements, and **the scope for changes to and revocation** of previously granted authorisations. Future 6.2 guidance will apply to all ITMOs, including authorised Article 6.4 ERs (A6.4ERs). The latter are expected to also be subject to more specific CMA requirements in relation to the timing and format of authorisation.

In absence of further guidance, each participating Party is able to authorise cooperative approaches, participating entities and ITMOs at any time, as well as changing and revoking such authorisations.

Existing UNFCCC guidance

The Glasgow decision on Article 6.2 (Decision 2/CMA.3) established three distinct elements to be authorised:

(i) authorisation of a cooperative approach (Annex, para. 18g);
(ii) authorisation of participating entities (Annex, para. 18g); and
(iii) authorisation of ITMOs (Annex, para. 1f).

While all three types of authorisations are necessary, the last one is the most consequential as it is the action through which a Party turns a real, verified and additional emission reduction or removal into a unit valid for international compliance purposes, an ITMO.

ITMOs can be authorised for two types of uses:

(i) towards the achievement of an NDC; and/or
(ii) for other international mitigation purposes (OIMP).

It is understood that a participating Party may decide to authorise an ITMO for both uses. While there is no direct reference to this circumstance, the Glasgow decision on Article 6.4 (Decision 3/CMA.3) assumes this practice is possible (Annex, para. 42).

According to existing guidance, ITMOs are authorised by a participating Party (singular). Therefore, while countries are free to design cooperative approaches where eligible units must be authorised by both the selling and buying country (bilateral authorisation), unilateral authorisations are permitted by the Article 6 rulebook.

Diverging views on authorisation matters

Intense discussion on authorisation matters took place in Sharm-el-Sheikh at COP27. Some additional progress was made at COP28, but the collapse of the Article 6 negotiations in Dubai meant that no guidance on this topic could be adopted.

Currently, the main areas of disagreement in the 6.2 draft text are the following:

- Process of authorisation – Some Parties would like to consolidate all authorisation elements in a single process, while others insist processes must be kept separate.

- Content of authorisation – There is no agreement on what information the authorisation statements should contain, and whether to provide guidance on a list of optional information participating Parties may include.

- Standardised forms – Whether the UNFCCC Secretariat should draft a template for the authorisation statements, and whether such a template should be mandatory or optional, is also a matter of disagreement.

- Transparency – Parties are at odds on whether the UNFCCC should run a public repository of all authorisation statements as several groups (such as LMDC, Arab Group) would like to maintain confidentiality.

- Changes and revocation – A wide spectrum of positions have been expressed on this sensitive topic. Options in the draft text currently range from no changes ever being allowed, to changes and revocation being possible at any time. Parties are split between those who prioritise national sovereignty and do not want their sovereign rights restricted by UNFCCC guidance (India, China, LMDC, Arab Group) and those who worry about the impact on investment certainty and environmental integrity if authorisations are not firm (UK, Singapore). Others (including the US and the EU) appear to be less concerned and may favour addressing this matter in the rules of specific cooperative approaches and programmes.

The 6.4 draft text contains some additional elements that only apply to A6.4ERs. These are:

- Timing – Parties are discussing whether to impose limits on the ability to authorise units issued by the 6.4 mechanism. Some (AOSIS, AILAC) would like authorisation to take place no later than at the issuance of the units, while others (African Group, LMDC) insist that authorisation can happen at any time post-issuance.

- Changes – This discussion mirrors one on the same topic in the 6.2 draft text, but the rules applying to the mechanism may be more restrictive to avoid impacting the application of the haircuts for Adaptation SOP and OMGE.

- Status of units with no statement – A related issue is how to treat units when the host Party does not provide a statement of authorisation at the time of issuance. Some Parties believe issuance should not occur in these cases, while others would like units to be assigned the status of mitigation contribution units (MCUs).

IETA recommendations

IETA urges Parties to consider the impact on investment certainty when negotiating further guidance on authorisation matters. Badly designed rules might increase risk for project developers and investors, and increase risk premiums and project costs, ultimately leading to lower investment flows into mitigation activities.

Our key messages on authorisation matters can be summarised as follows:

- Streamline authorisations by adopting standard procedures, forms and templates, as well as addressing multiple elements in a single process where possible and relevant.
- Provide authorisation at the earliest possible time.
- Limit the scope of changes and revocation to exceptional circumstances, to be clearly specified in advance.
- Ensure that new guidance does not negatively impact existing cooperative approaches and authorisations.

In case no agreement on the guidance for these topics can be reached, we urge countries engaging in Article 6 to address these issues in national legislation and the rules of specific cooperative approaches.

IETA believes that further guidance should aim to achieve simplification and greater transparency to enable broad participation in Article 6 by Parties and the private sector. To achieve this goal, we encourage countries to streamline the provision of authorisations by adopting standard procedures, forms and templates. Where possible and relevant, authorisations could be provided by addressing multiple elements in a single process. While we welcome the development of a standardised letter

of authorisation (LOA) template by the UNFCCC Secretariat, we observe that several LOA templates are already available or being prepared by private entities and multilateral institutions. On the other hand, the provision of a centralised LOA repository that can be easily accessed would add more value to Parties and stakeholders.

IETA believes that the list of mandatory information in the Article 6.2 draft decision text on Article 6.2 from SB60 (version 12.06.2024, para. 8) covers all main elements that an LOA shall include. It is crucial that references to Party (singular) and entities are maintained not to jeopardise programmes not relying on multiple Parties. In light of recent requirements imposed by the ICAO TAB for the CORSIA scheme, we would welcome the inclusion of the accounting method for applying corresponding adjustment as a mandatory element. In general, we encourage greater coordination between ICAO and the UNFCCC and a reconciliation of requirements to avoid confusion and unintended consequences. We do not consider the long list of optional information presented under para. 9 as particularly helpful as most of these elements are either a repetition of what Parties already report to the UNFCCC or are too detailed for an LOA.

In relation to timing, obtaining an authorisation early in the project lifecycle can provide a higher and more predictable price signal to project proponents and investors, reducing the revenue uncertainty that may undermine the economic viability of projects. IETA supports textual proposals encouraging the provision of an authorisation statement at the earliest possible time, such as prior to the issuance of A6.4ERs. However, we acknowledge that a participating Party may require some degree of flexibility and welcome rules that allow a participating Party to authorise A6.4ERs after issuance. In that case, to ensure that the share of proceeds (SOP) to the Adaptation Fund reflects the value of authorised 6.4ERs as compared to MCUs, a provision may be introduced to keep the SOP units in a holding account until the units available for sale are first transferred, cancelled or retired.

In case a 6.4 project has been approved by the host country, but no authorisation statement is provided, we believe the mechanism administrator should issue units as MCUs which can be used e.g. for domestic or voluntary offsetting purposes, and which may be authorised at a later stage. To ensure proper accounting and SOP monetisation, the authorisation of 6.4ERs would have to take place before any transfer, cancellation or retirement.

Limiting the scope for changes and revocation is a key priority for the business community. Lack of certainty around the status of authorisations would negatively impact the project economics and discourage investment in mitigation activities. While ideally there should be no change to the status of ITMOs once authorised, we understand that Parties may require some flexibility. We therefore accept that changes and even revocation might be allowed under specific circumstances. However, it is of utmost importance that such circumstances are limited and well-specified in advance. IETA believes that such cases may include fraud, national security, violation of domestic law, or specific

terms and conditions not being met. In the draft decision text of Article 6.2 from SB60, this is best represented through Option 5 (version 12/06/2024, para. 19).

We do not believe that a Party should be allowed to revoke authorisations merely because they are at risk of not meeting their NDC. If this happened, it would create a perverse incentive for some Parties to over-authorise and then revoke. Moreover, it would seriously impinge on the rights of private and sovereign buyers. A more appropriate remedy to address any inadvertent overselling is to require the Party to procure ITMOs to bridge any shortcoming. We also note that several of the challenges highlighted arise from the limited capacity of Parties to forecast their emissions trajectories and assess decarbonisation costs. To address these concerns, we emphasise the importance of support from the UNFCCC and international partners to Parties (especially SIDS and LDCs) wishing to engage in cooperative approaches under Article 6, by strengthened capacity building around emissions monitoring, forecasting, and assessment of marginal abatement costs.

In any case, changes and revocation should not apply to ITMOs that have already been first transferred, let alone to those that have already been used. Revoking ITMOs after first transfer would not only be damaging to business but it would have direct repercussions on the outcome of the Article 6 technical expert reviews and the reports submitted by Parties to the UNFCCC, thus generating significant risk of double counting and undermining trust in the environmental integrity of Article 6. For these reasons, we believe UNFCCC guidance should clearly address this point.

Finally, we note that while guidance is still being negotiated, several Parties are moving ahead with the implementation of cooperative approaches under Article 6. As of September 2024, we count over 20 LOAs being issued by Parties to emission reduction projects. We urge Parties to take this into account and ensure that cooperative approaches and LOAs predating the adoption of further guidance are not negatively impacted.