The Article 6.2 International Registry

Introduction

Following the failure to adopt final guidance for Article 6.2 and 6.4 at COP28 last year, it is of utmost importance that Parties reach an agreement to resolve outstanding issues at COP29 this November. As the trusted business voice on carbon markets, IETA aims to present practical and solution-oriented proposals to help negotiators move towards a workable compromise in Baku. One of the key questions yet to be resolved is the nature of the international registry, ensuring integrity, transparency, and accessibility for market participants.

Existing UNFCCC guidance

To participate in cooperative approaches under Article 6.2 of the Paris Agreement, Parties are required to have access to a registry that can track and record authorisations, first transfers of ITMOs, usage towards NDCs or OIMP, and voluntary cancellations. The Glasgow decision on Article 6.2 (Decision 2/CMA.3) includes the establishment of an international registry that would be made available to Parties that do not have access to a registry as an option for supporting their participation in international carbon markets. Parties are not obligated to use the international registry (Annex, para. 30).

The Glasgow decision on Article 6.4 (Decision 3/CMA.3) includes separate provisions for an Article 6.4 mechanism registry to serve Parties and entities transacting units issued by that mechanism. Para. 63 of the Annex to that decision states that the mechanism registry shall be "connected" to the international registry.

The Sharm el-Sheikh decision on Article 6.2 (Decision 6/CMA.4) provides further guidance relating to the international registry – reiterating its connection with the 6.4 mechanism registry (Annex I, para. 23) and introducing the possibility of connecting it with the national registry of a participating Party (Annex I, para. 24).

The Sharm el-Sheikh decision on Article 6.4 (Decision 7/CMA.4) states that the connection between the 6.4 mechanism registry and the international registry "shall allow for automated pulling and viewing of data and information on holdings and the action history of authorized A6.4ERs for use by participating Parties that have an account in the international registry" (Annex I, para. 49). Moreover, it was agreed that neither Party to an inter-registry transfer could later repudiate the existence, type, time, or content of the transfer (Decision 6/CMA.4, Annex I, para. 10). No authority was explicitly assigned to define what credits Parties can or cannot accept in the context of such transfers.

Diverging views on the nature of the international registry and 6.2 cooperative approaches

The international registry is envisioned to be part of a comprehensive Centralized Accounting and Reporting Platform (CARP). The Sharm el-Sheikh decision on Article 6.4 requests the SBSTA to develop recommendations on the need for additional functionalities and procedures for the international registry, including allowing for the transfer of A6.4 ERs to the international registry (Decision 7/CMA.4, para. 17g). However, Article 6 negotiators have struggled to define the reporting format for the CARP and the nature of the international registry. There appear to be two competing views:

- The US and some Umbrella Group countries see it as an accounting and transparency registry that gathers annual balances of 6.2 transactions rather than as a facility of individual transactions. Parties would submit the national balances to the international registry consistent with existing guidance on transparency and reporting under the Paris Agreement. These balances would not provide details on individual positions by participating entities, which would be held in national registries and/or independent crediting programme registries.

- The EU, Switzerland, AILAC, the African Group and others see the international registry as a fully-fledged transactional registry, similar to the 6.4 mechanism registry. The UNFCCC would make it available for nations to use in supporting their national trading programmes and international market activity. According to this view, the international registry could also contain holding accounts for participants in those national and international markets. In contrast to the US view of annual accounts, the EU would prefer real-time registry operations.

At COP 28 in Dubai, the EU also proposed that the international registry should include quality controls on credits entering the system, citing news reports of poor credit quality in some voluntary carbon market crediting programmes. While the EU accepts that using the international registry for 6.2 carbon market activities remains optional, it wants to provide transparency on credits issued and used in the ITMO market and believes that a centralised, real-time, transactional 6.2 registry operated by the UNFCCC could deliver this aim.

The US opposed the EU proposal, saying that it ran counter to prior decisions on Article 6.2. It emphasised that the 6.2 provisions simply required participants to account for credits with corresponding adjustments (ITMOs). The US believes that Parties should be free to choose which independent standards they wish to use and govern the quality of units accepted in their markets themselves. It saw the EU proposal for UNFCCC quality review of credits as running counter to the provisions of Article 6.2 and the related Glasgow decisions, which had been carefully balanced to avoid UNFCCC involvement in bilateral trading activities.

The US also raised concerns about whether the UNFCCC would have adequate resources for quality assurance and security controls required for a transactional registry, and the potential need for

additional administrative fees or taxes to deliver these features. It also raised concerns about whether the proposed UN reviews would be effective, and whether it might subject Parties involved in 6.2 cooperation to political interference or delays.

This disagreement reverberates on the open discussions about the interoperability between the Article 6.2 international registry and the Article 6.4 mechanism registry, with one camp supporting the movement of A6.4ERs between the two registries, while the other does not see a need for such transfers.

While these differences are deep-seated, the two positions share a concern about the issuance of units in the international registry without an underpinning standard-setting function.

IETA recommendations

IETA represents over 350 companies participating in carbon markets across the world. Having contributed to the Article 6 negotiations throughout the past ten years, we believe that the guidance adopted in Glasgow and Sharm el-Sheikh provides enough clarity for international carbon markets under Article 6 to move ahead.

Whilst the decision on the nature of the international registry may prove important for individual Parties, we believe neither option would significantly alter the quality or scale of Article 6 markets. In addition, Parties and crediting programmes may avail themselves of existing tools such as the Climate Action Data Trust (see Annex 1 for further details) to support transparency and integrity in the market in both circumstances.

Ultimately, market participants and buyers (both sovereign and corporate) will have to define their own criteria for assessing the integrity of ITMOs they wish to procure under Article 6.2, noting host Parties' national prerogative to authorise units for corresponding adjustments while fulfilling their participation requirements, as defined in their national carbon market frameworks as well as per specific cooperative approaches they participate in. The role of the outstanding guidance, including on registries, reporting, sequencing and review, should be to provide the necessary transactional integrity and transparency for scaling up these cooperative approaches in a credible manner. Reaching a final compromise at COP29 in Baku will be vital to instil the trust necessary to kickstart transactions in the market.