

Article 6 Business Briefs – First Transfer, Sequencing, Review and Addressing Inconsistencies

Introduction

Article 6 guidance contains a complex hierarchy of timelines and rules for authorisations, the issuance and transfer of ITMOs, the application of corresponding adjustments, as well as reporting and review of information. While most of these concepts and timing have been specified in previous guidance from COP26 and COP27, there are still several outstanding issues that Parties were unable to agree upon at COP28. These include:

1. The definition and application of first transfer
2. Sequencing and timing
3. Addressing inconsistencies

Existing UNFCCC guidance

Definition and application of “first transfer”

The Glasgow decision on Article 6.2 (Decision 2/CMA.3) introduces two different concepts: “first transfer” and “first international transfer”.

In the case of the authorisation of a mitigation outcome for use towards achievement of an NDC, the first transfer is clearly specified as the “first international transfer” (Annex, para. 2a), whereas in the case of a mitigation outcome authorised for use towards other international mitigation purposes “OIMP” (e.g. CORSIA), the first transfer can be defined at the discretion of the first transferring Party as either:

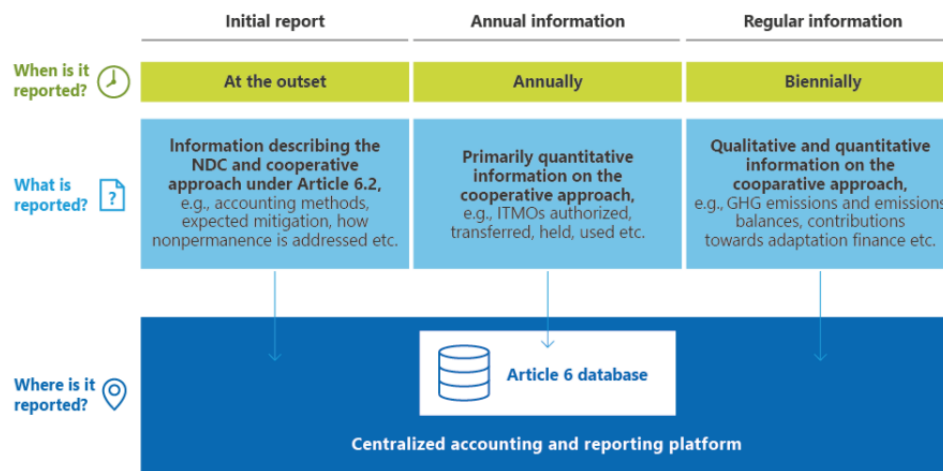
- (i) the authorisation, or
- (ii) the issuance, or
- (iii) the use or cancellation of the mitigation outcome (Annex, para. 2b).

Therefore, the concept of first transfer, despite its name, does not necessarily refer to the actual transfer of a mitigation outcome. This definition is important as it is what triggers a corresponding adjustment for the host Party (Decision 2/CMA.3, Annex, paras. 8-16).

It remains unclear how first transfer should be defined in the case of ITMOs authorised for both the achievement of an NDC and OIMP.

Sequencing and timing

The Glasgow decision on Article 6.2 (Decision 2/CMA.3) introduces several reporting requirements for participating Parties. As shown in the picture below, these requirements are comprised of an initial report, an annual information report and regular information as an annex to the Biennial Transparency Report (BTR).



Source: Applying Rules under Article 6 of the Paris Agreement to Linked Emissions Trading Systems, ICAP, 2023 p. 32

Parties are required to submit an initial report “no later than when the Party gives authorization for the use of ITMOs towards the achievement of NDCs, or where practical (in the view of the participating Party) in conjunction with the next biennial transparency report” (Decision 2/CMA.3, Annex, para. 18). This means that existing guidance allows for the initial report to be submitted together with the regular information and reviewed in one a single Technical Expert Review (TER) centralised review session.

The term sequencing refers to the discussion on whether Parties should wait for their initial report to be reviewed to transact ITMOs. This issue is closely linked to the definition of first transfer described above and the review process described below.

Review and consistency checks of cooperative approaches and ITMOs

There are two separate processes for ensuring the robustness of Article 6 cooperative approaches – an automated consistency check (Decision 2/CMA.3, Annex, para. 33) and the TER (Decision 2/CMA.3, Annex, paras. 25-28).

The UNFCCC Secretariat consistency check is automated through the Article 6 database to identify inconsistencies and unavailability of annual information by checking accuracy and completeness of information submitted. This check shall extend to the reported information of all Parties participating in a cooperative approach, including by comparing amounts first transferred or transferred and acquired between participating Parties. As stated by the UNFCCC Secretariat in its [Article 6.2 reference manual](#), the goal of these consistency checks is to alert the public and the TER team to any discrepancies or contradictions in submitted reports and ensure that information remains consistent and unchanged over time.

The TER is conducted by an expert team through a desk or centralized review session, who looks at the initial report, regular information and the consistency checks. The expert team will prepare

a report that may include recommendations to the participating Party on how to improve consistency with the Article 6 guidance and how to address inconsistencies in information reported or identified by the Secretariat as part of the consistency check above. This will include whether the information provided is consistent with previous decisions and requirements, such as the fulfilment of participation requirements, information on authorisations, ITMOs used, application of corresponding adjustments, how the cooperative approach supports NDC achievement and ensures environmental integrity.

The Sharm el-Sheikh decision on Article 6.2 (Decision 6/CMA.4, Annex II) establishes that the TER shall be conducted in a facilitative, non-intrusive, non-punitive manner that is respectful of national sovereignty, and avoid placing undue burden on participating Parties (Annex II, para. 9). It is not within the mandate of the TER to review the adequacy of a participating Party's NDC, the cooperative approach itself or the ITMOs authorised or used (Annex II, para. 10).

IETA recommendations

Despite some progress made at SB60 in June, there are still diverging views on these topics reflected in convoluted texts with several alternative options. Ultimately, what is important is that Parties clearly specify how their participation in Article 6 helps increasing NDC ambition and sustainable development co-benefits, and that mitigation outcomes can be clearly and transparently tracked throughout their lifecycle whilst avoiding double-counting.

To make sure that corresponding adjustments are consistently reported and applied, IETA believes it is important to clarify the relevant trigger for first transfer in the authorisation of the cooperative approach and include this information in the initial report or its updated version.

To ensure consistency, IETA agrees that first transfer shall be applied consistently by all Parties participating in a specific cooperative approach, but not necessarily for all cooperative approaches for which a Party participates. Applying first transfer consistently in a cooperative approach supports clarity and transparency, while applying first transfer consistently by a Party for all cooperative approaches is not reasonable as it may limit the participation of a Party in multiple cooperative approaches.

IETA advises against defining first transfer as the use or cancellation of the mitigation outcome as such a definition may render the tracking of ITMOs very complex and undermine the integrity of the cooperative approach. If that is done, it is necessary to implement provisions whereby a Party using or cancelling an ITMO shall notify the first transferring Party. However, in our view, a sound cooperative approach should define first transfer as either the authorization or issuance of the mitigation outcomes.

If an ITMO is authorised for use towards both the achievement of NDCs and OIMP, our view is that the first transfer would take place at the earliest of the “first international transfer” or one of

the conditions (authorisation/issuance/use) as specified by the host Party. IETA encourages Parties to provide authorisations for both use cases as this practice comes at no cost for the host country while providing developers and investors with stronger demand-side risk management, which can help create a more attractive enabling environment for financing Article 6 activities.

Regarding the sequencing and timing of reviews, IETA believes further guidance should provide full transparency without imposing undue restrictions to the trading of ITMOs between Parties and entities. When the review of the initial report for a cooperative approach has not been published yet, the consistency check in the Article 6 database should flag the associated ITMOs as “initial review report is pending/in progress”. However, we do not believe it is necessary for the review report to be finalised and published before a Party can submit its annual information. Similarly, we do not believe it is necessary for the TER of the initial report to be concluded before the transfer of ITMOs. Such an approach risks slowing down the progress of implementing cooperative approaches and increasing the administrative burden placed on both the UNFCCC Secretariat and participating Parties.

Regarding inconsistencies identified in the Article 6 database consistency check, IETA believes that inconsistent information shall (i) be clearly and publicly flagged in the Article 6 database as soon as they are identified, and (ii) be addressed by the participating Parties’ submitting revised AEFs at the earliest possible timing. This approach would allow for prompt action by participating Parties and ensure that cooperation is not halted due to minor technical reporting issues. Timely publication would also allow participating entities to know about the inconsistency and manage the related risk.

As for inconsistencies identified in the TER, IETA believes it is important to provide recommended actions for the TER team when identifying inconsistencies and their nature, as outlined in draft decision on Article 6.2 from SB60 (version 12.06.2024, para. 64). Furthermore, it would be useful to clearly define and specify the meaning of “significant” and “persistent” inconsistencies in line with the proposals in para 63 a) and b) of the draft decision. If an identified inconsistency is significant and persistent (for instance, the Party does not fulfil key participation requirements or it is not responsive to communications from the TER team and the Secretariat), cooperative approaches and ITMO transactions with the Party should be halted until identified issues have been rectified.