Finalising the Article 6 Rulebook at COP29

September 2024

Introduction

Since 1999, IETA has been tracking and supporting carbon market negotiations as the trusted business voice on market-based solutions to climate change. We represent over 350 companies active in compliance and voluntary markets around the world.

IETA welcomed the breakthrough at COP26 that led to the adoption of key guidance to advance Article 6 implementation, but progress in negotiations since then has been slow and inefficient. While Article 6.2 implementation is still progressing, as continuously tracked on our website, a decision at COP29 on all outstanding matters is integral in helping scale international carbon markets and unlock their potential to achieve cost effective mitigation opportunities and increase NDC ambition.

IETA has prepared these policy briefs on the key topics to be resolved at COP29 to provide a business view and support negotiators in finding a way forward. These include:

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Our views on the outstanding requirements for methodologies and recommendations for activities involving removals in the Paris Agreement Crediting Mechanism (PACM) have been outlined in several previous submissions:

- IETA input to the Article 6.4 Supervisory Body on "requirements for the development and assessment of mechanism methodologies" (August 2023)
- IETA input to the Article 6.4 Supervisory Body on "removal activities under the Article 6.4 mechanism (June 2023)

The adoption of this methodological guidance at COP29 is of utmost importance as it underpins the full operationalisation of the mechanism, including the transition of CDM projects, the development of new activities, and the broader process of "Paris alignment" of carbon markets. We call on all Parties to avoid further politicisation of the technical considerations of the 6.4

Supervisory Body (SBM) and swiftly move ahead with the outstanding Article 6.4 guidance requested by the CMA.

Our positions are the outcome of technical consensus-based discussions with experts from IETA member companies and are informed by our key guiding principles for Article 6 implementation, which include:

- Environmental integrity
- Efficiency and simplicity
- Clarity and stability
- Broad participation
- Maximisation of market implementation and usage

We look forward to engaging in the process and urge Parties to be constructive and flexible to reach a compromise and deliver an ambitious outcome at COP29.

1. 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.

2. 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.

3. 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:

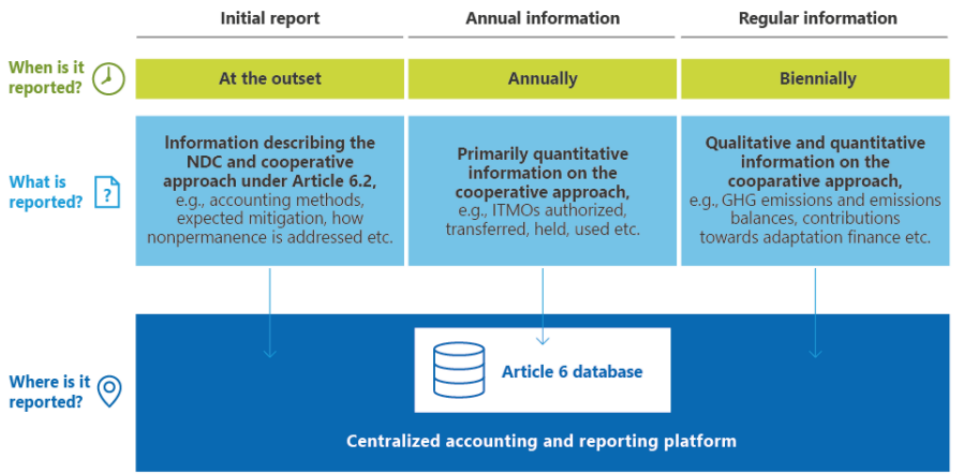
(i) the authorisation, or
(ii) the issuance, or
(iii) the use or cancellation of the mitigation outcome (Annex, para. 2b).

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 as 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.

4. Emissions Avoidance

Introduction

One of the outcomes of SB60 has been the decision on the exclusion of 'emission avoidance' as an eligible activity type under Article 6, closing a debate that had been ongoing for several years.

No further discussion on this topic is expected at COP29. However, the impact of the SB60 decision has been widely misunderstood and is still generating confusion among stakeholders. The purpose of this brief is to summarise the debate on emission avoidance in the context of Article 6 negotiations and the implications for the eligibility of avoided deforestation activities.

Existing UNFCCC guidance

Parties decided at SB60 that emission avoidance is **not** an eligible activity type under Article 6.2 and 6.4 and that the issue will only be reconsidered in 2028 (SB60 conclusion on 6.2, para. 6; SB60 conclusions on 6.4, para. 3).

Parties also decided that conservation enhancement should not be regarded as a separate activity type but should be considered as either emission reductions or removals. Therefore, decisions regarding the eligibility of conservation enhancement activities will be the subject of deliberation within the 6.4 Supervisory Body (SBM). For cooperative approaches under Article 6.2, the decision will be made by the Parties involved.

IETA interpretation and implications for carbon markets

The implications of these decisions have been misunderstood by several stakeholders, primarily because an official definition of emission avoidance under the IPCC or the UNFCCC does not exist and has not been provided by Article 6 negotiators.

Climate change practitioners use this term to indicate the first step of the widely used mitigation hierarchy ("avoid, minimise, restore, offset") without any direct reference to carbon crediting activities. In carbon markets parlance, this phrase sometimes relates to crediting activities that do not result in a net carbon removal, so the concept is often conflated with emission reduction. For instance, the Clean Development Mechanism (CDM) has characterised methodologies under "GHG emission avoidance" defining it as "various activities where the release of GHG emissions to the atmosphere is reduced or avoided,"[1] even though the mechanism has been defined by the IPCC as including only emission reductions and removals.

Various interpretations of emission avoidance and emission reduction exists. One interpretation is that the difference between reduction and avoidance can be considered as a temporal feature of a

[1] UNFCCC (2013), CDM Methodology Booklet: https://cdm.unfccc.int/methodologies/documentation/methbooklet.pdf

mitigation action: reduction implies that an existing emission source is abated, whereas avoidance implies a future emission source is prevented from materialising. In these respects, the difference can be framed as a matter of baseline choice: purely historical emissions versus purely projected emissions.

Another interpretation of emission avoidance within international carbon market negotiations originated from the 2007 proposal by the government of Ecuador. There the government sought compensation for avoiding development of oil reserves in the Yasuní national park. Since that proposal, emission avoidance has largely been considered in the context of policies and measures that explicitly forgo the opportunity to develop fossil fuel resources. Another more recent interpretation under Article 6 is that proposed by the Philippines, which seeks the issuance of carbon credits for shelving plans to build new coal-fired power plants.

According to several senior negotiators and the UNFCCC Secretariat, a further alternative interpretation by which to distinguish emission avoidance from emission reductions or removals is the concept of *agency*. Activities based on proactive measures are considered emission reductions or removals (and therefore eligible), whereas those based on the lack of action are considered emission avoidance (and therefore ineligible). In practice, this means that projects that take measures to reduce deforestation or retire an existing power plant are eligible, while those that reward a forest for its mere existence as a carbon sink are not eligible. To reinforce this view, it is widely understood that activities that have been eligible for crediting under the CDM and the major independent crediting programmes can be defined as reductions or removals and will therefore be eligible under Article 6. Ultimately, the consideration of the types of activities that will be eligible under Article 6.2 and the definition of whether a project delivers reductions, removals or both, will be agreed by the Parties participating in each cooperative approach.

In conclusion, contrary to what some stakeholders have argued, the SB60 decision to exclude emission avoidance as an additional activity type under Article 6 does not mean that forestry and land-based carbon projects, including those based on REDD+-related methodologies, cannot be eligible under Article 6. On the contrary, such project types may be classified as emission reduction or removal activities.

As such, REDD+ activities do not need a positive outcome of this work programme to be eligible under Article 6. The origin of the concept of 'emission avoidance' under Article 6 differ from the current discussions within the negotiations, which has further perpetuated confusion around its definition.

Conclusion

IETA has long outlined the potential for international carbon market mechanisms and cooperative approaches under Article 6 to channel carbon finance and raise NDC ambition in this critical decade. Throughout the years, we have published several reports highlighting the opportunities of Article 6 and we are continuously tracking the implementation of cooperative approaches. Whilst IETA welcomes the constructive spirit and the progress made at SB60 in Bonn, we emphasise the need for continued work and political engagement ahead of COP29 to resolve outstanding issues.

The text still includes a significant number of brackets and options. Between now and COP29, countries need to engage informally and in good faith to seek constructive outcomes. Whilst Article 6.2 is already operational and a growing number of countries are engaging in cooperative approaches, we cannot have another failure to finalise guidance in Baku and risk nullifying ongoing implementation efforts. We fear such a prospect may result in market participants starting to lose trust in Article 6, therefore failing to generate the extent of climate funding needed to meet the Paris Agreement goals.

We look forward to continuing our support to the process and contributing with our 350+ members and 25 years' expertise in carbon markets.

Annex 1. How the Climate Action Data Trust might help

The Climate Action Data Trust (CAD Trust) is an independent NGO devoted to establishing high integrity market infrastructure for the international carbon market. It was established by the World Bank, IETA and the Singapore Government in 2022 following three years of concept development and stakeholder consultations. The CAD Trust's vision is for all major national carbon registries and independent crediting programmes to feed data voluntarily and automatically to a common platform according to a standardised data model. This approach has the potential to link, aggregate and harmonise market data while preserving the data ownership and original registry functions in the crediting programmes and national registries. The platform enables public access to data from all participating registries, with aim to simplify due diligence reviews, double-counting checks, and a build out of any relevant services using said data, ultimately enhancing accounting in line with the Paris Agreement.

The CAD Trust offers much of the functionality that the EU, the US and Parties supporting either position are trying to balance to achieve a high integrity registry system. However, rather than creating a centralised registry run by the UNFCCC, it operates a decentralised open-source platform and has a public-private governance model involving governments, independent non-governmental standards, carbon market participants and others interested in market transparency.

- The CAD Trust data model defines a common set of carbon credit data specifications and is made available for use by any carbon registry system at no cost. This data model was developed in collaboration with a set of countries, independent crediting programmes and market experts, and has a process for its continual review. Efforts are also underway to pursue standardisation through ISO, align with other emerging standardisation initiatives, and to assess the comparability with the Agreed Electronic Format (AEF) for Article 6.2 reporting purposes. The data model and infrastructure also allow for Article 6 specific additions, such as "authorisation" or "corresponding adjustment" labels, once this information becomes available.

- Programmes willing to participate are guided through a data mapping exercise and establish a technical connection to reflect their registry data on the CAD Trust blockchain platform. The original data continues to be held in the national registries or independent crediting programmes, while digital "twins" of the data are visible in the CAD Trust multi-registry platform.

    - The platform is open for national registries regardless of what registry provider Parties choose to use.

- The decentralised platform could ultimately provide real-time visibility into multiple registries, including government systems, independent crediting programmes, and potential interactions between the two.
- It would also provide an auditable track record of changes and transfers – all without connection to a central authority.

- The CAD Trust governance system has four main bodies:
    - Strategic guidance is provided by the Council with representatives from six countries (currently Singapore, the UK, Bhutan, Chile, Senegal, and Japan) and four independent registries (currently Verra, Gold Standard, the Global Carbon Council, and the American Carbon Registry). The Council reviews and approves updates to the data model and multi-registry platform and partner collaboration;
    - A Technical Committee comprised of technical experts and market participants provides recommendations on how to implement and improve the data model and multi-registry platform;
    - A User Forum allows market participants, academics and NGOs to provide feedback on user interactions with the CAD Trust to the Technical Committee and Governing Council;
    - The Secretariat oversees the operations and implementation of the work programme.

- The CAD Trust does not perform credit quality reviews. Instead, it provides visibility on credit classification, attributes and labelling based on multiple features (e.g. the type of methodology used, the verifier used, vintage year, and quality labels, such as the ICVCM's Core Carbon Principles (CCP) label or the CORSIA validity label).

While the CAD Trust does not assess credit quality, it is designed to enable multiple service providers to support transparency and integrity. For example, rating agencies could use the available data to perform quality ratings of project types, over and above the CORSIA and CCP tags. Additionally, it could enable transparency initiatives themselves to track and verify programme compliance with the labels issued, thus enhancing trust in the process.

The CAD Trust could provide necessary transparency on international 6.2 authorisations and transactions for those interested in real-time information, regardless of the registry providers and approaches chosen by individual Parties. It is also intended to be compatible with all processes for Party transparency reporting, including potential connections with the UNFCCC CARP accounting and a transparency-focused international registry, for Parties who may choose to use it.

The CAD Trust is committed to maintaining consistency with Article 6 requirements as they evolve. Importantly, however, Parties are not obliged to use the CAD Trust, and it is intended to supplement rather than replace the Article 6 guidance.