IETA

A6IP

IETA and A6IP Business Pulse Survey
November 2024

ARTICLE 6 IN ACTION:

BUSINESS INSIGHTS & IMPLEMENTATION TRENDS

ABOUT A6IP

A6IP IS A PARTNERSHIP AMONGST COUNTRIES, ORGANISATIONS (INCLUDING UN AND OTHER INTERNATIONAL ORGANISATIONS AND MULTILATERAL BANKS, INSTITUTIONS, PRIVATE SECTOR ORGANISATIONS, AND INDEPENDENT INITIATIVES), AND INDIVIDUALS THAT CALL FOR THE IMPLEMENTATION OF ARTICLE 6, WHICH IS THE INTERNATIONAL COOPERATION MECHANISM TO PROMOTE THE PARIS AGREEMENT THROUGH CARBON MARKETS. ESTABLISHED AT COP27 IN 2022, WITH ITS CENTRE ESTABLISHED AT THE INSTITUTE FOR GLOBAL ENVIRONMENTAL STRATEGIES (IGES) IN HAYAMA, JAPAN IN 2023, IT AIMS TO ENSURE ARTICLE 6 READINESS OF COUNTRIES AND OTHER STAKEHOLDERS THROUGH CAPACITY BUILDING, INFORMATION SHARING, AND DATA ANALYSIS. THROUGH THE IMPLEMENTATION OF ARTICLE 6, A6IP AIMS TO ENHANCE THE AMBITION OF NDCS AND CONTRIBUTE TO NET ZERO THROUGH HIGH-INTEGRITY CARBON MARKETS, AS STIPULATED IN THE G7 PRINCIPLES OF HIGH-INTEGRITY CARBON MARKETS.

A6IP

SINCE 1999 IETA HAS BEEN THE LEADING VOICE OF BUSINESS ON AMBITIOUS MARKET-BASED CLIMATE CHANGE SOLUTIONS AND DRIVING NET ZERO. IETA ADVOCATES FOR TRADING SYSTEMS FOR EMISSIONS REDUCTIONS AND REMOVALS THAT ARE ENVIRONMENTALLY ROBUST, FAIR, OPEN, EFFICIENT, ACCOUNTABLE AND CONSISTENT ACROSS NATIONAL BOUNDARIES. REPRESENTING MORE THAN 300 LEADING INTERNATIONAL ORGANISATIONS, IETA IS A TRUSTED PARTNER IN DEVELOPING INTERNATIONAL POLICIES AND MARKET FRAMEWORKS TO REDUCE GREENHOUSE GAS EMISSIONS AT THE LOWEST COST WHILE BUILDING A CREDIBLE PATH TO NET ZERO EMISSIONS. SEE WWW.IETA.ORG FOR MORE INFORMATION.

IETA

EXECUTIVE SUMMARY

ARTICLE 6 IMPLEMENTATION IS RAPIDLY MOVING AHEAD – BUT SIGNIFICANT CHALLENGES REMAIN TO UNLOCK PRIVATE SECTOR INVESTMENTS. THIS FIRST-EVER ARTICLE 6 BUSINESS PULSE SURVEY WAS LAUNCHED JOINTLY BY IETA AND THE ARTICLE 6 IMPLEMENTATION PARTNERSHIP (A6IP) IN SEPTEMBER 2024 WITH AN OBJECTIVE TO GAIN A BETTER UNDERSTANDING OF THE OPPORTUNITIES AND HURDLES FACING COMPANIES INTERESTED IN ENGAGING WITH ARTICLE 6 MARKETS. **WITH OVER 100 DIVERSE RESPONDENTS, THE RESULTS HIGHLIGHT THAT:**

COMPANIES SEE MAJOR OPPORTUNITIES IN PARTICIPATING IN BOTH ARTICLE 6.2 AND 6.4 MARKETS. NEW REVENUE STREAMS, ENHANCED REPUTATION AND RISK MITIGATION ARE ALL SEEN AS KEY DRIVERS.

83% OF RESPONDENTS INDICATED THAT THEY WOULD BE WILLING TO PAY HIGHER OR EVEN MUCH HIGHER THAN AVERAGE MARKET RATES FOR CORRESPONDINGLY ADJUSTED ITMOs, AS WELL AS FOR NON-ADJUSTED 6.4 MITIGATION CONTRIBUTION UNITS (MCUs).

PROJECTS IN THE AREAS OF SUSTAINABLE AGRICULTURE, AFFORESTATION,REFORESTATION & REVEGETATION (ARR), CARBON DIOXIDE REMOVALS (CDR) AND HOUSEHOLD DEVICES IN SOUTH AND EAST ASIA, SOUTH AMERICA AND AFRICA WERE IDENTIFIED OF HIGHEST INTEREST, WHEREAS REDD+ PROJECTS GARNERED THE LEAST INTEREST FROM DEVELOPERS AND BUYERS ALIKE.

COMPANIES EMPHASISED THE IMPORTANCE OF INTEGRATING ARTICLE 6 ITMOS AS OFFSETS INTO EXISTING COMPLIANCE CARBON PRICING SCHEMES TO HELP DRIVE DEMAND, DELIVER COST-EFFECTIVE EMISSION REDUCTIONS AND SUPPORT INCREASED NDC AMBITION.

WHEN IT CAME TO THE KEY CHALLENGES, COMPANIES OUTLINED THAT THE UNCERTAINTY OF GUIDANCE FROM INTERNATIONAL NEGOTIATIONS, THE UNCERTAINTY OF HOST COUNTRY FRAMEWORKS AND THE PERCEIVED RISK OF REVOCATION ARE STILL CRITICAL HURDLES FOR INVESTMENTS.

MORE THAN 70% OF RESPONDENTS SAID THAT UNCERTAINTY OF GUIDANCE FROM THE INTERNATIONAL NEGOTIATIONS UNDER THE UNFCCC IS A KEY BARRIER FOR ARTICLE 6 IMPLEMENTATION.

These results clearly highlight the importance of concluding outstanding Article 6 negotiations at COP29 in Baku, as well as the ongoing need for capacity building in host countries. As the type of credits generated and the associated use cases under Article 6 are entirely dependent on the host country's authorisation and subsequent application of corresponding adjustments, the risk of revocation and need for countries to establish robust Article 6 frameworks is critical to unlock private sector investments in the market. Read the full report for the detailed analysis.

IETA and the A6IP will continue working with members, the private sector, international partners and governments alike to unlock the full potential of Article 6 in the years to come.

ABOUT THE SURVEY

BACKGROUND

Article 6 of the Paris Agreement lays the foundation for cooperative approaches – the use of international carbon market mechanisms for the achievement of Nationally Determined Contributions (NDCs). IPCC scenarios of mitigation pathways compatible with 1.5°C have reaffirmed the necessity of international cooperation in limiting global warming. Additionally, several studies conducted by the University of Maryland in partnership with IETA, have highlighted how Article 6 can deliver cost-effective mitigation, support NDC achievement, and strengthen global climate ambition[1].

Since the adoption of the Rulebook for Article 6.2 and 6.4 at COP26 in Glasgow, several countries and corporations have started implementing cooperative approaches under Article 6. Still, several technical issues await further guidance from the international negotiations at COP29 in Baku to support the full operationalisation of Article 6.

While a number of studies have been conducted on the readiness of countries and governments to participate in Article 6, less emphasis has been placed on the mobilisation of the private sector. At this point, nine years after the adoption of the Paris Agreement, IETA and the A6IP have jointly conducted this survey with the aim of:

- Understanding opportunities identified by the private sector;
- Addressing challenges in Article 6 implementation; and
- Exploring the role of Article 6 in voluntary and compliance markets.

OUR HOPE IS THAT THE RESULTS OF THIS SURVEY WILL HELP ADVANCE THE IMPLEMENTATION AND SCALING UP OF HIGH-INTEGRITY INTERNATIONAL CARBON MARKETS UNDER ARTICLE 6 OF THE PARIS AGREEMENT.

SURVEY DISTRIBUTION & METHODOLOGY

This online survey was conducted from 9 to 26 September 2024, receiving 105 complete and valid responses. Incomplete responses, or those that did not have a valid respondent name or organisation were removed from the analysis.

The survey link was distributed openly through IETA and A6IP's distribution channels including newsletters, social media, and QR codes during external presentations. A special thanks to partners, including the International Chamber of Commerce (ICC), who helped disseminate the survey to their networks.

Respondents represented a wide range of companies, with 47% from small companies (under 50 employees), 27% between 50-1,000 employees and another 27% representing large companies with 1,000 employees or more. 57% of the respondents represented companies headquartered in Western Europe or North America, with a smaller number of respondents from Asia and South America. However, a very large group of respondents (35%) indicated that they have operations or clientele worldwide. Africa was the least represented region, with only a few respondents (<15) headquartered or with operations in the region.

When asked what role the respondent's company played in the market, 56% of respondents indicated that their company acted as a project developer. A significant proportion of companies played a role as a consultant (41%), intermediary (31%), buyer (30%), or financier (24%). A minority played a role as a registry provider (7%), exchange (5%), or crediting standard (2%).

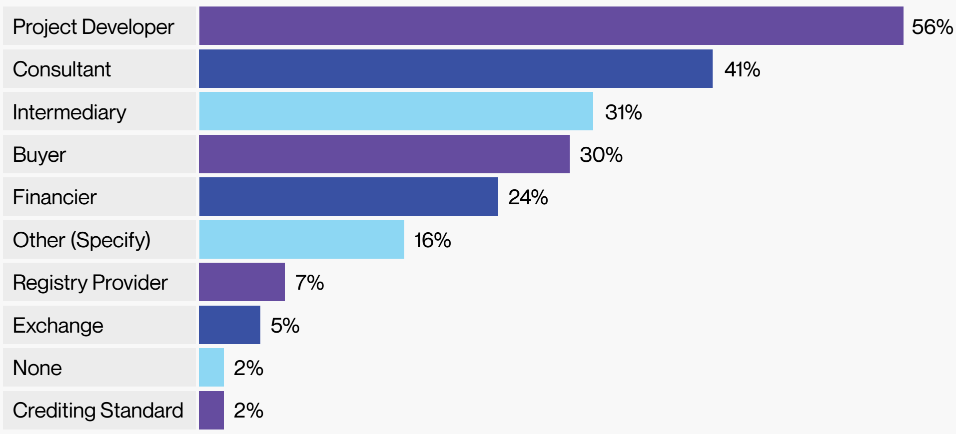
Almost all respondents highlighted that their company was already active in the voluntary carbon market (87%), and around half of the respondents explained that they were also active in compliance markets (ETS), Article 6.2, CORSIA and/or Carbon Tax and Offsetting Schemes.

With regard to Article 6, a large proportion (70%) of respondents indicated that they keep track of the main topics under discussion. A smaller proportion (56%) indicated that they know how it is structured and its main elements. Slightly fewer (54%) indicated that they follow UNFCCC negotiations regularly. Only 2 respondents were not familiar with Article 6.

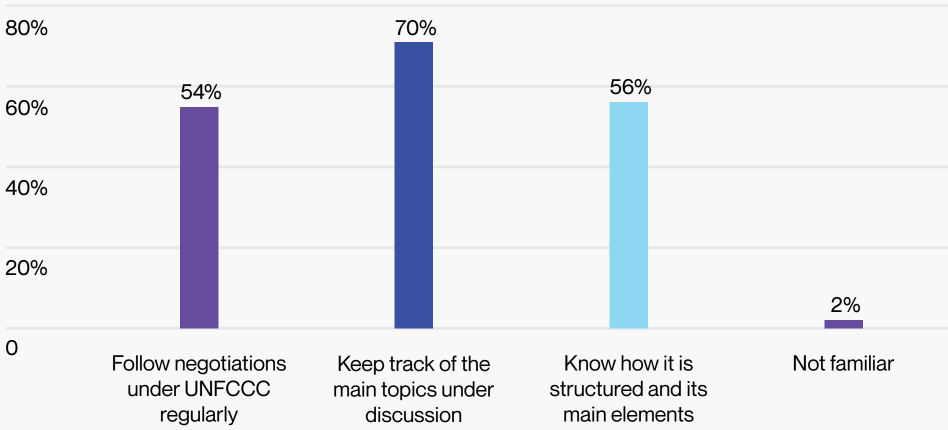
Almost half of the companies (48%) are already actively participating in Article 6 transactions and projects. 36% were exploring potential engagement, while only 14% were not currently involved.

(1) https://www.ieta.org/initiatives/modelling-the-economic-benefits-of-article-6/

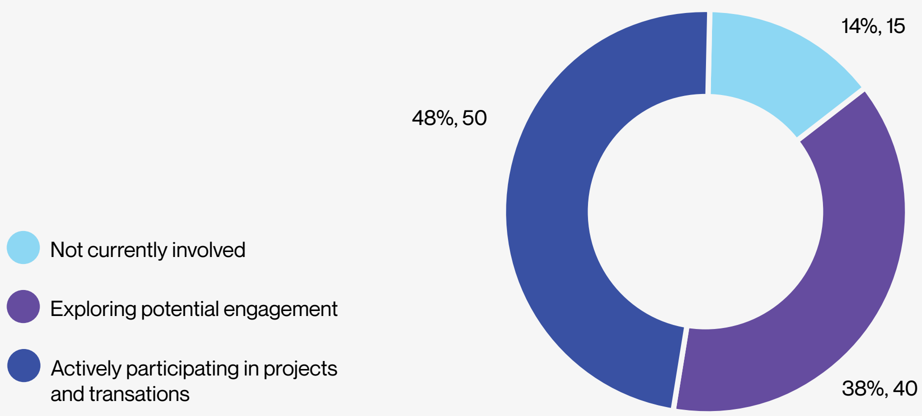
WHAT ROLE DOES YOUR COMPANY PLAY IN THE CARBON MARKET LANDSCAPE / ARTICLE 6?



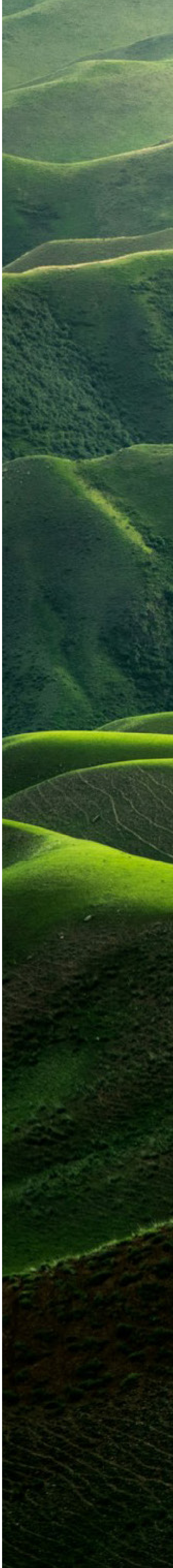
DESCRIBE YOUR PROFICIENCY WITH ARTICLE 6 OF THE PARIS AGREEMENT?



WHICH OF THE FOLLOWING BEST DESCRIBES YOUR COMPANY'S INVOLVEMENT WITH ARTICLE 6 TRANSATIONS AND PROJECTS?



For further details see Chapter 4. Survey methodology.



IETA AND A6IP BUSINESS PULSE SURVEY RESULTS

01 THE PRIVATE SECTOR SEES MAJOR OPPORTUNITIES IN ARTICLE 6 MECHANISMS

Respondents were asked "What opportunities does your company see in participating in Article 6 mechanisms?", highlighting new revenue streams, enhanced reputation, risk mitigation, and technological cooperation as key drivers.

Several companies also highlighted cost savings, mainly for the use of Article 6 credits (ITMOs) as offsets within compliance carbon pricing systems. One respondent highlighted CORSIA as a more stable demand centre for correspondingly adjusted ITMOs, as compared to other credits. Financing Nature-Based Solutions (NBS) was highlighted as another opportunity from a developer perspective.

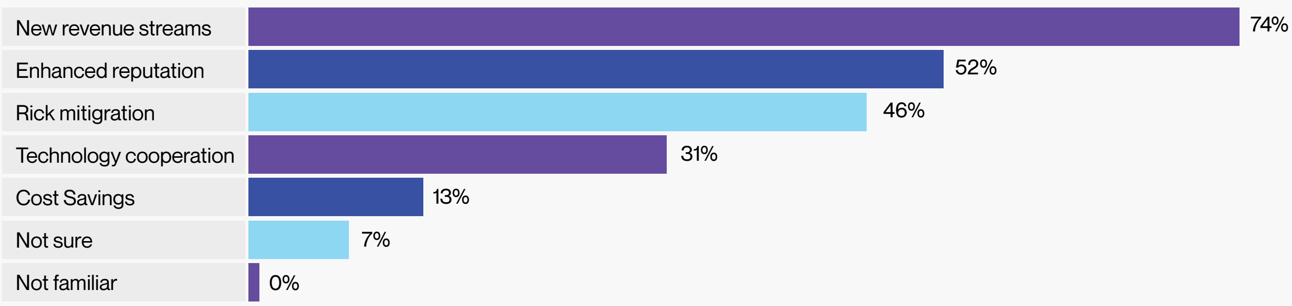
VCM participants were more likely to see new revenue streams as an opportunity. Respondents involved in compliance ETS and CORSIA were more likely to view risk mitigation as a key opportunity for Article 6 markets.

When asked about their expectations of cumulative global demand of authorised ITMOs from 2025 until the end of 2030 (referring to both corporate and sovereign retirements, including CORSIA), respondents indicated varying expectations, ranging from less than 10 mtCO2e to more than 500 million tons. Almost half of the respondents indicated that they were not sure. Among respondents who indicated an expected value, 46% expected demand to fall somewhere in the middle – 100 mt CO2 to 350 mt CO2. A large proportion, 32% also expected demand to be above 350mt.

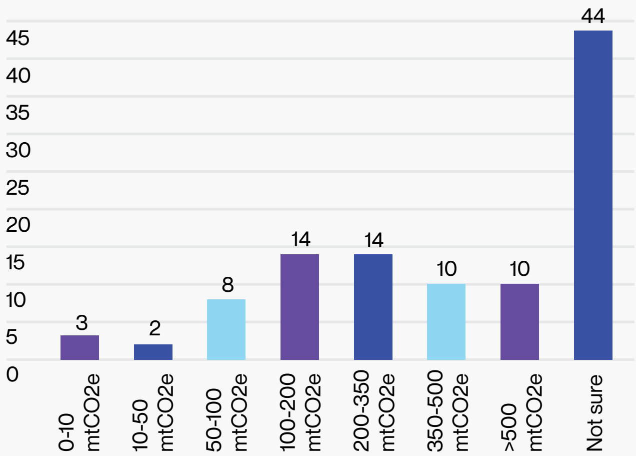
Respondents further explained that CORSIA is the biggest demand driver, while purchases for NDC purposes are still limited to only a few country players. However, demand could increase quickly if countries realise they are not on track to meet their NDCs targets by 2030. Other respondents emphasised that the demand for ITMOs is highly contingent on political outcomes and upcoming elections, which could significantly shape the future trajectory of the market.

VCM PARTICIPANTS WERE MORE LIKELY TO SEE NEW REVENUE STREAMS AS AN OPPORTUNITY.

WHAT OPPORTUNITIES DOES YOUR COMPANY SEE IN PARTICIPATING IN ARTICLE 6 MECHANISMS?



WHAT'S YOUR EXPECTATION OF TOTAL CUMULATIVE GLOBAL DEMAND (CORPORATE AND SOVEREIGN RETIREMENTS, INCL. CORSIA) OF AUTHORISED ARTICLE 6 ITMOs FROM 2025 UNTIL END OF 2030?



02 SECTORS AND REGIONS OF PARTICULAR INTEREST

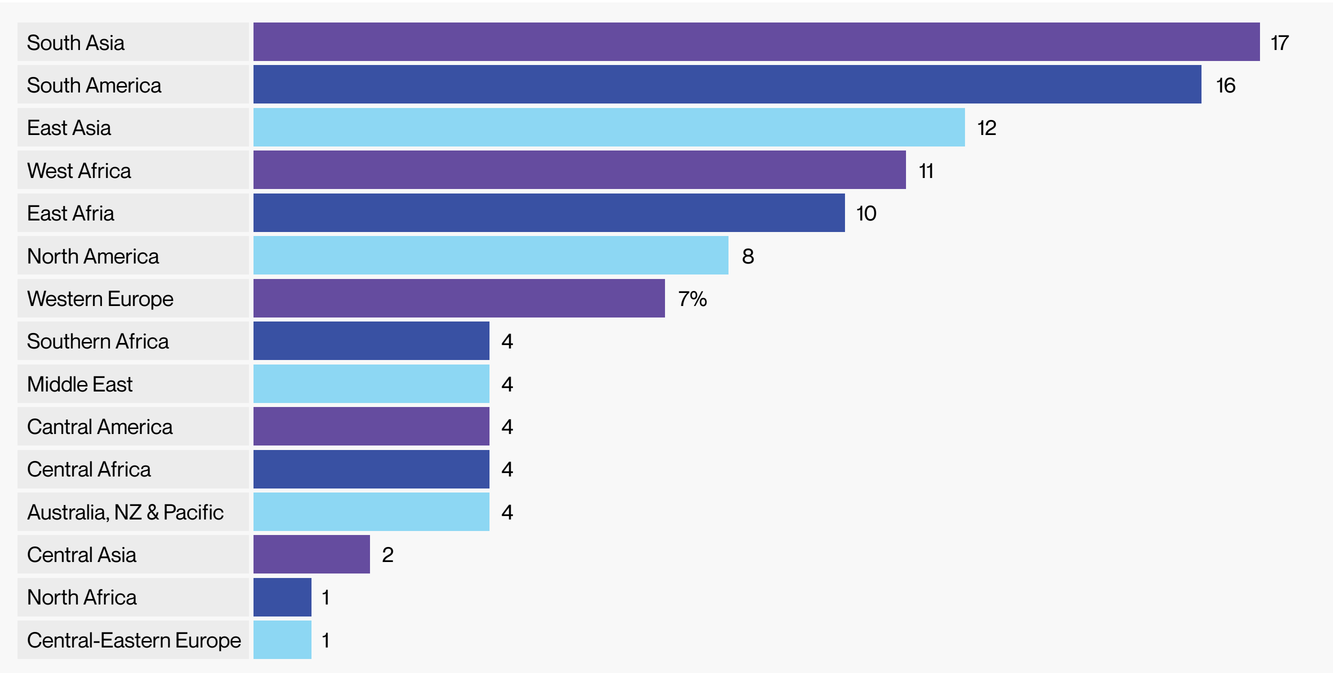
When asked which sectors and regions companies would be most interested in generating or purchasing Article 6 credits, Sustainable Agriculture, Rice Cultivation and ARR, durable Carbon Dioxide Removals (CDR), Biochar and carbon capture and storage (CCS), and Household Energy Demand including Clean Cookstoves and Household Biodigesters came out on top. Renewable energy and Improved Forest Management (IFM) ranked lower, whilst REDD+ projects were of least interest to respondents.

Geography-wise, the top regions of interest to respondents were South Asia, South America and East Asia. Only a few respondents indicated interest in Article 6 credits in Central Asia, North Africa or Central Europe.

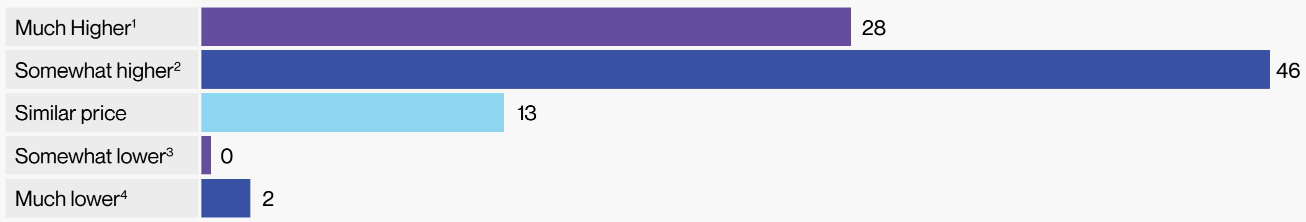
Ranking (from most to least interested):

1. Sustainable Agriculture, Rice Cultivation Methane Avoidance, Nutrition / Nitrogen Management, Buffer Practices, and Afforestation, Reforestation and Revegetation (ARR)
2. Durable carbon removals (CDR), Biochar, tech-based carbon capture and storage (CCS)
3. Household Energy Demand, incl. clean cookstoves and household biodigesters
4. Renewable Energy
5. Improved Forest Management
6. REDD+ (Reducing Emissions from Deforestation and Forest Degradation) and Jurisdictional forestry projects

GEOGRAPHY-WISE, THE TOP REGIONS OF INTEREST TO RESPONDENTS WERE SOUTH ASIA, SOUTH AMERICA AND EAST ASIA.



03 COMPANIES ARE WILLING TO PAY A PREMIUM FOR ARTICLE 6 ITMOs



(1) $10+ above average market rate. (2) $0-10+ above average market rate.
(3) $0-10 below average market rate. (4) more than $10 below average market rate

When asked if respondents would be willing to pay a premium for correspondingly adjusted Article 6 credits (ITMOs) compared to carbon credits without a corresponding adjustment, participants clearly outlined their willingness to pay a higher price than average market rates. Whilst this result could be expected, it clearly showcases the importance of robust Article 6 authorisations in driving private sector investments.

Whereas some respondents indicated that they expect to pay a similar price, no respondents indicated that they would expect to pay somewhat lower, while only 2 respondents surprisingly indicated that they would pay more than $10 below the average market rate for ITMOs. This indicates a strong interest for the private sector to engage in Article 6 markets due to the additional credibility, use cases and compliance advantages of ITMOs.

When asked for further details, companies highlighted that:

“ITMO prices must be higher than current information in the market to accommodate host-country fees/revenues.”

“From the supplier (project developer) perspective, there is a need for a significantly higher price due to a potential tax (CA fee) from the government. However, this does not directly make the project of better quality.”

“A price premium for ITMOs can be anticipated, although the size of the premium remains uncertain due to supply and demand uncertainty.”

“The market will initially value Art. 6 credits as a novelty, and I expect an initial surplus of demand. Thus, Art.6 credits will be initially priced higher, then I expect them to stabilise.”

“The difference between CA and Non-CA credits will also depend on the type. It may not be the same for all types of credits, sizes, and vintages.”

“Signs point towards demand outstripping supply particularly if CORSIA is enforced which would equate to much higher prices than the VCM. I think of it as more of a compliance market.”

“We expect the price of A6.2 credits and CORSIA credits to converge in the future from a project origination perspective. The price of A6.2 credits could be capped in countries which accepts A6.2 credits in their compliance ETS market.”

“Today 2/3 of those countries are located in Asia and Northern Europe. However, Asia is much bigger in terms of volume and will therefore lead on price actions.”

Regarding the interest from respondents to purchase any authorised Article 6 ITMOs within the next 5 years, 69% intended to purchase ITMOs, while 31% did not.

Most respondents who were interested in purchasing ITMOs intended to use these for trading purposes, followed by voluntary purposes and compliance purposes.

Respondents who indicated that they do not intend to purchase ITMOs were largely project developers and consultants.

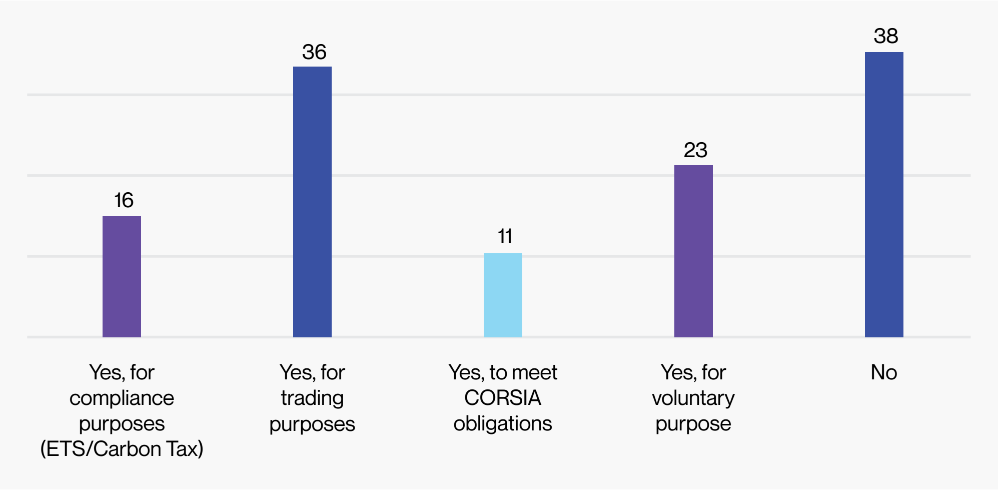
Many respondents also highlighted that they have "not yet made up our minds" are "undecided" or "not yet defined". One respondent highlighted that they may do so as part of a net zero strategy, if allowed by standard setters and applicable legislation, and another mentioned that it would depend on whether corporate offsets in compliance markets will be expected to have corresponding adjustments.

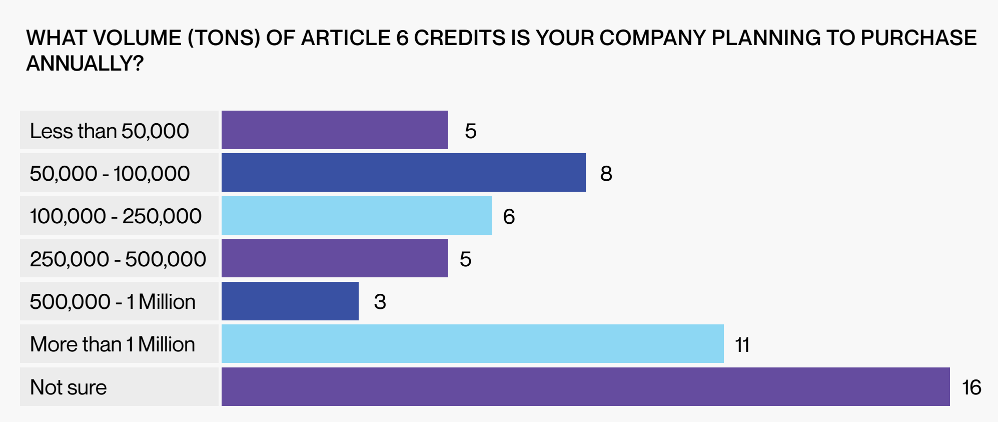
While interest and demand for ITMOs are high, there are still barriers and a lack of certainty faced by organisations.

Among respondents who indicated an interest in purchasing ITMOs, a large number indicated that they were still unsure about the quantity they would be purchasing. Some large buyers highlighted a demand of more than 1 million tons on an annual basis, while others have a much lower demand of less than 50,000 tons.

Despite the small sample size, the conservative estimate of the total expected demand of the survey group is 14.75 million tonnes of ITMOs annually.

REGARDING THE INTEREST FROM RESPONDENTS TO PURCHASE ANY AUTHORISED ARTICLE 6 ITMOS WITHIN THE NEXT 5 YEARS, 69% INTENDED TO PURCHASE ITMOS, WHILE 31% DID NOT.





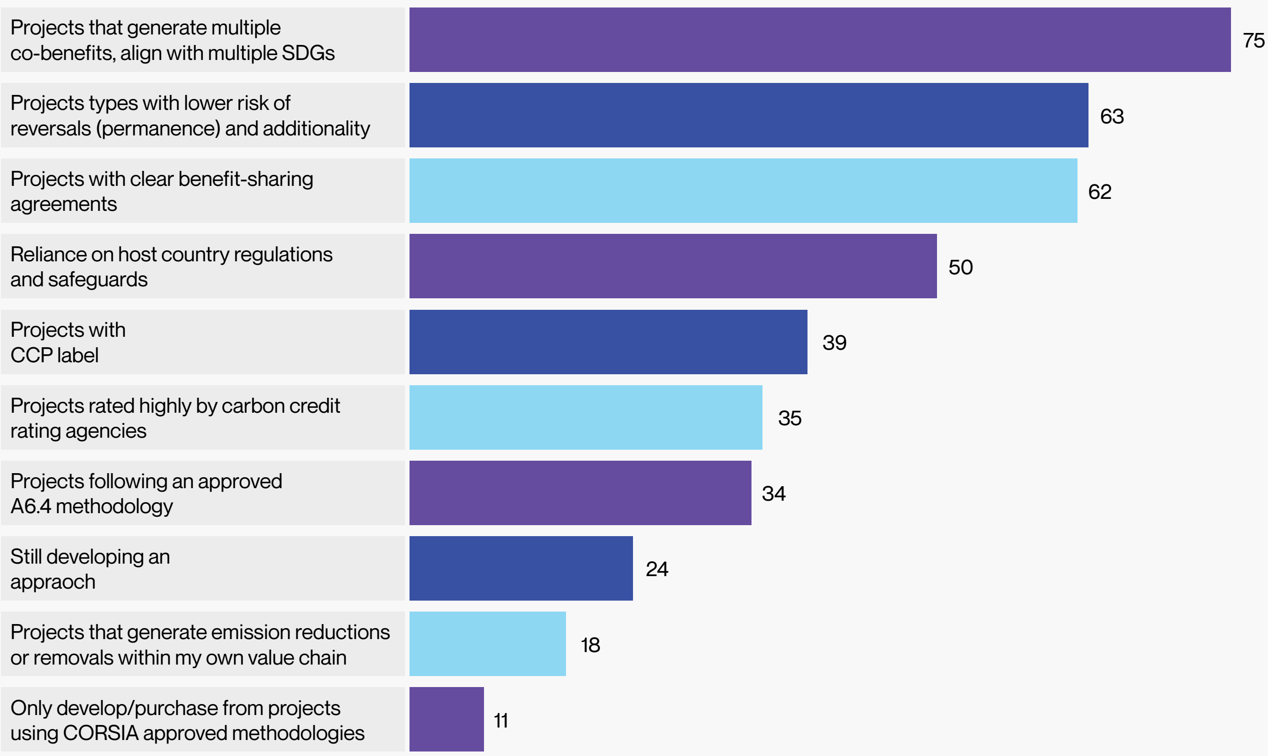
04 COMPANIES PREFER PROJECTS WITH MULTIPLE CO-BENEFITS AND SDG ALIGNMENT

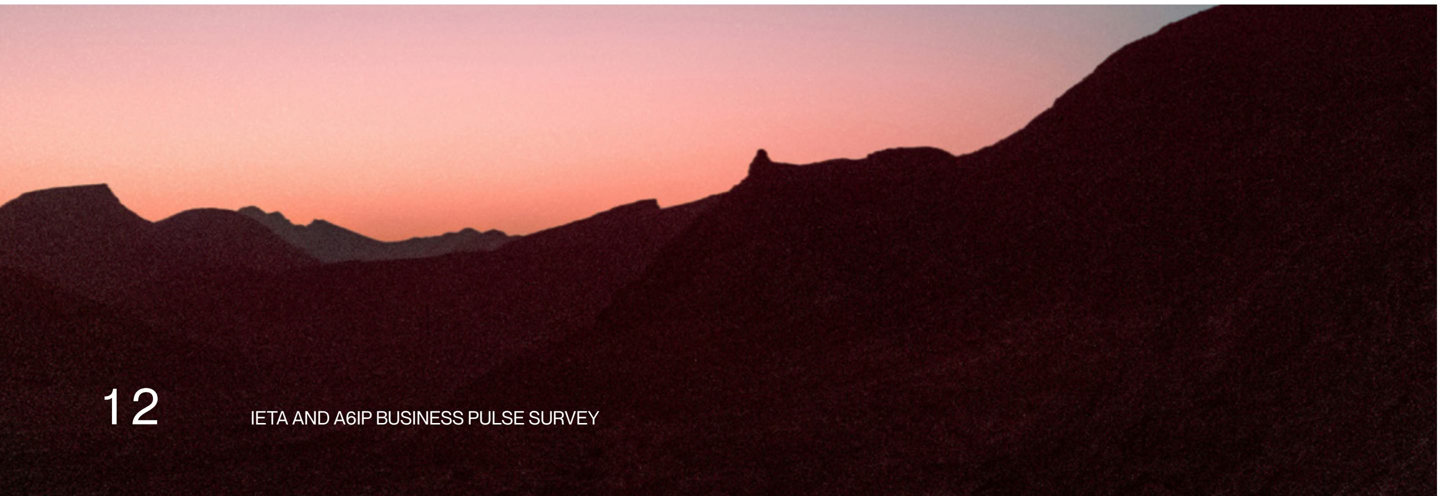
To ensure the environmental integrity of their participation in Article 6.2 transactions, companies are emphasising projects with multiple co-benefits aligned with the United Nations' Sustainable Development Goals (SDGs), as well as projects with lower risks of reversals and clear additionality criteria. Those that feature clear benefit-sharing agreements are also mentioned by respondents. In addition, a large number of companies plan to rely on host country regulations and safeguards to maintain the integrity of their Article 6.2 transactions.

Projects that fulfil the Integrity Council for Voluntary Carbon Markets' (ICVCM) Core Carbon Principles (CCPs) are highlighted as another option, as well as those receiving high ratings from carbon credit rating agencies. A smaller set of respondents highlighted that they would rely on approved Article 6.4 methodologies, only generate emission reductions within their value chain or follow CORSIA-approved methodologies. A significant number of respondents (20%) are still developing an approach. Another answer highlighted the use of insurance mechanisms to remediate if issues with credit integrity were discovered.

A SIGNIFICANT NUMBER OF RESPONDENTS (20%) ARE STILL DEVELOPING AN APPROACH.

HOW DO YOU INTEND TO ENSURE ENVIRONMENTAL INTEGRITY TO YOUR COMPANY'S PARTICIPATION IN ARTICLE 6 TRANSACTIONS?





05 REDD+ IN ARTICLE 6

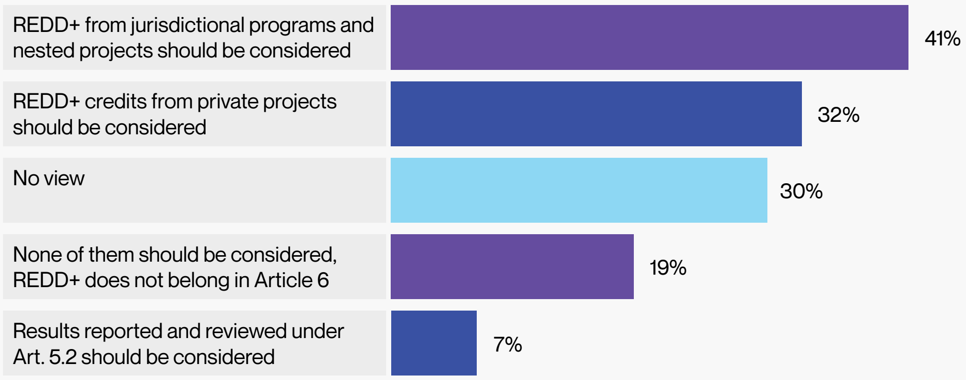
The question of how REDD+[2] activities should be treated as part of Article 6 has long been the subject of debate and there is still no full clarity on the topic.

Among the respondents surveyed, 30% had no view on whether REDD+ projects should be considered under Article 6. Many respondents were in favour of allowing REDD+ projects and methodologies in the Article 6 market. We dug deeper and asked respondents about the sub-types of REDD+ projects and their views on their consideration in Article 6.

However, 19% of respondents think that REDD+ does not belong in Article 6 at all. A few respondents, 17% agreed that results reported under Article 5.2 of the Paris Agreement should be considered. Overall, these results indicate that there is a fair amount of uncertainty and evolving debate around this issue.

AMONG THE RESPONDENTS SURVEYED, 30% HAD NO VIEW ON WHETHER REDD+ PROJECTS SHOULD BE CONSIDERED UNDER ARTICLE 6.

HOW DO YOU INTEND TO ENSURE ENVIRONMENTAL INTEGRITY TO YOUR COMPANY'S PARTICIPATION IN ARTICLE 6 TRANSACTIONS?



RESULTS INDICATE THAT THERE IS A FAIR AMOUNT OF UNCERTAINTY AND EVOLVING DEBATE AROUND THIS ISSUE.

(2) Reducing emissions from deforestation, forest degradation, conservation of forest carbon stocks, sustainable management of forests and enhancement of forest carbon stocks

06 COMPANIES ARE LOOKING FORWARD TO ENGAGING WITH THE A6.4 MECHANISM

THE PARIS AGREEMENT CREDITING MECHANISM (PACM)

With the Paris Agreement Crediting Mechanism (PACM) replacing the Clean Development Mechanism (CDM), there has been significant uncertainty around the nature of the mechanism and interest from market participants. The mechanism has not been made fully operational, awaiting outstanding guidance from the Article 6.4 Supervisory Body (SBM) on the mechanism registry and methodological requirements. The expectation is that the first projects transitioning from the CDM will be able to issue Article 6.4 Emission Reductions (A6.4ERs) in the first half of 2025.

There is massive interest in the Paris Agreement Crediting Mechanism from the private sector. Despite the uncertainty, this survey shows that only 6% of respondents do not intend to participate, either as buyers, developers, or traders in the mechanism.

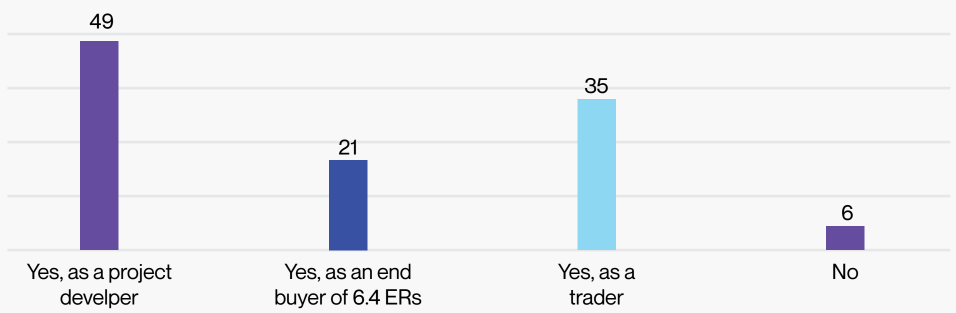
Others highlighted that they would intend to participate as validation and verification bodies (VVBs), software providers, insurers, legal advisors or financiers. Many respondents outlined that they are still not sure or are undecided, depending on the operationalisation of the mechanism and client interests.

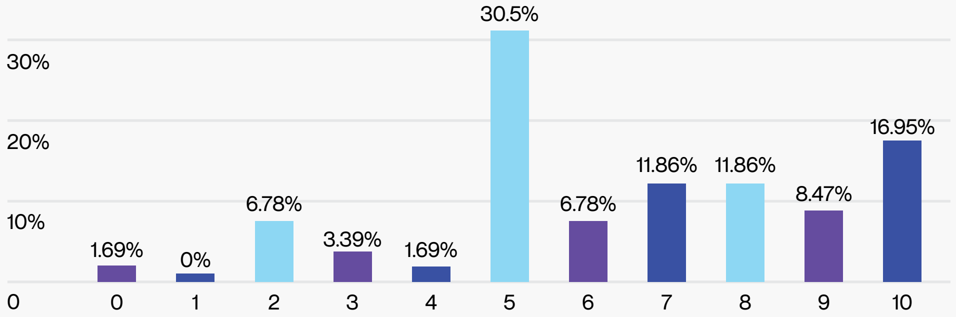
For those who are developers, the survey reveals that the likelihood of them registering projects under the PACM in the next three years is quite diverse, with a notable concentration of neutral (rating 5) responses (39 responses). Despite this neutrality, there are 16 respondents who are highly likely (rating 10) to register projects, showing strong interest from a segment of developers.

There are also moderately positive signals with ratings of 7 to 9, comprising 28 responses, indicating a fair amount of optimism. However, there are 13 responses that indicate lower likelihood (ratings 0-3), reflecting some uncertainty or hesitation among a portion of developers. Overall, there are more developers likely to register projects than there are developers unlikely to register projects.

OVERALL, THERE ARE MORE DEVELOPERS LIKELY TO REGISTER PROJECTS THAN THERE ARE DEVELOPERS UNLIKELY TO REGISTER PROJECTS.

ARE YOU INTENDING TO PARTICIPATE IN THE ARTICLE 6.4 MECHANISM WHEN OPERATIONAL?





07 COMPANIES ARE STILL BALANCING THE PACM WITH INDEPENDENT CREDITING PROGRAMMES

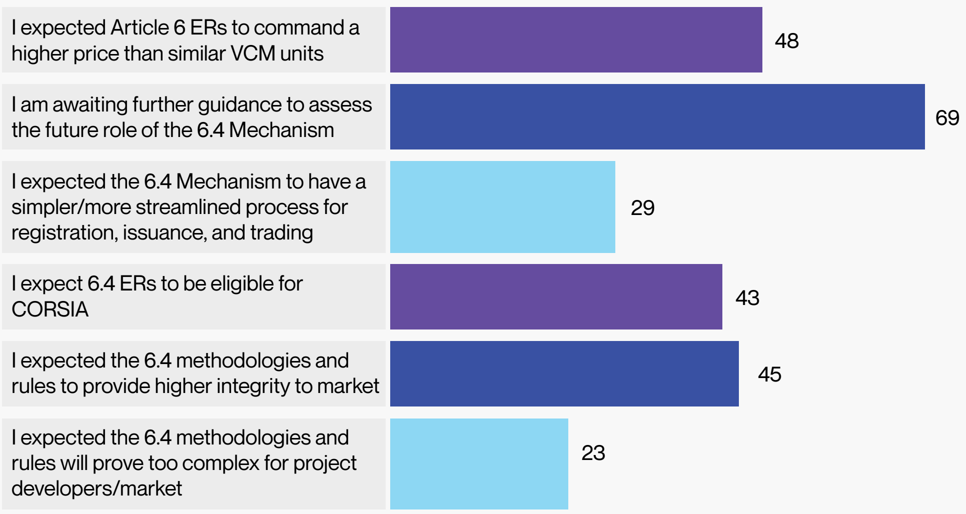
When asked regarding the choice of engaging with the PACM versus independent crediting programmes (commonly referred to as voluntary carbon standards), most respondents highlighted that they are still awaiting further guidance to assess the future role of the PACM.

Many expect that 6.4 ERs will command a higher price than voluntary carbon market units and believe that the methodologies and rules under 6.4 will offer higher integrity to the market. There is also the expectation that 6.4ERs will be eligible for CORSIA, increasing interest from market participants. There seems to be a split view among respondents whether the 6.4 mechanism will offer a more streamlined process for registration, issuance, and trading (29 responses) or whether the methodologies and rules will prove too complex for market participants to follow (23 responses).

An individual respondent highlighted that they expect Article 6.4 to run in parallel to voluntary schemes, at least until there is a wider implementation of compliance markets that only would allow Article 6 credits.

THERE SEEMS TO BE A SPLIT VIEW AMONG RESPONDENTS WHETHER THE 6.4 MECHANISM WILL OFFER A MORE STREAMLINED PROCESS FOR REGISTRATION, ISSUANCE, AND TRADING

HOW DO YOU ASSESS THE CHOICE OF ENGAGING WITH THE ARTICLE 6 MECHANISM VESUS INDEPENDENT CREDITING PROGRAMS?



MANY EXPECT THAT 6.4ERs WILL COMMAND A HIGHER PRICE THAN VOLUNTARY CARBON MARKET UNITS

08 ARTICLE 6.4 CREDITS ARE EXPECTED TO PRICE HIGHER THAN VOLUNTARY CARBON CREDITS

Under the PACM, there are two pathways to generate credits.

1. Where the project participant would receive authorisation by the host Party for use of Article 6.4ERs towards NDCs or Other International Mitigation Purposes (OIPM) (such as CORSIA), and those units could become ITMOs but would require corresponding adjustments by the host Party.
2. Where a project participant does not seek authorisation for use towards NDCs or OIMP, no corresponding adjustment is required by the host Party and the unit could be used for purely voluntary purposes; known as 6.4 Mitigation Contribution Units (MCUs).

This question sought to understand what market participants would expect the price difference to be between non-authorised MCUs and other 'voluntary' credits issued by independent crediting programmes (for the same type of project).

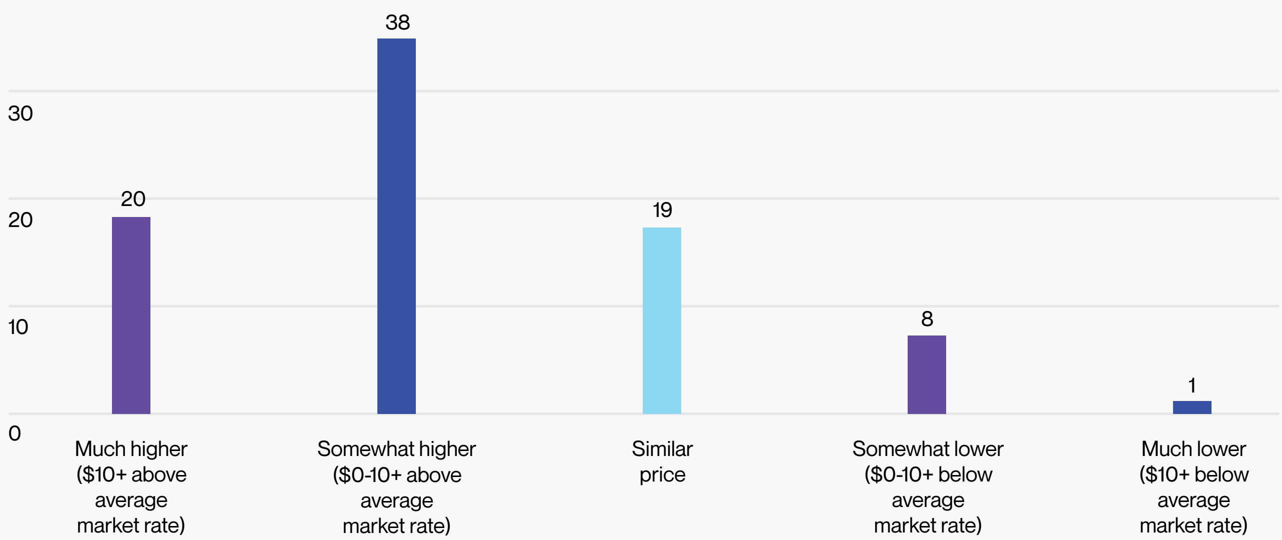
The responses highlighted that a significant majority (more than 70%) of respondents expect non-adjusted Article 6.4 credits (MCUs) to command a higher price than credits issued by voluntary or independent programmes. 20 respondents expected a much higher price than average market rates and 38 respondents a somewhat higher price.

Less than 20% of respondents expected a similar price for 6.4 MCUs in comparison to credits issued outside the PACM, and less than 10% would expect a lower price for 6.4 MCUs.

These results highlight the potential importance the PACM can play even for voluntary offsetting purposes and indicates that despite previous criticism of the UN-led CDM, many still see 6.4 credits as having increased value due to factors like greater credibility or regulatory backing.

LESS THAN 20% OF RESPONDENTS EXPECTED A SIMILAR PRICE FOR 6.4 MCUS IN COMPARISON TO CREDITS ISSUED OUTSIDE THE PACM, AND LESS THAN 10% WOULD EXPECT A LOWER PRICE FOR 6.4 MCUS.

WHAT DO YOU THINK THE PRICE DIFFERENCE WILL BE BETWEEN NON-AUTHORISED 6.4 MITIGATION CONTRIBUTION UNITS (MCU/MCERs) AND CREDIT ISSUED BY 'VOLUNTARY'/ INDEPENDENT CREDITING PROGRAMS?



"I DON'T THINK IT'S AS SIMPLE... I WOULD CONSIDER THE PRICE TO BE HIGHER FOR MCUS TO THE EXTENT BUYERS PERCEIVE UNFCCC AS A MARK OF INTEGRITY AND REPUTATION PROTECTION. ON THE OTHER HAND, IF INDEPENDENT STANDARDS ACHIEVE OTHER BENCHMARKS (CCP, CORSIA) THIS COULD SEND THE DIAL THE OTHER WAY AND ACTUALLY MAKE THEM MORE DEMANDED."

In addition to new requirements around methodologies, stakeholder consultations and mandatory sustainable development assessments, the PACM also introduced a number of fees and share of proceeds that activity participants must follow.

This includes a 5% share of proceed to the United Nations Adaptation Fund (AF), as well as a 2% automatic cancellation of credits at issuance for Overall Mitigation in Global Emissions (OMGE), a concept that was introduced to support the environmental integrity of the mechanism. In addition to these, there will be regular fees to the UNFCCC for project registration, issuance etc.

In this question, we sought to understand whether market participants felt that these fees would either undermine the financial viability of the mechanism, or if they would positively impact the trust and integrity.

As can be seen from the graph, most respondents view the requirements as having a neutral effect on the attractiveness of the PACM, with 46% giving a rating of 5.

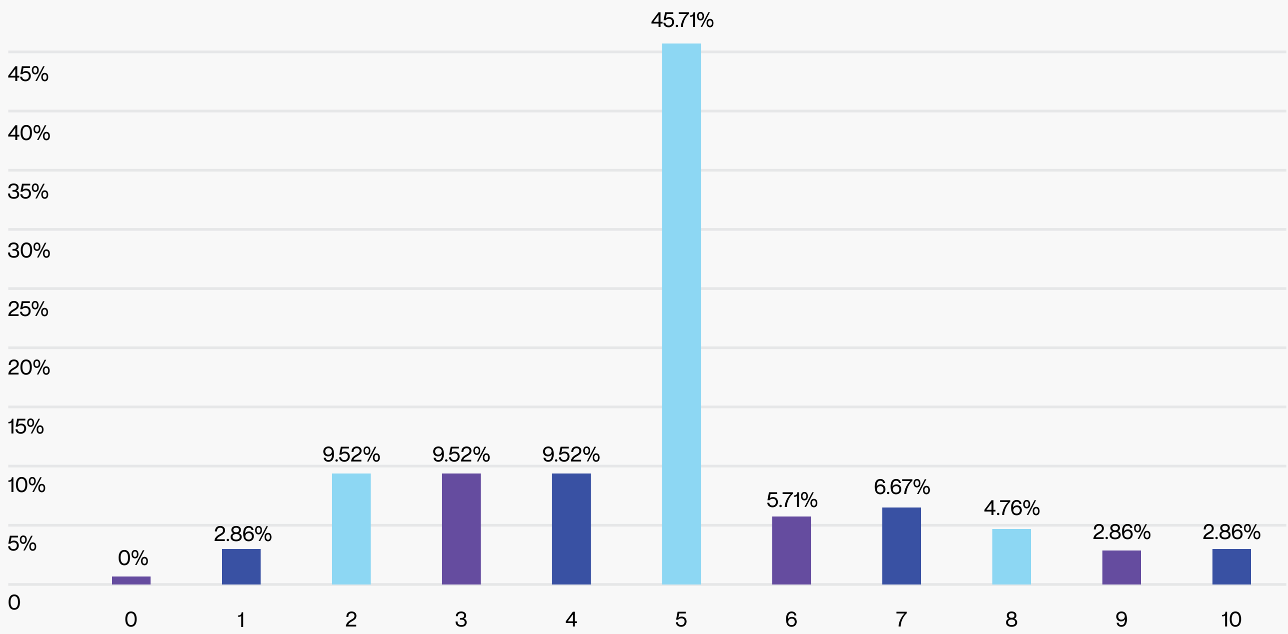
There is a significant minority, rating between 7 and 10, who see these fees as having a positive impact, possibly viewing them as contributing to market integrity, fairness, or broader environmental goals.

Whereas an almost similar number of respondents rated between 1 and 4, indicating they feel these requirements might make the Article 6.4 mechanism less competitive or attractive compared to other crediting programmes.

In summary, the majority remain neutral, while the remaining opinions are split between those who see the financial requirements as a positive feature and those who see them as a negative burden.

MOST RESPONDENTS VIEW THE REQUIREMENTS AS HAVING A NEUTRAL EFFECT ON THE ATTRACTIVENESS OF THE PACM, WITH 46% GIVING A RATING OF 5.

DO YOU THINK THE FOLLOWING REQUIREMENTS WILL IMPACT THE ATTRACTIVENESS OF THE 6.4 MECHANISM RELATIVE TO OTHER CREDITING PROGRAMMES? - 5% SHARE OF PROCEEDS TO ADAPTATION FUND (AF) - 2% AUTOMATIC CANCELLATION FOR OVERALL MITIGATION IN GLOBAL EMISSIONS 9OMGE) - OTHER UNFCCC FEES



09 UNCERTAINTIES STILL HINDER ARTICLE 6 IMPLEMENTATION

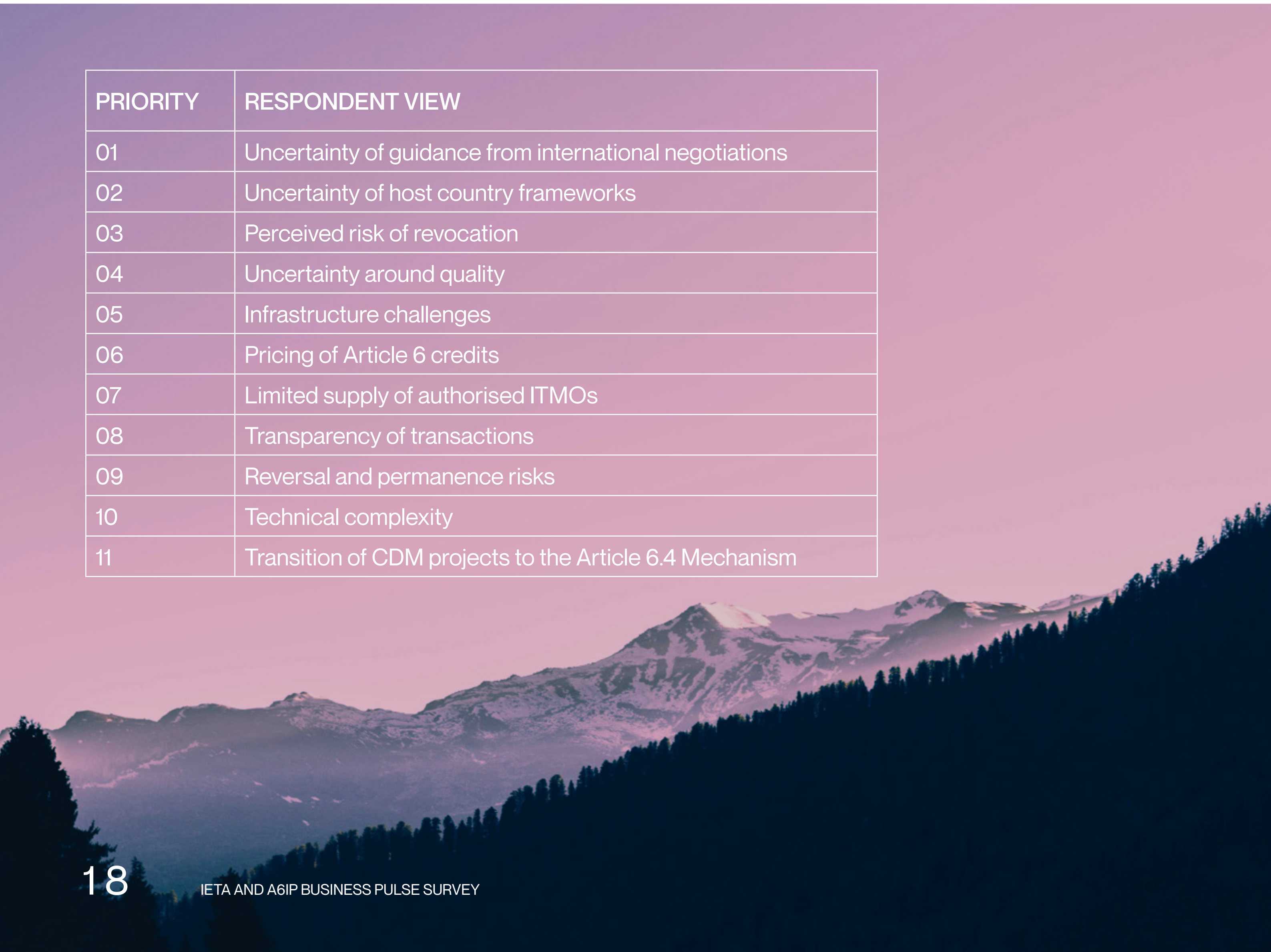
Turning to the primary challenges companies face in participating in Article 6 mechanisms, companies ranked the uncertainty from international negotiations as number one.

Uncertainty of host country frameworks, perceived risk of revocation and uncertainty around quality were also highlighted as top challenges for private sector participants in the market. Several studies have previously outlined the necessity for clarity on authorisations (including changes and revocation) and development of robust authorisation frameworks in host countries as a key priority for enhancing international carbon market participation. Despite capacity building efforts, these issues continue to be key challenges for Article 6 implementation. When it comes to uncertainty around quality, critical questions around the integrity of Article 6 projects remain, especially as countries are allowed to generate ITMOs under Article 6.2 from any type of activity or methodology with limited external supervision.

Infrastructure challenges were brought up as priority 5, emphasising the need for participating Parties, the UNFCCC Secretariat, independent crediting programmes, and other market participants to better align and resolve outstanding challenges in relation to the Article 6 market infrastructure.

On the lower end of the priority list, respondents mentioned pricing of Article 6 credits, limited supply of authorised ITMOs, transparency of transactions, reversal and permanence risks, and technical complexity. Notably, transition of CDM projects to the Article 6.4 mechanism was not seen as an important challenge for respondents, indicating that either the process is fully clear or respondents of the survey are not significantly invested in this type of projects.

IN GENERAL, COMPANIES PERCEIVE THE RISKS ASSOCIATED WITH PARTICIPATING IN ARTICLE 6 MECHANISMS AS A 3.14 OUT OF 5 (MODERATE RISK)



PRIORITY	RESPONDENT VIEW
01	Uncertainty of guidance from international negotiations
02	Uncertainty of host country frameworks
03	Perceived risk of revocation
04	Uncertainty around quality
05	Infrastructure challenges
06	Pricing of Article 6 credits
07	Limited supply of authorised ITMOs
08	Transparency of transactions
09	Reversal and permanence risks
10	Technical complexity
11	Transition of CDM projects to the Article 6.4 Mechanism

10 INTERNATIONAL NEGOTIATIONS SEEN AS KEY BARRIER FOR UNLOCKING THE FULL POTENTIAL OF ARTICLE 6

As highlighted below, uncertainty in guidance from the international negotiations under the UNFCCC remains the key barrier for unlocking the full potential of Article 6.

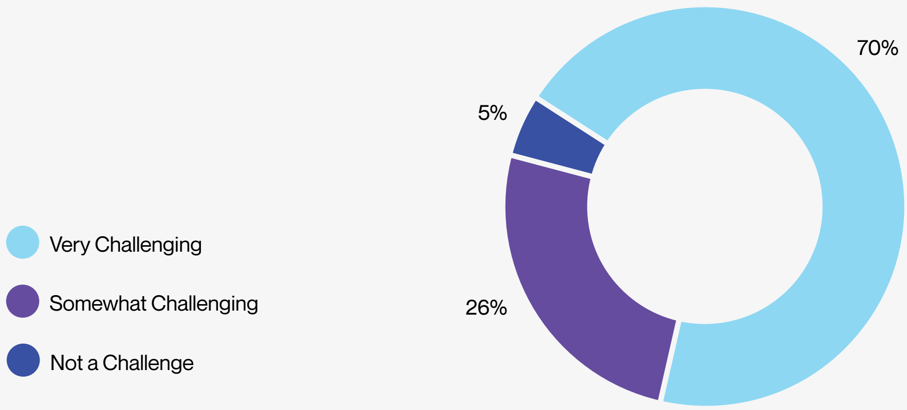
Despite Article 6 being a primary part of the Paris Agreement adopted in 2015 and guidance adopted at COP26 in Glasgow, negotiations around implementation details have continued. At COP27 in Sharm-el-Sheikh, some additional guidance was agreed, but progress halted at COP28 in Dubai where the conference ended without any decision – sending a spiral of negative sentiment throughout the market.

At COP29 in Baku this year, countries are expected to continue deliberations and reach final agreements on questions around authorisation, the Article 6.2 international registry, reporting templates, sequencing, review and how to address inconsistencies. To help resolve some of these outstanding matters, IETA has published position briefs, developed in collaboration with its 350+ corporate members, available on the website (www.ieta.org).

These outstanding matters remain a critical stumbling block for companies looking to engage in the market, and several companies highlight that this has negatively impacted their decision to participate in Article 6.

HOW DOES UNCERTAINTY FROM ONGOING INTERNATIONAL NEGOTIATIONS ON ARTICLE 6 IMPACT YOUR COMPANY'S DECISION TO ENGAGE IN RELATED MECHANISMS?

UNCERTAINTY OF GUIDANCE FROM INTERNATIONAL NEGOTIATIONS



ACCESS IETA'S ARTICLE 6 POSITION BRIEFS ON OUTSTANDING NEGOTIATION MATTERS AHEAD OF COP29.

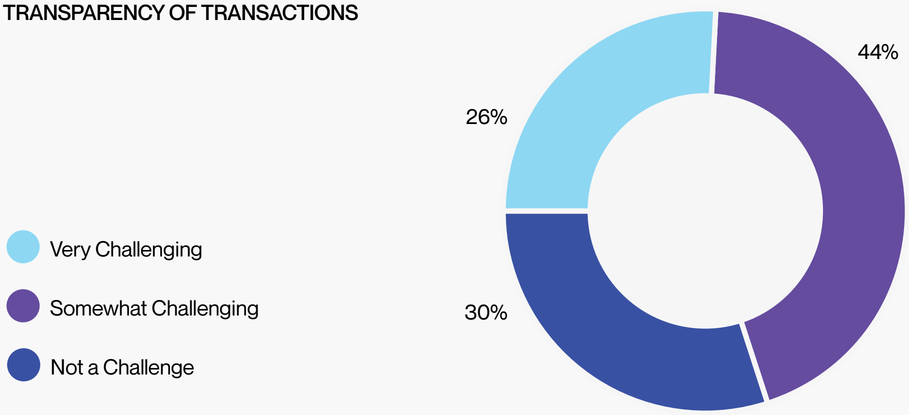
SCAN QR CODE

11 TRANSPARENCY OF ARTICLE 6 TRANSACTIONS IS SEEN AS ANOTHER KEY CONCERN

Transparency of Article 6 transactions is still seen by market participants as a key concern. This seems to indicate that the issues around Article 6 registries, trading and transactions of ITMOs are still not clearly understood or perceived as risky by practitioners in the space.

THE CAD TRUST WAS ESTABLISHED BY THE WORLD BANK, IETA AND THE SINGAPORE GOVERNMENT IN 2022.

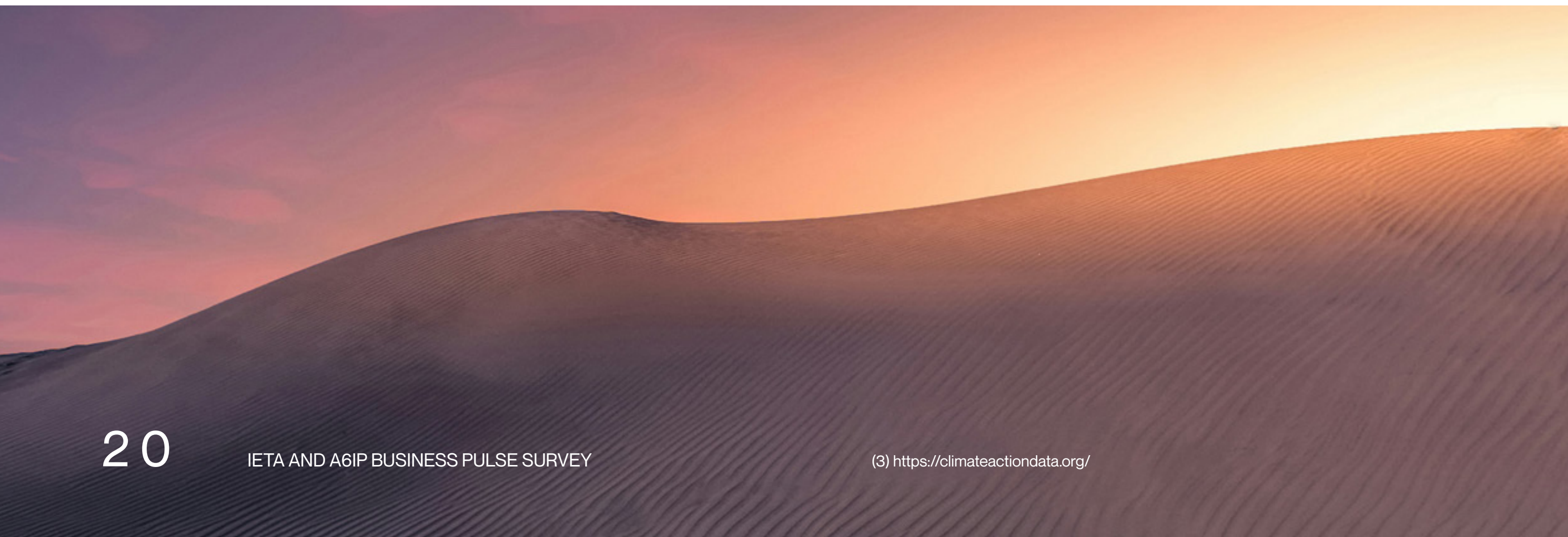
TRANSPARENCY OF TRANSACTIONS



CAD TRUST

The Climate Action Data Trust (CAD Trust)3 is a Singapore-based NGO working to link, aggregate and harmonise all major carbon registry data to enhance transparent accounting in line with Article 6 of the Paris Agreement. The CAD Trust vision is for all major national carbon registries, independent and international crediting programmes to mirror their data voluntarily and automatically to its common decentralised transparency platform following a standardised data model. This approach has the potential to bring real-time transparency on the credit lifecycle, including Article 6 authorisations, transactions, and eventual application of corresponding adjustments 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 the aim to simplify research and reporting, help prevent double counting and increase interoperability between programs and systems.

The CAD Trust was established by the World Bank, IETA and the Singapore Government in 2022. It currently features data from 8 programmes and governments, covering around 85% carbon credits issued to date: Verra, Cercarbono, Global Carbon Council, BioCarbon, Tero Carbon, Asia Carbon Institute, Clean Development Mechanism, and Kingdom of Bhutan.



(3) https://climateactiondata.org/

12 HOST COUNTRIES ARE LAGGING BEHIND

Under Article 6, the role of host countries has become increasingly important, as they need to fulfil the Article 6 participation requirements to be eligible to transact ITMOs. This includes arrangements related to the tracking of credits, such as a national registry, frameworks for authorisation and NDC alignment, as well as processes for reporting. Respondents engaging with host countries highlighted that their readiness to engage with Article 6 mechanisms is on average still low.

When asked to elaborate, respondents highlighted that a small number of countries are more prepared than others, but that most countries are just beginning to engage with the process. While some have strong political will and are receiving significant support from international partners and donors to build capacity, other countries seem to be left behind.

HIGH APPETITE, LOW KNOWLEDGE: While there is a high level of interest from many host countries, the knowledge gap remains significant, with some countries having political ambitions that outstrip practical readiness for Article 6 implementation.

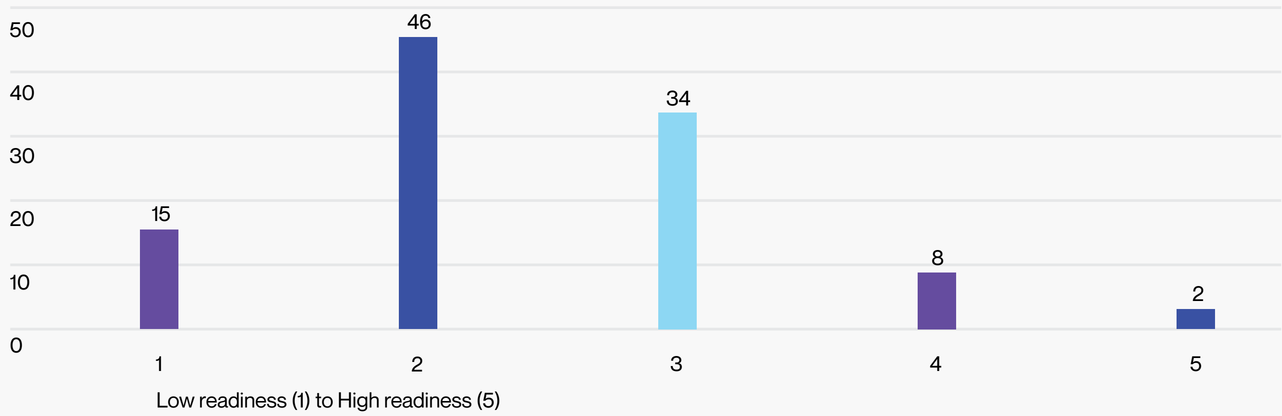
POLITICAL AND CAPACITY LIMITATIONS: Countries are seen as highly dependent on external capacity building to engage with Article 6 effectively. Political outcomes, capacity limitations, and lack of knowledge of how Article 6 interacts with NDCs were noted as key challenges.

CHALLENGES WITH LETTERS OF AUTHORISATION (LOAS): Several respondents also raised concerns about LoAs being issued without a clear process, with some host countries not yet reporting to the UNFCCC about the LoAs they have signed. A standardised framework for LoAs was highlighted as something that would be helpful for increasing clarity.

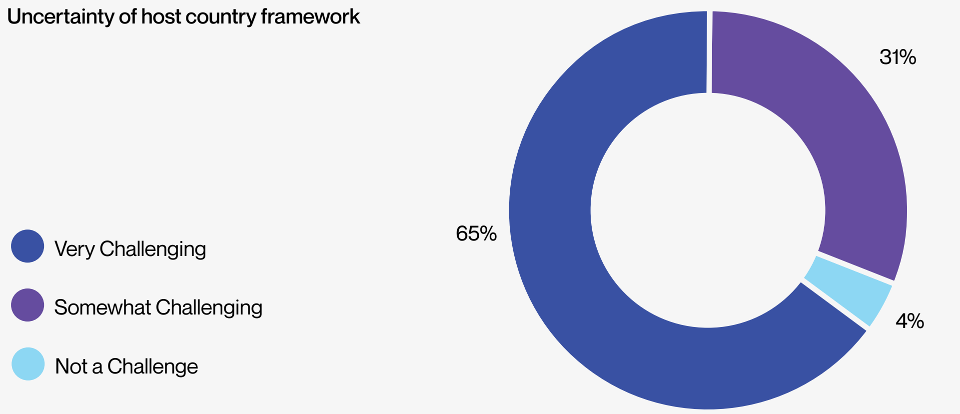
IETA has been tracking bilateral and unilateral authorisations issued so far on its website (www.ieta.org).

"VERY FEW COUNTRIES HAVE THE RIGHT UNDERSTANDING AND FRAMEWORK IN PLACE. REVOCATION BECAUSE OF FAILING NDC TARGETS IS ALSO SEEN AS A CRITICAL RISK."

IF YOU ARE ENGAGING WITH HOST CONTRIES, WHAT IS YOUR PERCEPTION OF THEIR READINES TO ENGAGE WITH ARTICLE 6 MECHANISMS?



Uncertainty of host country framework



In terms of what aspects companies prioritise when selecting which host countries to engage with under Article 6, a clearly outlined strategy was identified as the most important element.

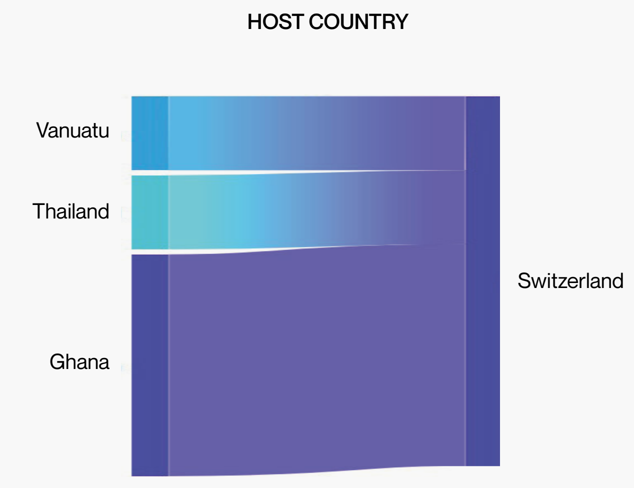
Due to the significant role played by host countries in Article 6 markets the perceived political stability in the host country came up as the second most important issue. Robust infrastructure, such as a national registry in the host country, and the potential of cost-effective emissions reductions or removals were also highlighted as critical factors. This shines a light on the mitigation potential and marginal abatement costs that can deliver significant amounts of credits.

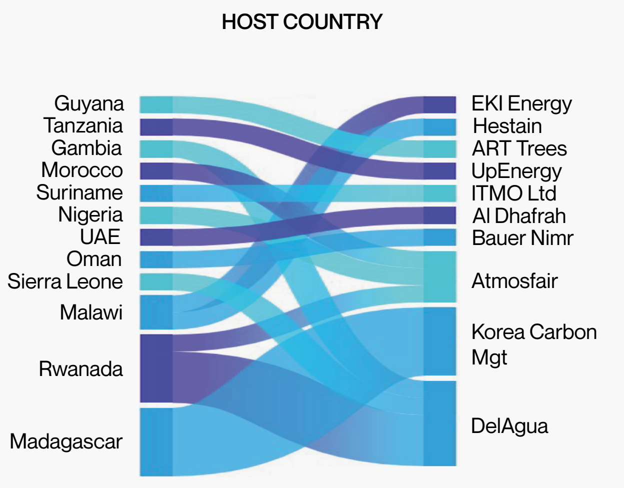
The NDC ambition of the host country or fee structure for corresponding adjustments imposed by the host country were seen of less importance at the current stage of implementation.

"THERE IS GENERAL WILLINGNESS AND SOMETIMES SPECIFIC PIECES OF POLICY, BUT FEW COUNTRIES HAVE A CLEAR VISION AND POLICY FRAMEWORK THAT WOULD PROVIDE MINIMUM LEVELS OF CONFIDENCE FOR ENGAGING WITH ARTICLE 6."

WHAT DOES YOUR COMPANY PRIORITISE WHEN SELECTING WHICH HOST COUNTRIES TO ENGAGE WITH UNDER ARTICLE 6?

01	Clearly outlined Article 6 strategy by the host country
02	Perceived political stability in host country
03	Robust infrastructure (e.g. national registry) in host country
04	Potential of cost-effective emissions reductions or removals
05	Existing presence in host country
06	High ambition NDC
07	Low cost/fees for corresponding adjustments imposed by host country





13 THE NON-BANKING RULE OF ITMOS IS STILL NOT WELL UNDERSTOOD BY MARKET PARTICIPANTS

The Article 6 Rulebook outlines that mitigation outcomes must be used within the same nationally determined contribution (NDC) period in which they have been generated.

This rule prevents banking (and borrowing) of internationally transferred mitigation outcomes (ITMOs) for compliance purposes from one NDC period to the next.[4] This rule, commonly known as the "non-banking rule", was introduced at the late stage of negotiations during COP26 and has so far received little attention from negotiators or market participants. However, as Article 6 implementation is moving forward and the transition from the first to the second NDC period is coming closer, the importance of this decision is likely to garner more attention.

When asked if companies are aware of the "non-banking" rule for ITMOs and if this has had an impact on investment decisions, almost half of the respondents indicated that they were not aware of the rule.

30 respondents indicated that it has not impacted investment decisions, whereas 22 indicated that the rule has had a significant impact on investment decisions. Of the respondents that are aware of the rule, this represents more than 40% saying it has had a significant impact on investment decisions.

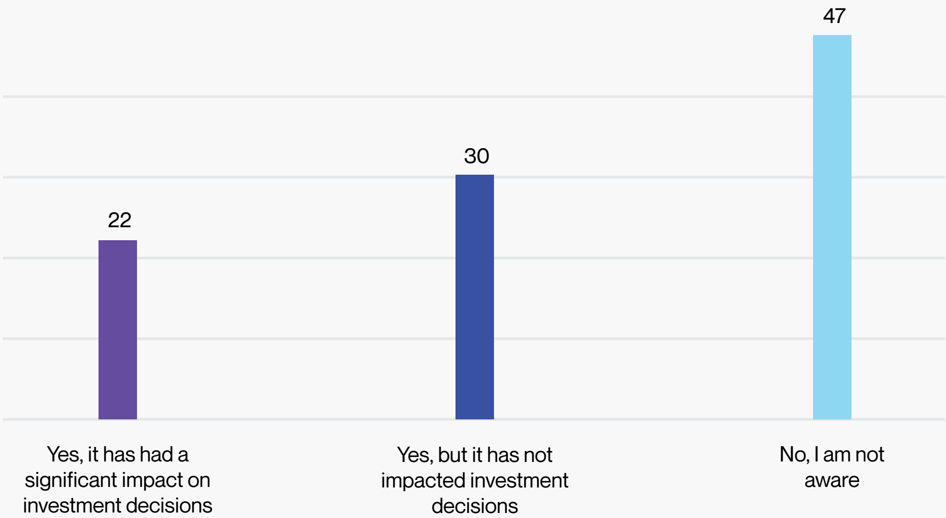
One respondent highlighted that because projects are still in the early stages of design, it has not yet had a material impact. However, a few respondents indicated that while the rule has not yet influenced decisions, it is expected to soon start having a significant impact as projects advance in their implementation.

As highlighted in previous studies, the rule might restrict buyers' appetite for purchasing ITMOs as their value is expected to diminish at the end of an NDC period and limit mitigation activities that might have been undertaken in expectation of opportunities in future NDC periods.

Responses to this question indicate a need for further capacity building among market participants and consideration of various types of project structures, contractual arrangements and risk mitigation strategies to ensure bankability of projects beyond single NDC periods.[5]

"I AM AWARE, BUT I DON'T THINK THIS IS GRASPED AT ALL IN GENERAL BY MARKET PARTICIPANTS AND THOSE THAT IT COULD IMPACT."

ARE YOU AWARE OF THE 'NON-BANKING' RULE FOR ITMOs (i.e. that ITMOs for use towards NDCs must be used within the same NDC implementation period as the mitigation outcome has been generated)? HAS THIS HAD AN IMPACT ON INVESTMENT DECISIONS?



(4) For further reading: https://www.tcafwb.org/sites/default/files/2023-09/6_ITMO%20no-banking%20 note.Final_.%20June%2015.pdf (5) Ibid.

14 OVERCOMING THE HURDLES

While significant implementation challenges remain to unlock the full scale and ambition of international carbon markets under Article 6, focus needs to be placed on the short- to medium-term issues that can be resolved. According to survey respondents, the conclusion of international negotiations, including the finalisation of Article 6 rules, would be the most important aspect to overcome existing challenges. Uncertainty around the rules is preventing market participants from making long-term investment decisions. Finalising these rules will provide the clarity and confidence needed for project development and investment. This puts a strong emphasis on the urgency for countries to come together at COP29 to build bridging proposals and seek meaningful compromises to deliver an outcome.

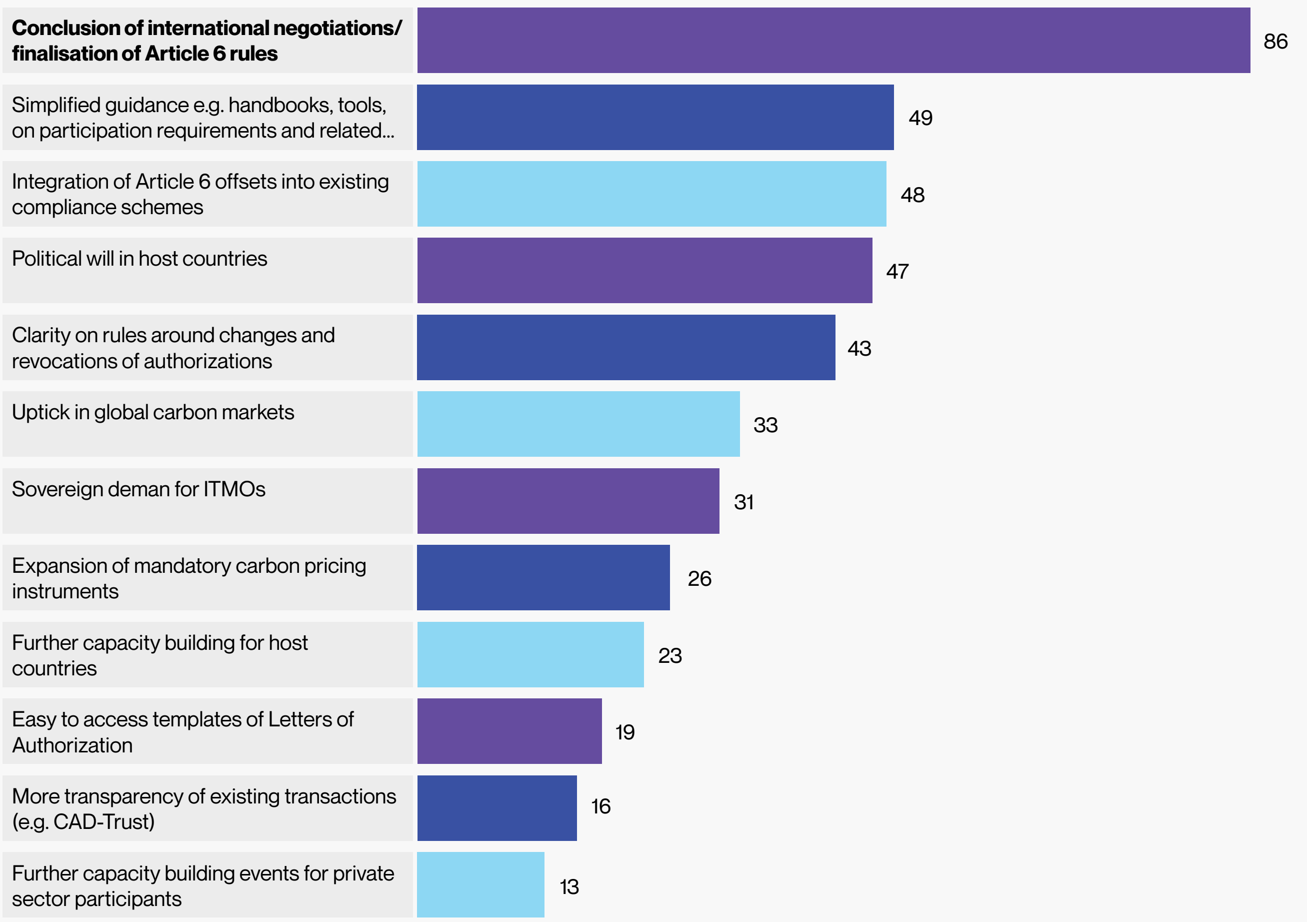
Simplified guidance, such as handbooks and practical tools, are also emphasised by respondents as a critical need to help unlock the market potential. These could help reduce complexity and support stakeholders – especially those unfamiliar with the technicalities of Article 6 - to comply with the requirements more easily.

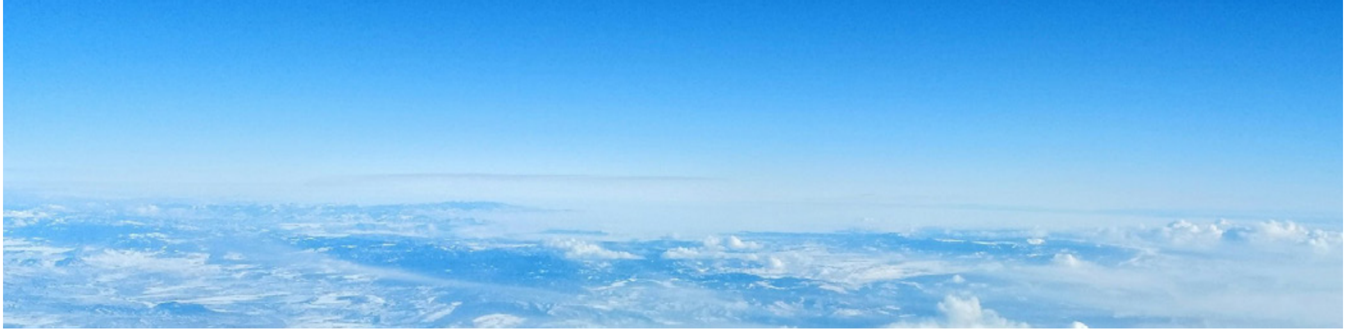
Integration of Article 6 credits into existing compliance schemes is also highlighted by participants as an important objective to move the market forward. Due to many recent controversies and diminishing trust in voluntary carbon markets, the integration of ITMOs into compliance schemes is seen as a key to help drive demand, lower overall implementation cost and increase NDC ambition. Whilst a few countries (notably Singapore, Japan and South Korea) have outlined their intention to link carbon pricing policies with use of international Article 6 credits, these remain a small minority.

This closely links to the political will in host countries. As of now, many jurisdictions around

IN GENERAL, COMPANIES PERCEIVE THE RISKS ASSOCIATED WITH PARTICIPATING IN ARTICLE 6 MECHANISMS AS A 3.14 OUT OF 5 (MODERATE RISK)

WHAT WOULD BE MOST IMPORTANT TO OVERCOME EXISTING CHALLENGES IN ARTICLE 6 IMPLEMENTATION?





the world are still navigating the complexities of Article 6, understanding their marginal abatement cost curves, emissions trajectories, NDC targets and how Article 6 may be able to help them from a seller perspective. The perceived risk of overselling ITMOs and concerns around integrity as well as questions around benefit sharing has hampered political will in some host countries.

At the same time, market participants stressed the importance of clear and predictable rules for managing changes or revocation of authorisations. Uncertainty in this area could lead to increased investment risk and discourage participation. Whilst we expect further guidance on this issue to be agreed at COP29, this is likely an area where host countries, as well as international financial institutions, will have to play an integral part in mitigating risks and supporting investor confidence.

A general uptick in global carbon markets was highlighted as one of the other most important aspects of increasing Article 6 engagements. Recent years have seen significant uncertainty and volatility in the demand for carbon credits, as a result of perceived integrity issues on both the demand and supply side of the market. This relates closely to the issue of political will, as well as sovereign demand for ITMOs. Whilst demand from corporates through voluntary and mandatory offsetting schemes, as well CORSIA, is important, many respondents outlined that sovereign demand for ITMOs (such as Switzerland or Sweden) is key to help scale up the market.

Further capacity building was emphasised both for host countries (23) and for private sector participants (13). Notably, both options ranked relatively low on the list of priorities, indicating that market participants believe that overall capacity building efforts may not be the most efficient way of addressing outstanding challenges. Instead, simplified guidance, tools and handbooks may be of higher value – though it should be noted that respondents of this survey are likely at a higher level of understanding around Article 6 than average market participants. As one initiative to help bridge this gap, IETA is leading the Private Sector Working Group of the Article 6 Implementation Partnership (A6IP), aiming to build capacity and support stronger understanding of technical issues for project developers and other stakeholders.

To overcome the current challenges with Article 6 implementation, respondents view the finalisation of international rules, clear guidance, and strong political will from host countries as top priorities. Other important factors include clarity on authorisation, building capacity, and ensuring demand for ITMOs both from global carbon markets and sovereign buyers. These elements are seen as crucial for creating a functional and efficient Article 6 market.

AS ONE INITIATIVE TO HELP BRIDGE THIS GAP, IETA IS LEADING THE PRIVATE SECTOR WORKING GROUP OF THE ARTICLE 6 IMPLEMENTATION PARTNERSHIP (A6IP)

CONCLUSION: LOOKING FORWARD

THIS ARTICLE 6 IN ACTION: BUSINESS INSIGHTS & IMPLEMENTATION TRENDS REPORT DEVELOPED BY IETA AND THE A6IP IS THE FIRST EDITION OF THIS BUSINESS PULSE SURVEY TAKING STOCK OF KEY CHALLENGES AND OPPORTUNITIES FOR THE PRIVATE SECTOR IN ARTICLE 6 IMPLEMENTATION. THE RESULTS CLEARLY OUTLINE THE STRONG PRIVATE SECTOR INTEREST IN ARTICLE 6 MECHANISMS DRIVEN BY OPPORTUNITIES FOR NEW REVENUE STREAMS, ENHANCED REPUTATION, AND RISK MITIGATION – BUT ALSO THE ASSOCIATED CHALLENGES.

For the first time, the report has showcased companies' willingness to pay significant premiums for correspondingly adjusted ITMOs and Article 6.4 MCUs as compared to other carbon credits.

The results further underscore the importance of finalising the guidance on Article 6 from the international negotiation process. A clear decision at COP29 will be essential for advancing Article 6 implementation, and we call on countries to work constructively towards an ambitious outcome in Baku.

Additionally, capacity building efforts for host countries, streamlined guidance for market actors, and integration of Article 6 credits into existing compliance markets are necessary steps to unlock the full potential of Article 6.

Whilst these results only provide an initial indication of the many promises and challenges facing private sector engagements in Article 6 markets, we hope to continue building on these outcomes to shape further activities.

As the complex Article 6 landscape continues to evolve, IETA and A6IP are committed to supporting our members and collaborating with stakeholders around the world to help resolve outstanding challenges and scale up the international carbon market.

Only by working together can we drive the necessary investments, increase our collective climate ambition and achieve the goals of the Paris Agreement. By collective action, we can pave the way for a thriving global carbon market and a resilient, low-carbon future.

ONLY BY WORKING TOGETHER CAN WE DRIVE THE NECESSARY INVESTMENTS, INCREASE OUR COLLECTIVE CLIMATE AMBITION AND ACHIEVE THE GOALS OF THE PARIS AGREEMENT.

RESPONDENT DEMOGRAPHICS

RESPONDENT ORGANISATION HEADCOUNT LARGELY FOLLOWED A U-SHAPED DISTRIBUTION. MOST RESPONDENTS WERE FROM SMALL COMPANIES (<50 EMPLOYEES).

GEOGRAPHICAL DISTRIBUTION – ORGANISATION HEADQUARTERS

We received responses from organisations headquartered in 38 different countries. Most respondents were from organisations headquartered in the UK and Northern Ireland (17). This was followed by the United States of America (15), Switzerland (8), India (7), Japan (7), Singapore (5).

40% of responses were from organisations headquartered in Western Europe, 17% from North America, 15% from East Asia, 9% from South America, and 8% from South Asia (Annex). Overall, companies headquartered in Western Europe and North America represent 57% of the total survey population. Companies headquartered in Asia and South America are moderately well represented.

ONLY 1% OF RESPONDENTS DID NOT PLAY ANY ROLE IN CARBON MARKETS.

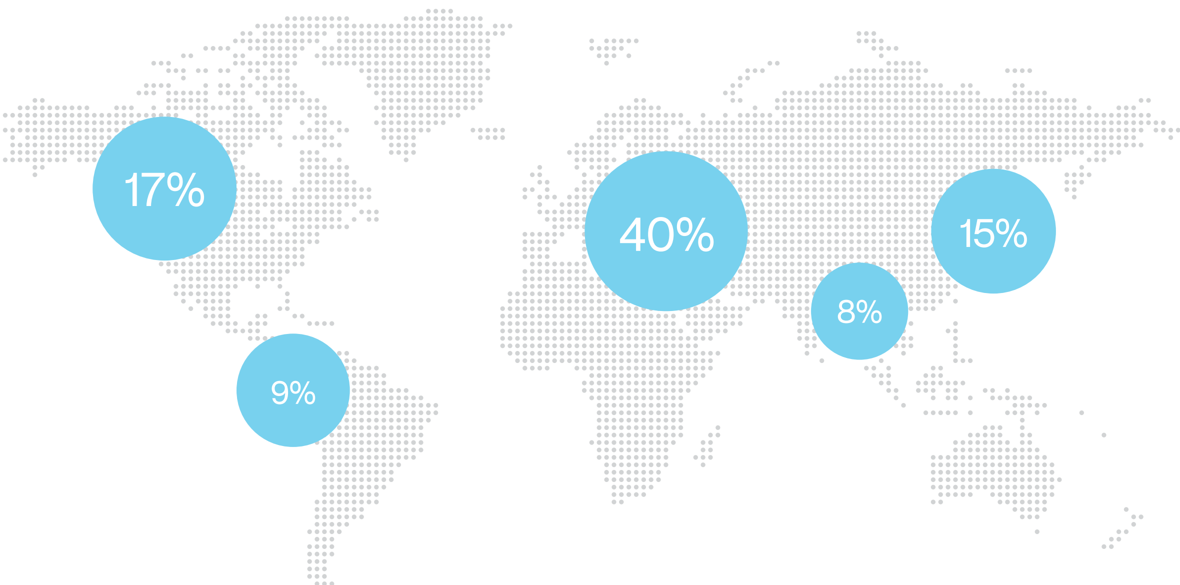
GEOGRAPHICAL DISTRIBUTION – PRESENCE

Respondents were asked to select the regions in which their organisation had presence[6]. Most organisations had a geographically diverse distribution of clientele, assets and operations.

The largest group of survey respondents were carbon project developers. The roles of consultants, intermediary, and financiers was also common. Other roles not included in the analysis but suggested by respondents in the “other” option included VVBs, legal, and insurance. Only 1% of respondents did not play any role in carbon markets.

Two respondents described themselves as being “not familiar” with Article 6 of the Paris Agreement. Most other respondents keep track of the main topics under discussion, know how it is structured and its main elements, and follow negotiations under UNFCCC regularly.

Almost all of the respondents highlighted that their company is already active in the voluntary carbon market, and around half of the respondents explained that they are also active in compliance markets (ETS), Article 6.2, CORSIA and/or Carbon Tax and Offsetting Schemes.



(6) Respondents who selected “Worldwide” were not allowed to select other regions.

IETA

A6IP

Headquarters
Grand-Rue 11
CH-1204 Genève
Switzerland
+41 22 737 05 00

Brussels
Rue du Commerce
Handelsstraat 123
1000 Brussels
Belgium
+32 289 55 747

Washington
1001 Pennsylvania Ave. NW
Suite 7117
Washington, DC 20004
+1 470 222 IETA (4382)

Toronto
180 John Street
Toronto, ON
M5T 1X5

Singapore
62 Ubi Road 1 #04-24
Oxley Bizhub 2
Singapore 408734

IETA also has
representation in:
Beijing, London,
and Tokyo

ieta.org

FOR QUESTIONS OR
COMMENTS ABOUT THE REPORT,
PLEASE CONTACT:

Björn Fondén,
International Policy Advisor
fonden@ieta.org

Andrea Bonzanni,
International Policy Director
bonzanni@ieta.org

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