

What is Article 6 of the Paris Agreement and why does it matter to global business?

CONTEXT

Under the landmark 2015 [Paris Climate Agreement](#), all participating countries are required to set national greenhouse gas (GHG) emissions reductions targets—also called Nationally Determined Contributions (NDCs). This bottom-up approach means that governments decide how fast to decarbonise their economies.

According to [recent calculations](#), the sum of all national climate targets submitted to date is expected to result in a dangerous 2.7°C warming increase by the end of the century.

One of the keys to accelerating the necessary decarbonisation lies in the implementation of cross-border greenhouse gas emission markets—in particular carbon markets. This is important as it enables countries and businesses to cost-effectively manage their emissions reductions both domestically and through co-operation with other countries and businesses globally.

Such a system, however, requires governments to agree a common rulebook to operationalise Article 6 of the Paris Agreement at the next [UN Climate Change Conference \(COP26\)](#), which will be held in Glasgow, 31 October–12 November 2021.

WHAT DOES ARTICLE 6 COVER?

Article 6 of the Paris Agreement covers three important issues—two mechanisms that enable the effective functioning on international carbon markets and a third one based on non-market approaches.

Specifically:

- **Article 6.2** allows for the international transfer of carbon credits between countries—also called emission reduction units or Internationally Transferred Mitigations Outcomes—according to a robust accounting framework to ensure no double counting, meaning each reduction unit must only count towards the targets in one country's climate pledge.
- **Article 6.4** aims to create a central UNFCCC mechanism—also referred to as Sustainable Development Mechanism—to trade credits from emissions reductions generated through specific projects. For example, country A could finance country B to build a solar power plant instead of a coal plant. Emissions are reduced, country B benefits from the renewable energy and country A gets a share of the emissions reductions. This section explicitly mentions the participation of the private sector. Parties still need to define how companies can engage in this cooperative mechanism to help countries realise national commitment but also how they can directly contribute to the Paris Agreement. In this regard, it is important to provide clarity and guidance on type of

emission reduction activities that they can participate in, how to account for transfers of emissions reductions as well as on measurement and verification rules. Many companies are already exploring options and markets to develop emissions reduction activities that can be eligible under Article 6.

- **Article 6.8** aims to provide guidance for the creation and development of non-market based mechanisms and processes that can result in emissions reductions, such as development aid.

These rules will determine how countries and businesses can use international carbon markets to achieve our common climate goals. These mechanisms, if properly designed—with clear, fair and environmentally sound rules that carbon markets need to fully function—could help drive emission reductions at a lower cost while generating financing for climate action.

WHAT'S AT STAKE AT COP26?

To date, there is no “rulebook” for Article 6, despite countries getting close to an agreement on the vast majority of the rules for the Paris Agreement—the so called [Paris Rulebook](#)—at COP24 in Poland in 2018 and again at [COP25](#) in Madrid in 2019.

Official negotiations on this critical issue will resume at upcoming sessions in Glasgow in November—originally planned to take place in 2020—and countries will once again try to come to a successful agreement. The basis of the negotiation in Glasgow will include all [three versions of the draft texts](#) prepared by the Chilean COP25 Presidency in 2019 plus the progress made in the many pre-COP26 technical meetings on Article 6.

The following key sticking points will be at the heart of the Article 6 discussions in Glasgow:

- 1. Avoidance of double-counting/double-claiming:** This is probably one of the biggest issues at stake. A majority of countries argue emissions cuts must not be claimed by both the country, the seller and the buyer of offsetting credits and that a corresponding adjustment needs to be made—meaning that when one country sells emissions reductions to another, it must adjust its own emissions figures accordingly.
- 2. Carryover of pre-2020 Kyoto Mechanism units to the new Paris Mechanism:** Another highly contentious question is whether to allow some or all of the credits generated under the Kyoto Protocol prior to 2020 to be used in Article 6. Different studies estimate that there could be as many as 4 billion such units leftover from the Kyoto Protocol, representing 4 gigatons of emissions.
- 3. Overall mitigation in global emissions:** Article 6.4 stipulates that the new trading mechanism is to deliver an “overall mitigation in global emissions” (often referenced as OMGE). Parties do not agree on how to achieve and implement this.
- 4. Share of proceeds:** under the Kyoto Mechanism, revenues generated from certain projects were used to finance climate adaption projects under the Adaptation Fund. This has also been accepted for the new Paris mechanism under Article 6.4 but countries still grapple how the share of proceeds will be carried out and some would like it to be also applied to Article 6.2.

Article 6 is a critical piece of the Paris Agreement and offers great potential to significantly raise climate ambition and action and lower costs, by engaging the private sector and spreading finance, technology and expertise into new areas of climate action. But, at the same time, it has to protect the environmental integrity and the ambition of the Paris Agreement. This is why strong sound rules on this key piece are so important and Parties must get this right at COP26.

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