

# Carbon Markets and Article 6 of the Paris Agreement

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In Partnership with



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# Carbon Markets under the Kyoto Protocol

- Under the Kyoto Protocol, GHG emission reduction commitments for developed countries only (A1 Parties);
- Three flexibility mechanisms to help A1 Parties (developed countries) meet their commitments:
  - The **Clean Development Mechanism** (Article 12):The purpose of the CDM is to assist non-Annex I Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention, as well as to assist Annex I Parties in complying with their quantified emission limitation and reduction commitments;
  - The **Joint implementation** (Art. 6):Any A1 Party may transfer to or acquire from any of the other A1 Parties emission reduction units resulting from projects aimed at reducing anthropogenic emissions by sources or enhancing anthropogenic removals by sinks of greenhouse gases from any sector of the economy; the acquisition of emission reduction units complements domestic actions to meet commitments;
  - The **Emissions trading** (Art. 17):Parties listed in Annex B of the KP (with GHG emission reduction targets) may participate in emissions trading in order to meet their commitments; Any such trading will complement domestic actions to meet quantified emission limitation and reduction commitments.

# Compliance and Voluntary Carbon Markets (1)

- Voluntary and compliance carbon markets are instruments used to reduce greenhouse gas emissions and promote the energy transition. These markets allow companies and governments to voluntarily commit to reducing their greenhouse gas emissions by buying and selling emissions allowances or certified emission reduction credits.
- **Compliance carbon markets** are regulated markets set up by governments to oblige companies to reduce their GHG emissions. These markets operate by setting a cap on each company's emissions and allowing companies to purchase emission rights or participate in offsetting programmes if they exceed this cap.
- The advantages of compliance carbon markets are that they create a financial incentive for companies to reduce their carbon emissions and can be more effective than voluntary carbon markets in achieving long-term emissions reduction targets. However, they can be costly to implement and can lead to market distortions

# Compliance and Voluntary Carbon Markets (2)

- **Voluntary carbon markets** are markets created by private organisations or governments to enable individuals and companies to offset their greenhouse gas emissions by investing in emission reduction projects.
- These projects can include initiatives such as tree planting, the protection of existing forests, the use of renewable energy sources, etc.
- The advantages of voluntary carbon markets are that they allow individuals and companies to take concrete steps to reduce their carbon emissions and support environmental projects.
- However, they are not mandatory and may not be sufficient to achieve long-term emission reduction targets.

# **Article 6: co-operation towards NDCs**

## **Cooperative approaches**

**Articles 6.2 and 6.3 and decision 1/CP.21, paragraph 36**

Bilateral/multilateral cooperation between countries, involving international transfers of the mitigation outcomes produced through such cooperation

## **The mechanism**

**Articles 6.4 to 6.7 and decision 1/CP.21, paragraphs 37 and 38**

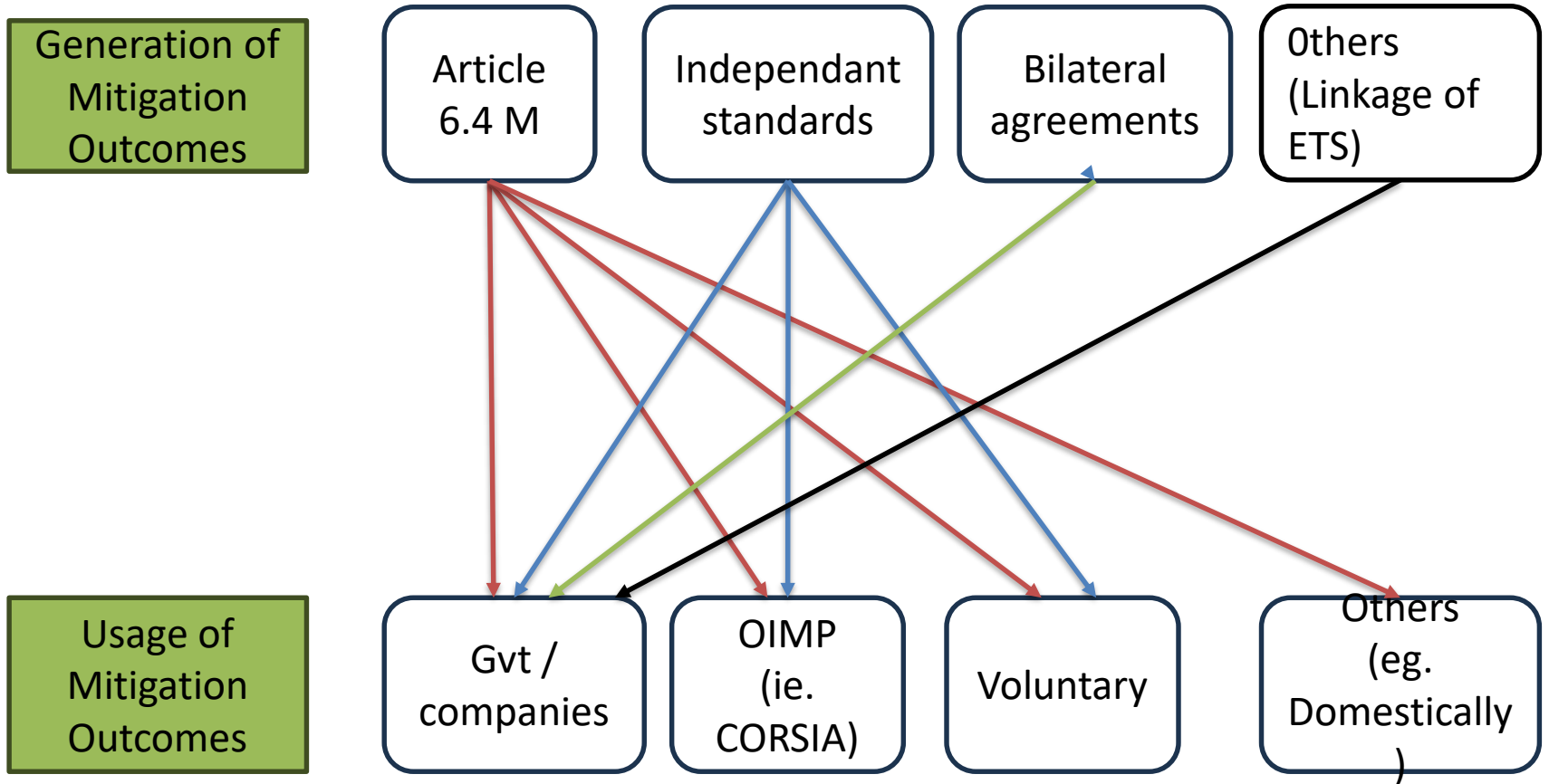
To be operated centrally (6.4 SB and UNFCCC secretariat), credits emission reductions by public and private sector actors, allows for international transfer of those credits or use for any other purpose

## **Framework for non-market approaches**

**Articles 6.8 and 6.9 and decision 1/CP.21, paragraphs 39 and 40**

Facilitates climate action through international cooperation focused on sustainable development and poverty eradication (and does not involve trading of mitigation outcomes)

# New Carbon Markets landscape (1)



# **New Carbon Markets landscape (2)**

- **Usages of units generated by 6.4 mechanism:**
  - Meeting another Party's NDC (6.4 ER);
  - Other International Mitigation Purposes (OIMP) like CORSIA (ICAO)
  - Voluntary Carbon Market
  - Result-based finance
  - Domestic use
- **Main usages of units generated by independent standards**
  - Voluntary Carbon Market
  - CORSIA
  - Net-zero or carbon neutrality claims

**The main independent standards are in the process of revising their rules and procedures to align them with Article 6 and generate units for both compliance and the voluntary market**

# **New Carbon Markets landscape (3)**

- **Usages of units generated by 6.4 mechanism:**
  - Meeting another Party's NDC (6.4 ER);
  - Other International Mitigation Purposes (OIMP) like CORSIA (
  - Voluntary Carbon Market
  - Result-based finance
  - Domestic use
- **Usages of units generated by independent standards**
- **Usage of units generated by bilateral agreements**
- **Usage of mitigation outcomes coming from linkage between different emission trading schemes**



# New Carbon Markets landscape (4)

- **Participation requirements under the 6.2 cooperative approaches:**
  - Each participating Party shall ensure that:
    - a. It is a Party to the Paris Agreement;
    - b. It has prepared, communicated and is maintaining an NDC in accordance with Article 4.2;
    - c. It has arrangements in place for authorizing the use of ITMOs towards achievement of NDCs pursuant to Article 6.3;
    - d. It has arrangements in place that are consistent with the 6.2 guidance and relevant decisions of the CMA, for tracking ITMOs;
    - e. It has provided the most recent national inventory report ;
    - f. Its participation contributes to the implementation of its NDC and long-term low-emission development strategy, if it has submitted one, and the long-term goals of the Paris Agreement.

# New Carbon Markets landscape (5)

- **Participation requirements under the 6.2 cooperative approaches:**
  - Each participating Party shall ensure that:
    - a. It is a Party to the Paris Agreement;
    - b. It has prepared, communicated and is maintaining an NDC in accordance with Article 4.2;
    - c. It has arrangements in place for **authorizing the use of ITMOs towards achievement of NDCs** pursuant to Article 6.3;
    - d. It has arrangements in place that are consistent with the 6.2 guidance and relevant decisions of the CMA, for tracking ITMOs;
    - e. It has provided the most recent national inventory report ;
    - f. Its participation contributes to the implementation of its NDC and long-term low-emission development strategy, if it has submitted one, and the long-term goals of the Paris Agreement.

# New Carbon Markets landscape (6)

- **Corresponding Adjustment::**
  - Each participating Party shall apply a corresponding Adjustment for all authorized ITMOS;
  - Each participating Party shall apply corresponding adjustments in a manner that ensures transparency, accuracy, completeness, comparability and consistency;
  - Participation in cooperative approaches does not lead to a net increase in emissions across participating Parties within and between NDC implementation periods;
  - Corresponding adjustments shall be representative and consistent with the participating Party's NDC implementation and achievement.

# New Carbon Markets landscape (7)

- **Reporting:**

- Initial report :

- Each participating Party shall submit an Article 6.2, initial report no later than authorization of ITMOs from a cooperative approach or where practical (in the view of the participating Party), in conjunction with the next biennial transparency report for the period of NDC implementation.

- Annual information :

- Each participating Party shall, on an annual basis by no later than 15 April of the following year and in an agreed electronic format, submit for recording in the Article 6 database

- Regular information :

- Each participating Party shall include as an annex to its biennial transparency reports and no later than 31 December of the relevant year, the following information in relation to its participation in cooperative approaches

# New Carbon Markets landscape (8)

- **Recording and tracking :**
  - Tracking:
    - Each participating Party shall have, or have access to, a registry for the purpose of tracking and shall ensure that such registry records, including through unique identifiers, as applicable: authorization, first transfer, transfer, acquisition, use towards NDCs, authorization for use towards other international mitigation purposes, and voluntary cancellation (including for overall mitigation in global emissions, if applicable), and shall have accounts as necessary.
    - The secretariat shall implement an international registry for participating Parties that do not have or do not have access to a registry. Any Party may request an account in the international registry.

# New Carbon Markets landscape (9)

- **Participation requirements under the 6.4 Mechanism:**
  - Each participating Party shall ensure that:
    - a. It is a Party to the Paris Agreement;
    - b. It has prepared, has communicated and is maintaining a nationally determined contribution (NDC);
    - c. It has designated a national authority for the mechanism and has communicated that designation to the secretariat;
    - d. It has indicated publicly to the Supervisory Body how its participation in the mechanism contributes to sustainable development, while acknowledging that the consideration of sustainable development is a national prerogative;
    - e. It has indicated publicly to the Supervisory Body the types of Article 6, paragraph 4, activity that it would consider approving pursuant to chapter V.C below (Approval and authorization), and how such types of activity and any associated emission reductions would contribute to the achievement of its NDC, if applicable, to its long-term low greenhouse gas (GHG) emissions development strategy, if it has submitted one, and to the long term goals of the Paris Agreement.

# Capacity Building

- The UNFCCC secretariat, including through its regional collaboration centres and in consultation with the Supervisory Body, was requested to design and implement, in consultation with Parties, a capacity-building programme to assist Parties wishing to voluntarily participate in the mechanism to, inter alia:
  - (a) Establish the necessary institutional arrangements to implement the requirements for participating in 6.4 M;
  - (b) Develop the technical capacity to design and set baselines for application in host Parties;
- Many partners are supporting developing countries in participating in cooperatives approaches

Thank you