

# Asked Questions

## Understanding the Carbon Market Landscape: Article 6 of the Paris Agreement Explained

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### Summary

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With the adoption of the Paris Agreement, and more particularly the Article 6 related to the international cooperation between the Parties for the achievement of their NDCs for a higher ambition in mitigation and adaptation actions, the landscape of carbon markets previously classified as voluntary and regulated (compliance) according to the standards that generated and certified units of emission reduction or GHG sequestration has completely changed.

We now have a centralised United Nations mechanism (the Paris Agreement Crediting Mechanism - PACM) which generates units certified with a host country authorisation (A6.4ER) which are mainly destined for the regulated market and Other International Mitigation Purposes (OIMP) and units without authorisation (Mitigation Contribution Units -MCU-) for the voluntary market and result-based finance, whereas under the Kyoto Protocol all the units generated by the United Nations mechanisms were mainly used for the regulated market (with the exception of the CDM platform for selling units to the voluntary market).

Voluntary standards such as Verra, Gold Standard, GCC, Art-Tree, etc., only issued certified units for the voluntary market (hence their name). However, with the emergence of Article 6 of the Paris Agreement, many of these standards plan to generate certified units with corresponding adjustments which could be used in the regulated

markets set up under Article 6.2 of the Paris Agreement, but also in the new market set up by civil aviation (CORSIA) or for other uses not yet specified. They will also continue to issue units exclusively for the voluntary market.

It is therefore necessary for all actors to understand as simply as possible the different concepts, processes and terms emerging with the adoption of Article 6 of the Paris Agreement and the rules governing it.

Here are some frequently asked questions (FAQs) on Article 6 of the Paris Agreement, which covers voluntary cooperation between countries to achieve their climate goals.

### Frequently asked questions (FAQs)

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#### 1. What is Article 6 of the Paris Agreement?

Article 6 establishes the framework for countries to voluntarily cooperate in achieving their Nationally Determined Contributions (NDCs) towards climate change mitigation. This includes provisions for market and non-market mechanisms to help countries reduce greenhouse gas emissions.

## 2. What are the key components of Article 6?

Article 6 has three key approaches and mechanism:

**Article 6.2:** Establishes guidelines for countries to engage in "cooperative approaches," involving the international transfer of mitigation outcomes (known as Internationally Transferred Mitigation Outcomes, or ITMOs) between countries.

**Article 6.4:** Establishes a central United Nations-supervised mechanism to generate emissions reductions that can be used by countries to meet their NDCs, sometimes referred to as the "Sustainable Development Mechanism or 6.4 Mechanism.". Its official denomination is the Paris Agreement Crediting Mechanism.

**Article 6.8:** Focuses on non-market approaches for climate action, allowing countries to cooperate on climate actions without using market-based mechanisms. The Glasgow Framework for non-market approaches was established.

## 3. What are ITMOs in the context of Article 6.2?

**Internationally Transferred Mitigation Outcomes (ITMOs)** are reductions or removals in greenhouse gas emissions that can be transferred from one country to another to help meet NDCs. They serve as tradable units, helping countries achieve more ambitious targets by cooperating with each other.

## 4. How does Article 6.4 (Paris Agreement Crediting Mechanism) differ from Article 6.2?

**Article 6.4** creates a centralized mechanism overseen by the UN to enable carbon trading on a larger scale, while **Article 6.2** allows for more direct, bilateral or multilateral cooperation between countries. Article 6.4 aims to be similar to the Kyoto Protocol's Clean Development Mechanism (CDM), though with stricter rules and broader applicability. When conducting a

voluntary cooperation involving the international transfer of mitigation outcomes, Parties must follow the guidance under Article 6.2, whether they are generated by 6.4 or any other standard or bilateral agreement.

## 5. What is the role of non-market approaches under Article 6.8?

Article 6.8 promotes non-market approaches to climate action, which might include technology sharing, financial support, or capacity building between countries. These efforts focus on sustainable development, adaptation, resilience and poverty eradication rather than on trading emission reductions.

## 6. What are the benefits of using Article 6 mechanisms?

**Cost-effectiveness:** Countries can reduce emissions more cheaply by cooperating with others.

**Enhanced ambition:** International cooperation can help countries achieve more ambitious climate goals.

**Increased investment:** The framework encourages investment in sustainable projects, particularly in developing countries.

## 7. How is environmental integrity ensured under Article 6?

Rules under Article 6 are designed to ensure that emissions reductions are real, measurable, and permanent. Double counting of emission reductions is prohibited, meaning a reduction cannot be claimed by more than one country.

## 8. What is "corresponding adjustment"?

Corresponding adjustments ensure that when one country transfers an ITMO to another, both countries adjust their emission accounts to reflect the transfer. The transferring country subtracts the amount from its emission reductions, while the receiving country adds it,

ensuring that there is no double counting of mitigation efforts.

## 9. How can developing countries benefit from Article 6?

Developing countries can attract investment in climate-friendly projects, receive technology transfers, and gain financial support through both market and non-market mechanisms under Article 6. This helps them achieve their NDCs while promoting sustainable development.

## 10. What are the challenges of implementing Article 6?

**Complexity of rules:** Negotiations are ongoing to finalize rules on transparency, accounting, and corresponding adjustments.

**Ensuring equity:** It's crucial to ensure that the benefits of cooperation and market mechanisms reach vulnerable countries and communities.

**Avoiding environmental harm:** It is important to ensure that market mechanisms do not undermine environmental integrity by allowing countries to meet their targets too easily through offsets, without real emission reductions.

## 11. How does Article 6 relate to the private sector?

Article 6 mechanisms provide opportunities for private companies to participate in emissions trading markets, particularly through carbon offset projects, as countries seek to meet their NDCs through a combination of national measures and international cooperation.

## 12. What are the main changes in the carbon markets landscape with the adoption of Article 6 of the Paris Agreement

The adoption of Article 6 of the Paris Agreement has significantly transformed the carbon markets landscape, introducing new mechanisms and

governance structures. Here's a breakdown of the key changes:

### Article 6.4

Establishes a new centralized carbon crediting mechanism, which succeeds the Clean Development Mechanism (CDM). This mechanism generates **6.4 Emission Reductions (A6.4ERs)** and **Mitigation Contribution Units (MCUs)**, which can be traded internationally.

These credits will be subject to strict standards to ensure **environmental integrity**, avoid **double counting**, and contribute to **sustainable development**.

MCUs ensure that the generated carbon credits not only help countries meet their Nationally Determined Contributions (NDCs) but also contribute to funding Adaptation and the overall global mitigation of greenhouse gas emissions.

### Independent Carbon Markets and Certification

Independent standards (called in the past Voluntary standards) like **Verra**, **Gold Standard**, **Art Tree**, **GCC** and others aim to deliver carbon credits that meet specific quality and sustainability criteria.

These independent standards plan to provide **labelled, certified units** for emissions reduction projects, but with an important distinction:

- **With corresponding adjustment:** Some credits are issued with corresponding adjustments, ensuring that the emissions reduction is not also counted by the host country toward its own NDC.
- **Without corresponding adjustment:** Other credits are issued without this adjustment, meaning the emissions reduction may still be counted by the host country toward its NDC.

### 13. What are the linkage between Compliance and Voluntary Markets

The lines between compliance markets (driven by Article 6 mechanisms) and voluntary markets (driven by independent standards like Verra and Gold Standard) are becoming more indistinct. This is due to the increasing requirement for voluntary credits to follow **corresponding adjustment** rules when used towards national NDCs and other international mitigation purposes like in Carbon Offsetting and Reduction Scheme for International Aviation (CORSlA)

The voluntary market may increasingly converge with compliance markets as organizations seek higher-quality credits, and countries impose stricter regulations on the use of voluntary carbon credits.

### 14. What happens to the Kyoto Protocol's Clean Development Mechanism?

The Clean Development Mechanism (CDM), which was established under the Kyoto Protocol, will continue for a transitional period under Article 6:

- CDM project transition: the Article 6 decisions allows CDM projects to transition to the 6.4 mechanism if it is approved by the country where the project is located, and if the project meets the new rules, with the exception of rules on methodologies. Projects can continue to use the same old, and often deeply flawed, CDM methodologies until 31 December 2025, or the end of their current crediting period, whichever comes first. From 2026 on, they must be fully compliant with Article 6.

### 15. What is Supervisory Body of Article 6.4

The Supervisory Body under Article 6.4 of the Paris Agreement is a central governance structure tasked with overseeing the

implementation and operation of the Article 6.4 mechanism (also known as the Paris Agreement Crediting Mechanism). This body ensures the integrity, transparency, and effectiveness of the mechanism, making sure that the carbon credits generated under it meet strict environmental and sustainable development standards. The members of the SBM are representatives of the 5 UN regions and LDCs and SIDS but perform their work on the basis of their personal capacity and expertise.

They are supported by the UNFCCC secretariat and experts in technical panels. Their meetings are public and most of their procedures, methodologies, guidance and tools undergo public consultations before their adoption.

### 16. What is Article 6.2 Technical Review and Reviewers

Article 6.2 of the Paris Agreement allows countries to engage in bilateral or multilateral cooperation through Internationally Transferred Mitigation Outcomes (ITMOs) to meet their climate targets (Nationally Determined Contributions, or NDCs). This mechanism is decentralized compared to Article 6.4, but it requires robust technical reviews to ensure transparency and environmental integrity.

The technical review under Article 6.2 involves the evaluation of countries' reports on their use of ITMOs. This process ensures that countries adhere to the agreed accounting rules and avoid practices like double counting.

#### Key components of the technical review include:

- Compliance with Guidance: The review assesses whether countries are following the rules and guidance set by the Paris Agreement and its subsidiary bodies for transferring ITMOs.
- Transparency and Accuracy: The review evaluates whether countries are providing transparent, accurate, and complete

information regarding the transfer, acquisition, and use of ITMOs.

- Corresponding Adjustments: The technical review checks that countries are implementing corresponding adjustments properly, ensuring that when an ITMO is transferred, it is deducted from the seller country's emissions inventory and accounted for by the buyer country without being double-counted.
- Environmental Integrity: Reviewers assess whether the ITMOs uphold environmental integrity, meaning that the credits represent real, measurable, and additional emissions reductions and that they do not undermine global mitigation efforts.

#### Who are the Reviewers?

- The reviewers in the technical review process are experts nominated by Parties to the Paris Agreement. These experts come from diverse backgrounds in climate science, carbon markets, environmental law, and related fields.
- The technical reviewers are typically independent experts who are trained by the UNFCCC Secretariat and equipped to evaluate the technical aspects of ITMO transfers, ensuring they meet international standards for accuracy, transparency, and compliance with Article 6.2 rules.
- They work under the authority of the UNFCCC (United Nations Framework Convention on Climate Change) to review national reports submitted by countries and to provide feedback or recommendations for improvement.

### 17. Are there Appeal and Grievance Processes under the Article 6.4 Mechanism?

Yes, this has been established by Article 6.4 Supervisory Body. The objectives of the

“Procedure: Appeal and grievance processes under the Article 6.4 mechanism” are to set out requirements for filing an appeal or submitting a grievance on cases under the Article 6.4 mechanism activity cycle, as well as, procedural steps for processing them and resulting consequences. Stakeholders, activity participants and participating Parties may appeal decisions of the Supervisory Body or request that a grievance be addressed by an independent grievance process”.

### 18. What is the contribution of Article 6 to funding Adaptation

Under The Article 6.4 Mechanism (PACM), there is a levy called “Share of Proceed” on each issuance of certified emission reductions forwarded to the Adaptation Fund to be monetized for supporting adaptation projects for vulnerable countries. The SoP is mandatory and represents a minimum of 5% of the issued certified emission reductions under the PACM.

Participating Parties and stakeholders using cooperative approaches (Article 6.2) are strongly encouraged to commit to contribute resources for adaptation, in particular through contributions to the Adaptation Fund, and to take into account the delivery of resources under Article 6.4, to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation and shall report as part of their reporting in its regular information report on any contributions.

### 19. What is Overall Mitigation in Global Emissions (OMGE) in Article 6.4

Is a levy (a minimum 2% of Article 6.4 credits) applied to any emission reductions generated by projects registered under article 6.4 Mechanism (Paris Agreement Crediting Mechanism) for the benefit of the **atmosphere**.

Participating Parties and stakeholders are strongly encouraged to cancel ITMOs that are not counted towards any Party's NDC or for other international mitigation purposes, to deliver an overall mitigation in global emissions, and to take into account the delivery of overall mitigation in global emissions under the mechanism established by Article 6.4 and shall report as part of their reporting in its regular information report on any delivery of overall mitigation in global emissions related to its participation in cooperative approaches.

For 6.2, there are already many bilateral agreements concluded by countries, activities are ongoing on the ground, initial reports provided, authorization of ITMOs provided but there is need to agree on the format of the annual report (Agreed Electronic Form report). The review of the submitted Initial reports will be conducted from September 2025.

For Article 6.8, the web-based platform is already operational and only requires concrete mitigation, adaptation, capacity building and technological activities on the ground i.e. the country's needs to be expressed and the service providers to meet those needs. The needs can be expressed by any stakeholder in the country but can only be submitted to the web-based portal through the country's Article 6.8 Focal Point.

## **20. What is the Sustainable Development tool for article 6.4**

The Sustainable Development Tool (SD Tool) is an integral component of Article 6.4 mechanism of the Paris Agreement, which ensures that projects developed under this mechanism not only contribute to reducing greenhouse gas emissions but also promote sustainable development in the host countries. The tool is designed to measure, report, and verify the sustainable development benefits of emission reduction projects, ensuring they align with the broader goals of the Sustainable Development Goals (SDGs). The application of the tool is a mandatory under the PACM and subject to a validation by a DoE before the registration of a project.

## **21. When will Article 6 be fully operational?**

The rules for implementing Article 6 were mostly agreed upon during COP26 (Glasgow, 2021). Article 6 will be operational in 2025, with the CDM projects activities transitioned to Article 6.4 approved by Host Countries, may deliver emission reduction Units from 2025, but for new 6.4 activities, they will need to get the the standard for development and assessment of methodology and activities involving removals to be approved by the Supervisory Body Mechanism (SBM) as well as the approval of the recommendation of the SBM by the CMA 6 in Baku.

### About the African Climate Policy Centre

The African Climate Policy Centre is a hub for demand-led knowledge on climate change in Africa. It addresses the need for improved climate information and the strengthened use of such information for decision-making in Africa by improving analytical capacity, knowledge management and dissemination activities.

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