Article 6 of the Paris Agreement and its Implications for the Voluntary Carbon Market

Wednesday 26 January 2022
The International Carbon Reduction and Offset Alliance - ICROA

- ICROA is a non-profit initiative housed within the International Emissions Trading Association (IETA).

- Represents the interests of service providers

- Promotes emissions reductions and offsetting to the highest standards of environmental integrity and in support of the Paris Agreement goals.

- ICROA Accreditation Programme
ICROA-Acccredited Organizations
Speakers:

- **Lisa DeMarco**, Senior Partner & CEO - Resilient LLP & Chair of the Board - IETA
- **Ritika Tewari**, Managing Consultant, Climate Policy and Carbon Pricing - South Pole
- **Jonathan Shopley**, Managing Director - Natural Capital Partners & Chair - ICROA
- **Andrea Bonzanni**, International Policy Director - IETA

Moderator:

- **Antoine Diemert**, ICROA
Article 6.2: Cooperative Approaches

Bilateral agreements between Parties, with limited UN involvement
Linking of domestic/regional ETS or bilateral exchanges of Internationally Transferred Mitigation Outcomes (ITMOs)
Design options to be specified by Parties concerned
Measured in tCO2e, cover BOTH Reductions and removals
Corresponding Adjustment (CA) on ALL first transfers
Reporting, recording, tracking
No mandatory Share of Proceeds (SoP)
No mandatory haircuts for Overall Mitigation of Global Emissions (OMGE)

Source: UNFCCC
Article 6.4: New Crediting Mechanism

New UN-administered crediting mechanism issuing units called 6.4ERs

Appointment of Supervisory Body to approve rules of procedure and methodologies

Baselines must be “below business as usual” and focused on “best available technologies”

Crediting periods: 5+5+5 OR 10 years; 15+15+15 for removals

5% Share of Proceeds + 2% OMGE cancellation => 7% haircut on units + admin fees (tbd)

6.4ERs must receive host country authorisation to be used towards the NDCs of another country or “other international mitigation purposes” (e.g. CORSIA) – Host country expected to specify scope of authorisation

• Corresponding Adjustment (CA) on ALL first transfers
Article 6 of the Paris Agreement and its Implications for the Voluntary Carbon Market

- Parties to the Paris Agreement reached decisions on Article 6 (A6) that may impact the Voluntary Carbon Market (VCM).

- In setting A6 rules, the Parties defined what is required within Nationally Determined Contributions (NDCs) and for related cooperative market mechanisms. They did not define what is excluded or not permitted.

- However, certain voluntary market emission reductions may be affected by the A6 decisions.

➤ A6 does not therefore directly regulate the VCM, but it is conducive to increased convergence of the Paris and voluntary markets.
Certified ER

Emission reduction or removal verified in accordance with voluntary, regulatory or Paris Agreement A6 standards

**Authorised for use by host country**

A6 ER if authorised for specific uses listed below

- **Towards an NDC**
  - CA on first international transfer

- **For international mitigation purposes, other purposes**
  - Uses may include CORSIA, VCM. CA occurs on host country’s choice of authorisation, issuance, use / cancellation

**No corresponding adjustment needed**

**Not authorised for use by host country**

ER is not under the A6 umbrella

- **Contributes to host country’s mitigation**
  - VCM use and potentially domestic market. Additional guidance on claims will be needed (e.g. VCMI)
Article 6 of the Paris Agreement and its Implications for the Voluntary Carbon Market

• The VCM may generate and allow for the use of other international mitigation purposes (OIMP) ERs that are backed by CAs, as well as ERs without host country authorization, which do not require CAs.

• ICROA anticipates that NDC ERs will form part of the developing Paris Agreement compliance market, and the VCM will continue to operate and transact on the basis of the following instruments:
  • OIMP ERs that have been correspondingly adjusted or where a CA is pending
  • ERs without host country authorization that are neither NDC ERs nor OIMP ERs and are not under the umbrella of A6.
Issues to address

- Price and supply issues as the modalities for CAs are put in place
- Host country incentives and capacity building
- Private sector claims: further guidance is needed
- Double entry bookkeeping for OIMP ERs used in the VCM
- ...

Speakers:

- **Lisa DeMarco**, Senior Partner & CEO - Resilient LLP & Chair of the Board - IETA
- **Ritika Tewari**, Managing Consultant, Climate Policy and Carbon Pricing - South Pole
- **Jonathan Shopley**, Managing Director - Natural Capital Partners & Chair - ICROA
- **Andrea Bonzanni**, International Policy Director - IETA

Moderator:

- **Antoine Diemert**, ICROA
Thank you!

Contact: icroa@ieta.org

The ICROA Analysis is available here
ICROA believes that putting a price on carbon creates a tangible impact. ICROA calls on governments to accelerate the implementation of Article 6 and carbon pricing regulation.

The VCM...

- Enables non-state actors to take climate action ahead of and beyond regulation.
- Contributes to closing global climate policy gaps (mitigation, finance, time).
- Finances both mitigation and adaptation projects, through a third-party verified and results-based approach.
- Helps countries & private sector achieve greater climate ambition... accelerating the transition to net zero emissions globally.