IETA's Quick Guide to Article 6
and Why It's Vital for Climate Progress

Article 6 of the Paris Agreement sets out the guidelines for a set of market mechanisms that will support Parties who wish to cooperate in reducing greenhouse gas emissions. After Parties agreed all other elements of the Paris Agreement "rulebook" at COP24 in Katowice last year, only this part remains outstanding. If the Paris Agreement tells us **what** we need to do to avoid catastrophic climate change, the Paris "rulebook" tells us **how** to do it.

The Article 6 guidance from Madrid will govern private investment in future climate markets, since each private sector activity will contribute – directly or indirectly – to the achievement of the Paris Agreement goals.

There are two key elements to Article 6 that will be decided at COP25:

- **Article 6.2,** which governs cooperative approaches between Parties, essentially setting the rules on how future carbon credits (known as Internationally Transferable Mitigation Outcomes, or ITMOs) will be exchanged, transferred and accounted for.
- **Article 6.4,** which establishes a market-based mechanism that will enable the reduction of emissions from project- and system-based activities – Article 6.4 may be viewed as the successor mechanism to the Kyoto Protocol's Clean Development Mechanism, but it has the potential to do much more.

What COP25 needs to deliver

Article 6.2 rules will determine how countries will account for transfers of ITMOs across borders. At a bare minimum, COP25 needs to give clarity on:

- Exactly what an "Internationally Transferable Mitigation Outcome" is;
- How it will be measured;
- How to account for transfers of ITMOs between Parties, including issues such as double-counting and how to demonstrate that the transfer of ITMOs helps achieve progress in meeting country NDCs.
- Whether Parties may generate ITMOs from activities that are not covered by their NDC, and how non-Parties may use ITMOs (the CORSIA aviation market, for example).

IETA believes that Article 6.2 must set clear and transparent guidelines on these issues, ensuring that double-counting does not occur. At COP24 last year we joined a number of other groups to issue the Katowice Declaration on Sound Carbon

Accounting, and we are continuing to highlight this issue. Accounting guidance must also be provided for non-Party users of ITMOs. No quantitative limits should be placed on the use of ITMOs.

Article 6.4 rules will establish the future mechanism. At a bare minimum, COP25 needs to give clarity on:

- Which activities (within or outside Parties' NDCs) will be eligible;
- Principles (such as additionality and baseline setting) that will govern the approval of activities;
- Establishing a governance structure (supervision and administration) of the mechanism;
- Which project types and methodologies for calculating reductions should be "grandfathered" into the new mechanism from the CDM;
- Which CDM projects may be eligible to register under the new mechanism;
- How the mechanism will deliver overall mitigation in global emissions;
- How the Share of Proceeds will be levied and at what level.

IETA believes that Parties should adopt rules to establish a Supervisory Body that will undertake the technical work to set up the institutions of the new mechanism.
Parties must also give clarity on whether and how the existing CDM projects and units may be transferred. IETA believes the overall mitigation requirements, as well as other limits and levies, should not be operationalised in a way that imposes unnecessary burden on the mechanism.

Article 6 has real potential to enable Parties to deliver the ambitious objectives of the Paris Agreement. Recent research has found that Article 6 has the potential to halve the cost of implementing Nationally Determined Contributions (NDCs), thereby saving an estimated $250 billion annually by 2030 alone.

If these savings are reinvested into more mitigation, then an additional 5 billion tonnes of CO2 a year could be reduced in 2030, thereby delivering enhanced ambition. And if land-based mitigation is also included, the cost savings would grow to $320 billion annually by 2030, and the additional mitigation to 9 billion tonnes – roughly double the reductions in the current NDCs.

For more detailed information, please visit the COP25 page on the IETA website.