ARTICLE 6

PARIS AGREEMENT OVERVIEW

The Paris Agreement sets a long-term goal of limiting the average global temperature increase to “well below” 2°C, with all countries “pursuing efforts” to keep the temperature rise to 1.5°C. The Agreement also aims to achieve global net zero emissions in the second half of the century. Once implemented, the Agreement could help countries unleash new investment flows and drive innovation through new mechanisms for emissions trading and climate finance funds. The provisions in Article 6 of the Paris Agreement can help countries who seek cooperation on their Nationally Determined Contributions (NDCs) through carbon pricing in order to meet their mitigation commitments, and increase ambition over time. Around 50% of the NDCs refer to access to an international carbon market.

WHAT CAN BE TRADED?

Article 6.2 lays out the **provisions to facilitate cross-border transfers of mitigation outcomes**: These provisions will facilitate transfers of emission reduction units across international borders. In UNFCCC-lingo, these are referred to as ‘internationally transferrable mitigation outcomes’ or put simply, ITMOs. These can help countries who already have a price on carbon to enter into bilateral and plurilateral forms of cooperation. In turn, it will allow countries to increase their climate ambition by participating in a larger market (and economy), driving down emissions at lower cost than purely domestic efforts. Transfers of emissions reductions from one country to another will help expand the map of countries participating in a carbon market or carbon pricing policy, and it will help create a fungible, international price on carbon.

WHAT WILL COUNTRIES NEED TO DO?

Article 6.2 and 6.5 clearly highlight that **robust carbon accounting rules and measures to prevent double counting of emissions reductions** will need to be agreed upon and implemented by all countries who sign up to the Paris Agreement. In keeping track of each country’s progress in meeting their targets, it will be important not to count the same emissions reductions twice, as otherwise global emissions could go up, not down. In ensuring that double counting is avoided, the Paris Agreement laid down one of the key “rules of the road” needed to help ensure that markets work smoothly and with high integrity. Article 13 also establishes a “transparency framework”, which sets new standards for reporting and review of all nations’ climate efforts. This will provide a foundation for building confidence and trust as well as support the development of high-integrity carbon markets to drive the deep emissions reductions called for by science.

ARTICLE 6

WHAT ABOUT THE CDM AND OFFSETS?

The Paris Agreement does not mention the CDM or carbon offsetting, but Article 6.4 lays out the foundation for a new mechanism that can help countries (both developed and developing) reduce their emissions and promote sustainable development. It's unclear what happens to the CDM and CERs after 2020. But in a 'bottom-up' world of emission reduction pledges, many countries can pursue carbon offsetting to meet their contributions to the Paris Agreement.

WHAT HAPPENS NEXT?

A critical next step, especially from the perspective of spurring private-sector investment, is to develop 'rules of the road' for cross-border trading. The sooner clear rules emerge, the stronger the business response will be and the sooner investment will flow. These rules start with the establishment of domestic emission trading programmes in key countries; the accounting guidance called for in Article 6 of the Paris Agreement; standards and guidelines for environmental integrity of international transfers that could be developed bilaterally or plurilaterally through a carbon market club; and finally, operational rules for the mitigation mechanism in Article 6.

For more information, please contact info@ieta.org

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