

THE ARTICLE 6 OPPORTUNITY FOR CANADA: Blueprint to International Carbon Market Cooperation



Executive Summary

Moving Ahead in Canada on Article 6 Action and Opportunities:

- The benefits of cooperative approaches and international linkage are clear: the bigger and broader the market, the wider the range of abatement opportunities and improved efficiencies, thereby driving down program costs while driving up clean projects, jobs, and market opportunities.
- Many uncertainties remain with respect to Canada's approach to, and use of, international Article 6 aligned markets and cooperative approaches towards achieving the country's NDC.
- IETA encourages ECCC to finalize Canada's ITMO framework as soon as possible to begin enabling international, Paris-aligned cooperation opportunities. Further, there is an urgency to finalize Canada's framework ahead of several prominent domestic climate policy pieces.
- Finalizing Canada's ITMO framework could unlock increased efficiencies and better enable upcoming policies to achieve environmental outcomes at a lower cost.

Growing International Action:

- The outcomes of COP27 provided much-needed clarity on Article 6.2 resulting in countries beginning to implement bilateral agreements and policy frameworks. Today, numerous Article 6.2 MOUs and bilateral agreements either exist or are under development by other buyer and host countries.
- Canada's extensive carbon pricing experience, global leadership and natural trade partners makes the country well-positioned to leverage international carbon markets – as both a buyer and a seller of high integrity reductions and removals.
- Canada's climate policy leadership position can be bolstered by further engaging in Article 6 which will also enable Canada to help shape related discussions while capitalizing on relatively early opportunities in this space.

Supporting Provincial Actions:

- International linkage is already occurring within Canadian provincial pricing systems and is likely to be embraced by further provinces over the coming years.
- It would be beneficial for the Government to establish standardized guidelines for provinces to incorporate international developments into their respective pricing systems.

Transitional Approach:

- Canada should not let "perfect be the enemy of good" workable framework with details that can evolve over time to enable early Article 6 opportunities.
- A possible first step toward a formal Canada-wide ITMO Framework could be the deployment of focused pilots, MOUs and other Article 6.2 bilateral agreements.

Introduction

With the final agreement on Article 6 guidelines at COP 26 and recent advancements during COP27, the Canadian and international business community eagerly awaits concerted action and policy signals on Canada’s final “Approach to Article 6 and (ITMO) Framework”¹. While dozens of other countries move forward with Article 6 strategies, bilateral agreements and MOUs, Canada has remained noticeably silent. In early 2021, promising progress was made with the release of Canada’s draft Article 6 approach and ITMO framework for consultation, but disappointingly there have not been any public updates since the consultation closed. Canada’s Article 6 approach resurfaced in March 2022, with an explicit reference to “ongoing efforts to develop a (Canada) federal policy on ITMOs”¹ in Canada’s 2030 Emissions Reduction Plan (ERP), but to date, no further updates have been announced.

The purpose of this IETA White Paper is to:

- Build on IETA’s Article 6 Discussion Paper titled *“How Governments Can Implement NDCs Cooperatively and Encourage Private Sector Investment”*,²
- Outline the benefits of Article 6 international engagements, with specific considerations for Canada; and, ultimately,
- Underscore the urgency in Canada moving forward – ideally prior to COP28 and before 2024 – with concrete signals and actions on international Article 6-aligned market cooperation. Steps toward bilateral cooperation will be necessary to support Canada’s ambitious near-term and longer-term net zero climate ambition. In light of broad global and sector access and representation, Taking these proactive, concerted steps will solidify – if not enhance – Canada’s role as a global carbon pricing champion while enabling clean economic trade opportunities.

¹ IETA’s 2021 Submission on ECCC’s Draft ITMO Framework ([Link](#))

² IETA Discussion Paper: How Governments Can Implement NDCs Cooperatively and Encourage Private Sector Investment ([Link](#))

Article 6 Primer

Vital Role of International Market Cooperation

International cooperation and carbon markets should no longer be considered optional or marginal tools – they are essential to achieve the goals of the Paris Agreement and should be regarded as such in NDC targets.

The transition to a low-carbon economy and the achievement of the Paris Agreement will need annual investments of trillions of dollars into climate change mitigation projects. According to the latest IPCC Sixth Assessment Report, average annual investment requirements for 2020 to 2030 in scenarios that limit warming to 2°C or 1.5°C are a factor of three to six times greater than current investment levels³. Addressing the heroic challenge requires unprecedented global cooperation among countries and regions. Implementing country Nationally Determined Contributions (NDCs) cooperatively – rather than attempting to meet targets strictly domestically – through carbon markets could save Parties to the Paris Agreement an estimated US\$250 billion annually by 2030.⁴

As of 2023, more than 190 countries have signed up to the Paris Agreement, and the vast majority of these have also submitted NDCs to the UN Framework Convention on Climate Change. These NDCs will be studied at this year's Conference of Parties in December, where delegates will carry out a thorough review of progress to date under

what is called a Global Stocktake. According to Climate Action Tracker, since the start of 2022, only five parties have – so far – submitted a more ambitious NDC target⁵. None of these, however, are aligned with a trajectory that is consistent with restricting warming to 1.5°C. Meanwhile, time is rapidly going by, and our window to avert the worst effects of climate change is narrowing each day. There is an urgency to act, and an urgency to get the Article 6 mechanisms fully functioning so that parties can seek to up their ambition. In this year of taking stock, we need to look at all options to do more, and faster. International cooperation and carbon markets should no longer be considered optional or marginal tools – they are essential to achieve the goals of the Paris Agreement and should be regarded as such in NDC targets.

With the final Article 6 Rulebook adopted at COP26, an international accounting framework with guidance on international cooperation was set, unlocking opportunities for countries, including Canada, to meet their climate commitments and increase ambition faster and more cost-effectively.

³ IPCC Sixth assessment Report Synthesis ([Link](#))

⁴ “The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges”. IETA, CPLC and University of Maryland. Summary Report. September 2019. ([Link](#))

⁵ Climate Action Tracker ([Link](#))

Article 6 Primer

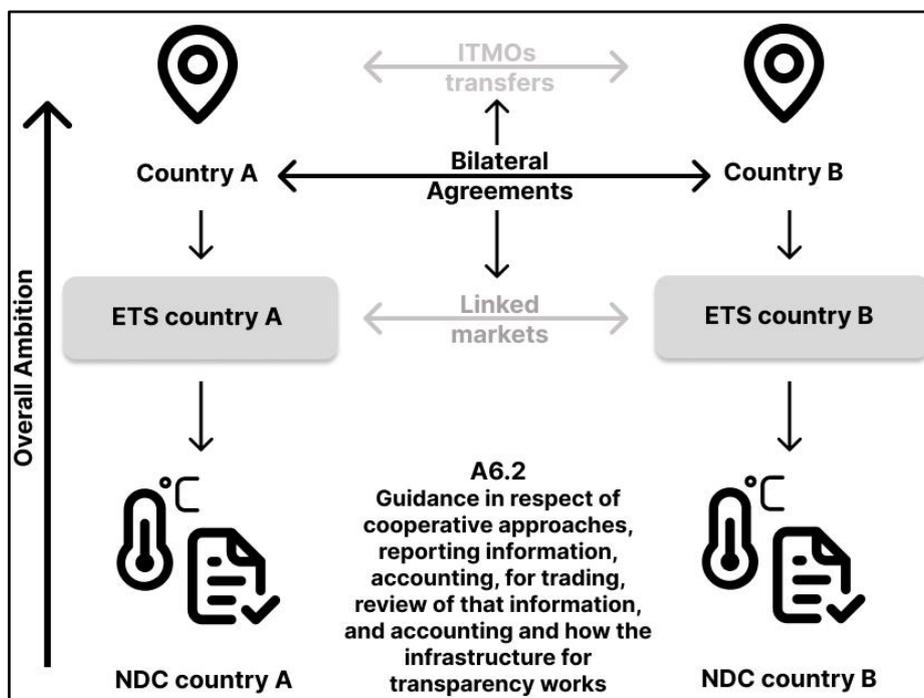
Article 6.2: Cooperative Approaches Overview

Article 6.2 provides guidance for cooperative approaches to enable the transfer of Internationally Transferred Mitigation Outcomes (ITMOs) between countries. It outlines requirements for reporting information, accounting, trading, review of information, accounting, and transparency.

Under Article 6.2 cooperative approaches, bilateral or multilateral agreements should provide the design for countries to eventually link domestic compliance carbon markets internationally or transfer verified carbon credits. Critically, Article 6.2 requires the host country (where the mitigation project occurs) to authorize emission reduction or removals to be transferred abroad through such cooperative approaches. These authorized units become internationally transferred mitigation outcomes, which can only be generated by mitigations from 2021 onwards and be used towards the buying country's NDC or Other International Mitigation Purposes (i.e., for compliance under CORSIA),

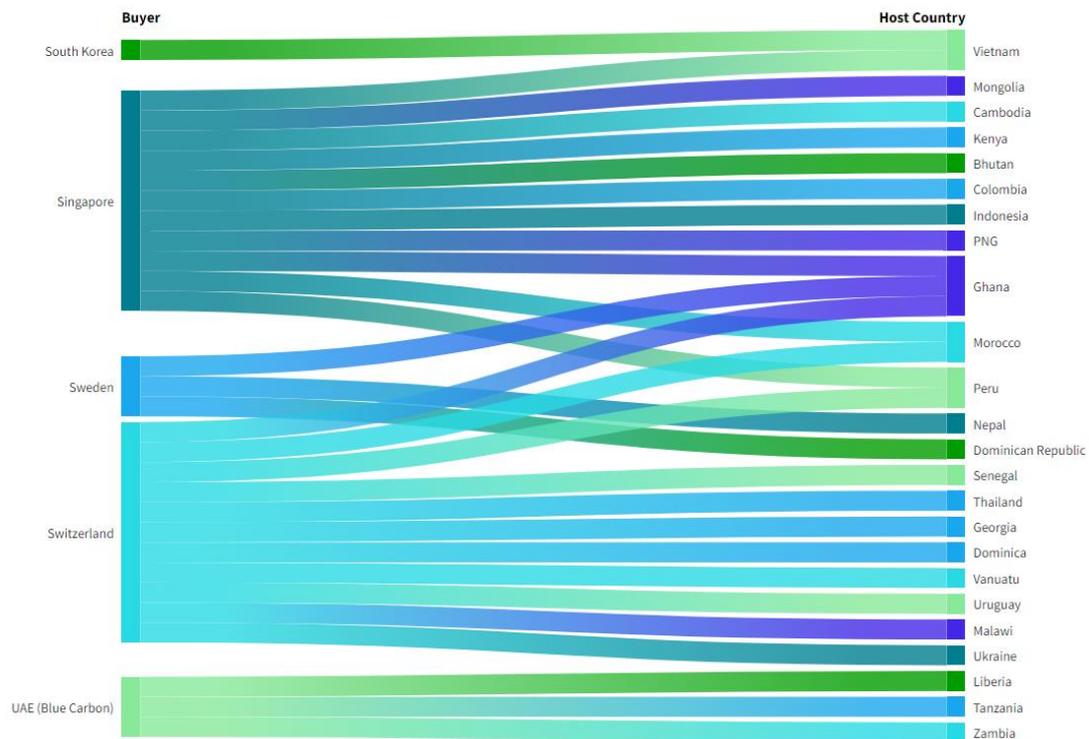
according to the host Party authorization. For every ITMO, the host country must apply corresponding adjustments at all first transfers to ensure no double counting.

At COP 27, further details on reporting, ITMO tracking, expert review, and infrastructure were decided. Further decisions are expected at COP 28, but countries can already engage with Article 6.2 approaches, and some Parties are already actively engaging with it globally. Beyond MOUs and agreements underway, multiple international capacity-building initiatives are being implemented to support countries in engaging with such opportunities.

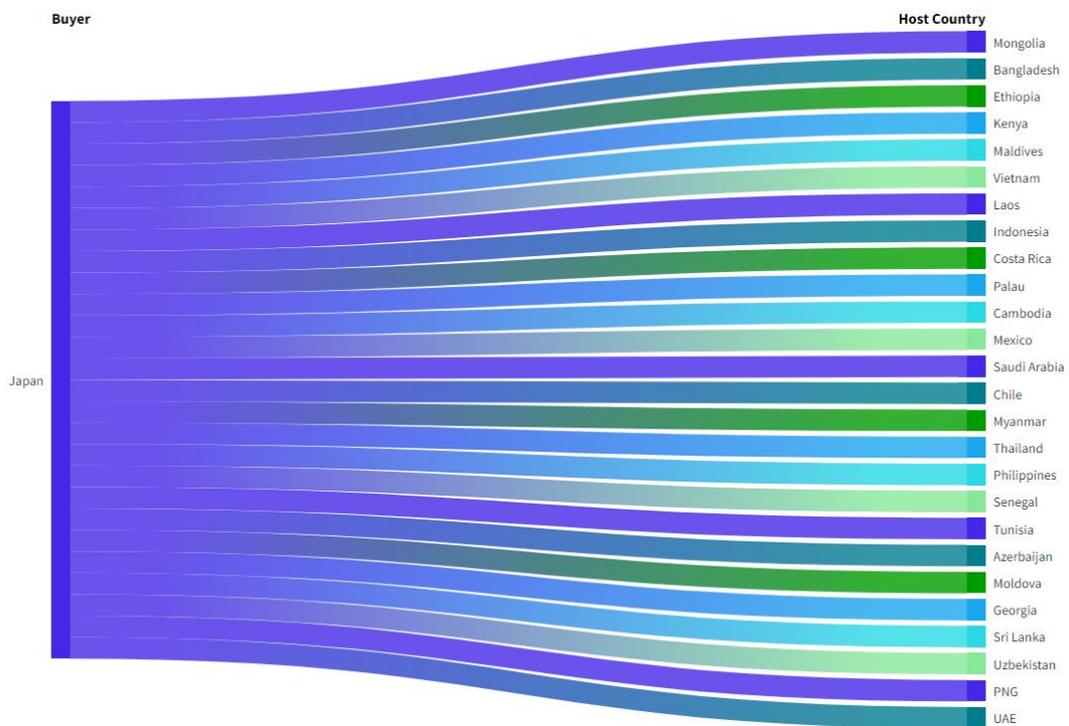


Source: UNFCCC (own adaptation)

The graphics below highlight the current landscape of 6.2 Agreements and MOUs. These developments provide ample opportunities for Canada to become more active in international Article 6 MOUs. **To date, Canada has not yet formalized a single MOU.**



Source: IETA. Figure showcases A6.2 Bilateral Agreements or MOUs. Colours indicate respective Buyer and Host Countries.



Source: IETA. Figure showcases cooperation under the Joint Crediting Mechanism. Colours indicate respective Buyer and Host Countries.

Article 6 Primer

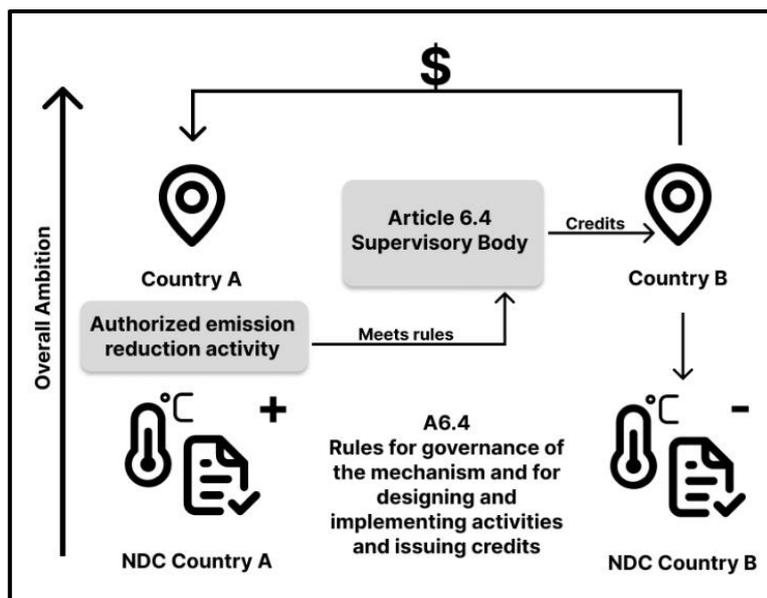
Article 6.4: The New UN Crediting Mechanism

Article 6.4 defines rules for the governance of a new centralized multilateral crediting mechanism, closely resembling the former Clean Development Mechanism (CDM), with a Supervisory Body (A6.4 SB) to develop guidelines for the development and approval of methodologies, validation, and registration, among other decisions, procedures, and elements to operationalize the Mechanism. Article 6.4 Mechanism outlines a centralized system, accounting framework, and registry to generate credits through approved 6.4 projects.

As in Article 6.2, participation in the Article 6.4 Mechanism is voluntary. For credits to be used towards an NDC or other international mitigation purposes (OIMPs), credits must also be authorized by the host country, and corresponding adjustments must be applied at first transfer as in Article 6.2. However, transactions under Article 6.4 are subjected to the transfer of 5% credits to the Adaption Fund (Share of Proceeds for adaption) and the cancellation of 2% to ensure the overall mitigation in global emissions (OMGEs).

While Article 6.2 is already operational, the A6.4 Supervisory Body continues working on the infrastructure and decisions required to

operationalize the Article 6.4 Mechanism. After COP 27, multiple challenges remain, most notably for this year: recommendations on activities involving removals, guidelines on methodologies, and host country authorization. Progress continues to be made by the 6.4 Supervisory Body leading into COP 28. Following the fifth meeting of the Article 6.4 Supervisory Body held in Bonn in early June, a structured public consultation on removal activities was launched. **The realistic timeline for credit issuance is now late 2024 or 2025.**



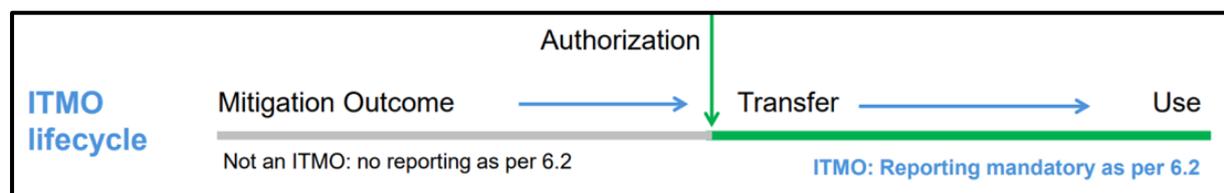
Source: UNFCCC (own adaptation)

Article 6 Primer

How are ITMOs Generated?

International mitigation outcomes from eligible activities and entities (approved by the host country) become ITMOs after receiving authorization from host countries and are subject to reporting requirements as outlined in Article 6.2 and corresponding adjustments.⁶ It can refer either to emission reduction or removals.

Countries can authorize ITMOs for use towards other NDC, other international mitigation purposes, or both. Host countries must apply corresponding adjustments in all first transfers, which for ITMOs authorized for use towards other NDC is at the first international transfer of it, and for OIMPs, can be either at authorization, issuance, or use/cancellation of it (according to what was specified by the host country).



Source: UNFCCC

⁶ Under Article 6, emission reductions that have been authorized for transfer by the selling country's government may be sold to another country, but only one country may count the emission reduction toward its NDC. It is critical to avoid double counting so that global emission reductions are not overestimated. Corresponding adjustments refer to the accounting mechanism established under Article 6 to ensure that this double counting does not occur. ([Source Link](#))

Article 6 Primer

Current State of Negotiations – Road Through COP28

The most recent SB58 UN climate negotiations (June 2023) saw several outstanding issues but also clarity on the next steps regarding Article 6 negotiations and expectations through the remainder of the year and COP28. Both Article 6.2 and 6.4 saw promising progress, but 6.4 negotiations continue to highlight ongoing disagreements among parties that will need to be resolved to enable operationalization.

Article 6.2:

In regard to A6.2, the negotiations focused on very technical details. This is positive because it highlights that there are no more large barriers for nations to form bilateral linkages and clubs.

In Bonn, negotiators succeeded in moving forward several elements of reporting that all A6.2 nations will need to do to report their progress, including:

- Process of authorization;
- Agreed electronic format;
- Elements of a manual to guide a Party in completing the agreed electronic format for reporting;
- International registry specifications and costs for connections;
- Capacity-building programs; and
- Training of technical experts to carry out expert reviews of A6.2 arrangements.

Article 6.4:

Progress on A6.4 implementations continued to be stalled with negotiators unable to reach decisions on three prominent barriers:

- Avoidance and conservation enhancements;
- Authorization process, and specifically on whether authorization will be needed if a host government deems a project's credits only for its domestic use but not towards its NDC; and
- The connection of A6.4 registries to the A6.2 international registry or other nation registries such as those part of national compliance programs.

The debate amongst Parties highlighted substantial material disagreements about significant details required for A6.4 implementation. Some Parties also flagged financial costs, with all developing parties expressing concerns about the resources required to set up market infrastructure for both A6.4 and A6.2, arguing an urgent need for capacity building.

Canada & Article 6

ITMOs to Support Canada's NDC

Cross-border cooperation will best set up Canada for expanded market potential and lower cost mitigation opportunities to support the country's ambitious climate targets while supporting Canadian competitiveness and clean export opportunities.

Given the substantial emissions reductions required to achieve Canada's ambitious climate targets,⁷ it is likely the country will need to rely on measurable mitigation outcomes that occur outside of its borders leading into 2030, and certainly through mid-century towards net zero ambition. While the Federal Government's 2030 ERP⁸ explicitly references Article 6/ITMO potential benefits and "Canada's strong advocacy on robust international (ITMO) trade rules", many uncertainties remain with respect to Canada's actual approach to, and use of, international Article 6 aligned markets and cooperative approaches.

The benefits of cooperative approaches and international linkage are clear: the

bigger and broader the market, the wider the range of abatement opportunities and improved efficiencies, thereby driving down program costs while driving up clean **projects, jobs, and market opportunities**. Previous IETA research has estimated that the potential cost reductions achieved through Article 6 cooperation could exceed \$250 billion per year in 2030 when compared with the independent implementation of NDCs by countries⁹.

Through 2023, IETA encourages ECCC to finalize Canada's ITMO framework as soon as possible to begin enabling lower-cost abatement opportunities in support of efficient mitigation pathways through 2030 and beyond.

Global Carbon Offsets

Canada recognizes that internationally transferred mitigation outcomes (ITMOs) have the potential to complement domestic efforts and contribute to sustainable development abroad. Other countries, including New Zealand, Switzerland, and Japan, have referenced ITMOs as part of their NDCs and climate plans. Following Canada's strong advocacy of robust international rules for ITMOs to ensure environmental integrity, transparency and the avoidance of double-counting at COP26, efforts are ongoing to develop a federal policy on ITMOs.

Excerpt 1: Environment and Climate Change Canada - 2030 Emissions Reduction Plan, Page 104 ([Link](#))

⁷ As indicated by Canada's UN Submitted 2022 National Inventory Report ([Link](#)), the country's 2020 emissions were 672 Mt CO₂e, more than 200 Mt greater than Canada's 2030 target of 443 Mt CO₂e. There exists a large emissions reduction gap that will need to be addressed to ensure Canada can achieve its 2030 target.

⁸ Environment and Climate Change Canada - 2030 Emissions Reduction Plan ([Link](#))

⁹ IETA Report - The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges ([Link](#))

Canada & Article 6

Growing International Article 6 Action and Bilateral Agreements

The outcomes of COP 27 provided much-needed clarity on Article 6.2,¹⁰ enabling countries to begin implementing bilateral agreements and policy frameworks. To date, over 20 MOUs and agreements have been implemented, with many others under development. This new impetus puts significant pressure on Canada to finalize its ITMO Framework to ensure the country can maintain its global carbon pricing leadership position.

Despite extensive domestic carbon pricing experience and broad international commitments made at COP 27 and beyond¹¹, Canada has yet to publicly enter a single Article 6 (namely 6.2) bilateral agreement or MOU. Concrete steps on a framework – or even confident signals to enter one or more strategic Canada-ITMO MOUs – would serve to bolster Canada’s credibility and influence as the country continues its involvement in these important ongoing Article 6 discussions.

Canada is extremely well-positioned to leverage international carbon markets in action while aligning its efforts on bilateral and multilateral climate actions. One such priority effort through COP 28 is the Canada-led “Global Carbon Pricing Challenge” established at COP27¹². Another example is Canada’s involvement in the Japan Article 6 Implementation Partnership, which currently consists of over 60 countries aiming to promote international collaboration and capacity-building efforts related to Article 6¹³. During the Bonn negotiations in June, the Partnership revealed critical capacity-building objectives for Article 6 transactions

relating to authorization, initial reporting, and tracking (emissions) progress reports. Canada has an opportunity to position itself as a leader in these discussions if the country acts fast to engage in growing Article 6 international developments.

Canada should be “leaning-in” to growing Article 6 diplomatic actions and cooperative efforts to **gain knowledge and experience while best navigating broader market opportunities as more parties become active in international markets.**

If Canada does not engage in Article 6 actions and bilateral agreements soon, the country will risk falling behind its international counterparts and be unable to benefit from these critical early opportunities. Additionally, the request for Canada to engage in international Article 6 opportunities is likely to soon arise in the context of international trade and carbon club conversations, which Canada will need to be ready to respond to potential requests from allies and trade partners. These conversations are highly relevant to Canada given that two of the country’s largest allies

¹⁰ See IETA’s [COP27 Summary Report](#) for a detailed summary of key COP27 Article 6 outcomes.

¹¹ See for example, Prime Minister Trudeau advances concrete climate action at the MEF ([Link](#)) Canada’s driving leadership on galvanizing support and new signatories to the Global Carbon Pricing Challenge (GCPC) through COP28

¹² Note Canada’s participation in [Japan’s Article 6 Implementation Partnership](#) and [Canada led Global Carbon Pricing Challenge](#)

¹³ Including an area of work to facilitate understanding of Article 6 rules and linkages with NDCs ([Link](#))

and trade partners are either discussing potential border carbon mechanisms (US) or actively implementing such mechanisms (the EU's Carbon Border Adjustment Mechanism).

Importantly, COP 27 also highlighted the growing interest and momentum from private businesses to invest and engage in international emissions trading and

reduction opportunities. **Private capital is eager to seek policy signals and “destination zones” to channel much-needed Paris-aligned climate finance into reductions that cannot be fully acted upon without adequate government Article 6 frameworks and arrangements.**

With the growing number of international Article 6 pilots and engagements (many accelerated through COP 27, and more expected through COP 28), the window of opportunity for Canada to position itself to benefit from these early Article 6 activities is narrowing.

Canada & Article 6

Finalizing Canada's Article 6 Approach and ITMO Framework

We urge Canada to finalize its ITMO framework ahead of several prominent policy pieces to avoid potentially "painting Canada into a corner" on the country's future ability to maximize benefits from cooperative approaches. Finalizing Canada's Article 6 approach and ITMO framework would unlock increased efficiencies and better enable climate policies to achieve environmental outcomes at a lower cost.

Prominent policy pieces relevant in the context of Canada's ITMO framework include Federal policies such as the upcoming Oil and Gas Emissions Cap and Clean Electricity Regulation, and important provincial developments including sectoral targets and emissions caps. Given the significance of these policies, the Government should consider a wide range of policy options, including international cooperative approaches to ensure the most efficient mitigation pathways for the country. Importing international emission reductions could provide a lower-cost compliance mechanism for compliance with these forthcoming measures.

The urgency to finalize Canada's ITMO framework was further reflected in the Federal Government's 2022 review of provincial carbon pricing programs against the updated benchmark requirements.¹⁴ IETA adamantly holds that a high-integrity credit supply of reductions and removals should neither be discouraged nor viewed as a negative system design element across Canada's evolving carbon pricing programs. Instead, efforts to address credit oversupply should be focused on improving market linkages and expanding credible demand sources. **Providing necessary domestic regulatory guidance to support**

transactions of international credits could serve as a notable demand source to address these credit supply concerns while helping to maintain the marginal price level in line with the updated federal benchmark. However, the updated benchmark requirements failed to provide any guidance on the use of international demand sources, potentially restricting the ability of provinces to explore international markets as a means to comply with the requirements. A federal ITMO framework will be an important first step to provide this necessary guidance and signals (to both provinces and Canada's private sector) over the coming years.

ECCC has committed to begin federal-provincial-territorial work on the 2026 interim review of the federal benchmark over the coming months.¹⁵ **We therefore urge the release of Canada's final ITMO framework - informed by a transparent stakeholder consultation - as soon as possible to help provide direction and guidance, especially for certain provinces, that are exploring international market opportunities through mid-decade.**

¹⁴ Government of Canada Update to the Pan-Canadian Approach to Carbon Pollution Pricing 2023-2030 ([Link](#))

¹⁵ Outlined in the 2022 Review of the Output-Based Pricing System Regulations ([Link](#))

Without a final framework providing clear guidance, provincial approaches to international collaboration could vary greatly, creating an unnecessary administrative burden on the Federal Government's required UNFCCC inventory reporting and further enabling the problematic bifurcation of provincial pricing systems.

As part of the interim review, IETA recommends that **the Federal Government establish standardized guidelines for interested provinces to incorporate international developments into their respective pricing systems while meeting the benchmark requirements.** The Interim Review should also continue advancing efforts for further provincial alignment and linkages, which will unlock new domestic efficiencies that could lend support to international activities,

Canada & Article 6

Current Provincial Activity & Leadership

International linkage is already occurring within Canadian provincial pricing systems and is likely to be embraced by further provinces over the coming years. Final federal ITMO guidance will prove crucial to ensuring consistency across provincial international approaches.

Quebec has been participating in an international emissions trading market linkage with California since January 2014; Alberta has explicitly outlined commitments to explore Article 6 and enable ITMOs as part of the province's 2050 net zero aspirations; and British Columbia's upcoming OBPS industrial pricing system could position the province for future international transactions. Final federal ITMO guidance would help ensure these provincial 'outward' looking activities are aligned with Canada's federal approach to improve accounting/inventory calculation efficiencies.

Quebec-WCI Linkage:

Quebec is participating in international cooperation allowing for trade in carbon-denominated emission units with California as part of the Western Climate Initiative (WCI) joint cap and trade program.

Under the WCI program, corresponding adjustments are calculated and accounted¹⁶ for independently of federal guidance. Without a federal ITMO framework and clear governance and procedures for authorization and corresponding adjustments, these ongoing transactions cannot be properly accounted for at the UN level as required by the Paris Agreement.

A Federal ITMO framework would serve to provide Quebec with clear guidance on Federal reporting requirements, reducing the burden of UN reporting, and protecting against an unnecessary source of additional provincial pricing bifurcation which may arise if other provinces follow Quebec's path and implement independent international accounting mechanisms.

Alberta New ERED Plan:

On 19 April 2023, the Government of Alberta released the long-anticipated Emissions Reduction and Energy Development Plan (ERED Plan)¹⁷ outlining the province's made-in-Alberta approach to achieve net zero aspirations by 2050 with a focus on attracting investment and growing the economy. The 66-page ERED Plan explicitly recognizes the role of offsets (including international A6 credits) in achieving net zero. Specifically, the ERED:

- Affirms that Alberta will continue to share expertise in emissions trading and carbon offsets with other provinces and jurisdictions to support national & global reductions.
- Commits the province to investigate a framework for a voluntary credit market in Alberta for activities or sectors, including objectives that support A6 and the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

¹⁶ For more information, see the Government of Quebec's Accounting Mechanism for Compliance Instruments Traded among WCI Linked Jurisdictions ([Link](#))

¹⁷ Alberta Emissions Reduction and Energy Development Plan ([Link](#))

Canada & Article 6

Unlocking the Opportunity: Article 6 Ingredients for Success

In June 2022, IETA published the discussion paper “How Governments Can Implement NDCs Cooperatively and Encourage Private Sector Investment”,¹⁸ providing recommendations on specific steps and elements that governments need to consider and address to mobilize private sector resources and investment towards Article 6 mechanisms. We strongly encourage the Federal Government to review IETA's June 2022 discussion paper to inform the development of the country's Article 6 Framework. The following “Ingredients for Success” are essential considerations that must be addressed as the country moves forward with Article 6 engagements.

KEY MESSAGE BOX – “INGREDIENTS FOR SUCCESS”

Intention:

- Countries should announce whether they intend to directly make use of Article 6 and/or authorise entities in their jurisdictions to participate in Article 6 transactions.
- Countries should determine whether they intend to participate or allow participation in Article 6 either as a seller, a buyer, or both.

Authorization:

- Countries should provide a clear strategy and guidelines on which sectors, projects, and vintages of emission reductions and removals will be eligible for Article 6 and how they relate to the national inventory and nationally determined contribution (NDC).
- Countries should specify whether activities are (i) authorised for use towards an NDC, (ii) authorised for use for “other international mitigation purposes,” or (iii) both.

Transparency:

- Countries should articulate how Article 6 will help achieve the goals of the Paris Agreement and contribute to sustainable development.
- Host countries should elaborate a policy framework for Article 6 and NDC compliance and determine how it will interact with other countries.

Interoperability:

- Countries should establish an effective interaction between voluntary market activity in the country and the compliance markets.
- Countries should support the emergence of a widely accessible traded market for carbon credits.

Accountability:

- Countries should ensure that they have a suitable digital registry or other infrastructure for GHG accounting, and that reporting is in place and designed to link to UNFCCC and other registry systems.
- Countries should identify key risks in the transaction lifecycle and identify mechanisms to reduce them.

Capacity building:

- Countries should emphasise the areas where capacity building is required and the role of international organisations.

Excerpt 2: IETA Discussion Paper: How Governments Can Implement NDCs Cooperatively and Encourage Private Sector Investment ([Link](#))

¹⁸ IETA Discussion Paper: How Governments Can Implement NDCs Cooperatively and Encourage Private Sector Investment ([Link](#))

In addition to IETA's general "Ingredients for Success" outlined above, we see several near-term, practical actions to position Canada's participation in Article 6.

Market Infrastructure:

Building out Canadian market infrastructure presents one of the easiest near-term wins for Canada toward Article 6 implementation.

Canada's existing carbon pricing infrastructure positions the country favourably for upcoming Article 6 engagements, but further adjustments are required to ensure adequate transparency and accountability. Given the ongoing bifurcation of Canada's carbon pricing landscape, the Federal Government will need to develop systems to track the transfer of credits across all unique provincial pricing programs.

There are significant efforts currently underway to establish common data taxonomies that enable the reconciliation of data across carbon market platforms and registries. With Canada's multiple domestic carbon pricing systems and different offset protocols, the **Climate Action Data Trust (CADT)**, co-launched by the World Bank, the Government of Singapore and IETA, presents Canada with a unique and valuable solution to aggregate market information across provinces into a uniform and transparent

accounting system. A clear pathway for Canada to establish market infrastructure in line with Article 6 requirements could be achieved through a partnership with the CADT.

The CADT provides quality and high-integrity infrastructure for carbon market transparency. This infrastructure aims to create a centralized registry between voluntary and compliance markets to ensure maximum transparency in the market, addressing complexity and fragmentation in today's carbon markets. **For Canada, in practice, a partnership with CADT would:**

- (1) Improve reporting, transacting and benchmarking for both international and domestic market participants.
- (2) Provide an avenue for robust accounting of international transactions facilitated by participation in Article 6.
- (3) Maximize transparency and minimize the risk of double counting – domestically and internationally.
- (4) Enhance capacity for provinces to confidently link, track and monitor their carbon pricing systems and offset credit markets.
- (5) Becomes one of the easiest near-term wins for Canada, all of Canada's registries can link to CAD

Suite of Project Types to Consider

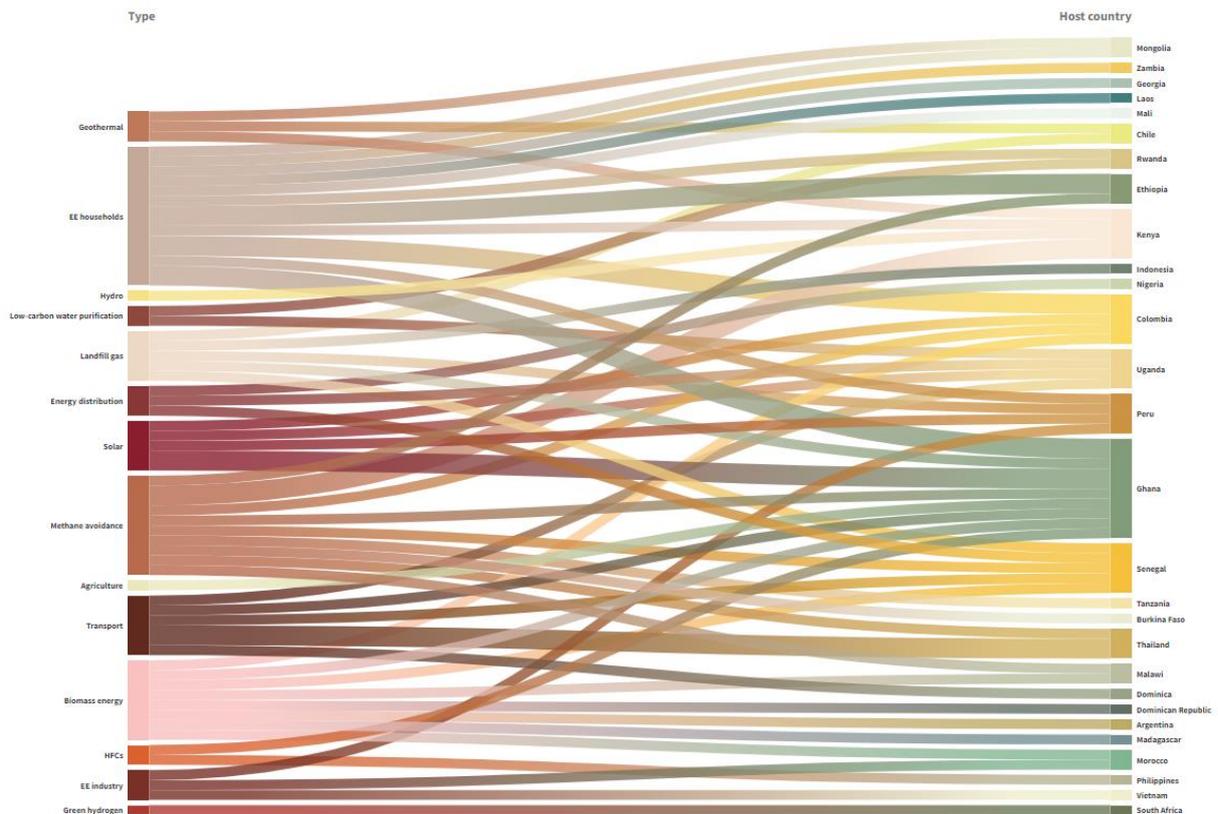
Focusing initial efforts on most accessible project types/technology will best enable Canada to participate in early A6 activities. Lessons and experiences from initial projects can be used to inform the inclusion of additional project types on a transitional basis.”

To ensure the full value of Article 6 is realized within the Canadian context, it is imperative for the Federal Government to evaluate and assess the growing suite of project types and technologies enabled through A6 to determine the most relevant and beneficial opportunities for the country to prioritize in the near-term.

A possible first step toward a formal Canada-wide ITMO Framework could be the deployment of pilots focusing on a small

subset of specific project types/technologies most suitable and easily accessible for Canada out of the gate. This way, Article 6 implementation is not bogged down by more challenging and potentially contentious project types, which will take additional time to roll out. Under this transitional approach, the Federal Government could delay more challenging project types for future consideration informed by experience and lessons learned through initial early projects.

IETA has compiled all public Article 6 Pilots to date. The graphic below highlights the wide array of Article 6 compatible project types/technology and the host countries currently participating. We encourage the Federal Government to review these ongoing efforts and see, where possible, that Canada could most accessibly participate in similar agreements in the near-term.



Source: IETA. Figure showcases Article 6 Pilot Projects. Colours indicate respective project type and host country.

SUMMARY OF ADDITIONAL MATERIAL & ANALYSIS

The following section briefly summarizes additional IETA material and analyses to help inform Canada's approach to ITMOs and Article 6.

Modelling the Economic Benefits of Article 6

Authors: IETA, University of Maryland and Carbon Pricing Leadership Coalition

Date: September 2019- Current

Online Source: [Website Link](#)

Summary: Since 2019, IETA has partnered with researchers from the University of Maryland (UMD) and Pacific Northwest National Laboratory (PNNL) to produce a number of studies about the potential of international carbon market approaches. This project is aimed at enhancing the effectiveness of the Paris Agreement by identifying how Article 6 implementation could encourage businesses to accelerate climate action and nations to advance more ambitious commitments.

In 2019, IETA and CGS-UMD conducted Phase 1 of the project, in collaboration with the World Bank-led Carbon Pricing Leadership Coalition (CPLC), releasing a report titled "The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges".¹⁹ This report investigated the potential economic and environmental outcomes associated with the use of Article 6 of the Paris Agreement by participating countries, outlining the following results:

- The potential benefits to cooperation in achieving the NDCs under Article 6 are large and all parties could benefit. Potential cost reductions over independent implementation of countries' NDCs total about \$250 billion per year in 2030. Cost reductions from cooperative implementation are achieved through improved economic efficiency.
- If countries are inspired to invest these cost savings in enhanced ambition, then Article 6 could facilitate additional abatement under the Paris Agreement by 50 percent or ~5 GtCO₂/year in 2030.

In 2021 a second report was released, exploring the implications of achieving net-zero targets through Article 6 cooperation, compared to alternative scenarios in which all Parties independently reduce emissions linearly to zero. Titled "**The Potential Role of Article 6 Compatible Carbon Markets in Reaching Net-Zero**",²⁰ the second report outlines the following results:

- Cooperative implementation through Article 6 compatible carbon markets allows countries to achieve net-zero targets with greater economic efficiency. The market value of financial flows between countries could exceed \$1 trillion per year in 2050 and reduce mitigation costs by \$21 trillion between 2020 and 2050, driven by a sharp rise in global carbon prices over time.
- Analysis shows that Article 6 compatible mechanisms could drive an increase in land use and nature-based carbon sinks, such as decreasing deforestation and increasing afforestation and reforestation. In both scenarios, countries with large endowments of land resources are more likely to become sellers.

¹⁹ The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges ([Link](#))

²⁰ The Potential Role of Article 6 Compatible Carbon Markets in Reaching Net-Zero ([Link](#))

- Article 6 cooperation can also shift capital investment from developed to developing regions where it can achieve more mitigation. This shift in financial flows can create ancillary sustainability benefits, such as improved air quality, accelerated renewable energy deployment, and new energy infrastructure

In early 2023, IETA and the University of Maryland released updated research exploring the impact of certain countries dropping out or collaborating through separate clubs. Key messages from the updated analysis showed that:

- Article 6 holds enormous potential for enabling Paris ambition.
- Countries that continue to cooperate using Article 6 continue to benefit even when a large emitter does not participate. Dropping any individual country leaves the market largely intact but reduces mitigation incentives for the country that mitigates independently.
- Cooperation clubs can provide gains to participants. However, the club a country joins can affect how the country benefits from cooperative emissions mitigation.

The partnership's latest publication was released in May 2023. Titled "**Modelling the Economics of Article 6: A Capstone Report**",²¹ the report brings new light to the opportunities available to countries participating in cooperative approaches under Article 6. The report highlights that:

- In the near-term, cooperative implementation of NDCs using A6 could substantially reduce resources needed to achieve reductions compared to achieving the same global outcome with all parties implementing their NDCs independently. If savings from cooperating implementation of NDCs using A6 were reinvested in increased ambition, emissions mitigation could be more than doubled.
- Toward 2050, the role of A6 shifts to allowing parties to cooperatively achieve net zero emissions with removals. Countries with the ability to deliver negative emissions (or removals) can sell to parties with the greatest difficulty in achieving zero emissions. Physical transactions in the market over this period shrink, but each ITMO is worth more. The overall value of transactions remains comparable to near-term levels.
- Creating an "Ambition club" whose members pledged to increase ambition proportional to the use of Article 6 emissions trades could help increase ambition over time.

IETA Discussion Paper: How Governments Can Implement NDCs Cooperatively and Encourage Private Sector Investment

Authors: IETA

Date: June 2022

Online Source: [Website Link](#)

Summary: Discussion paper highlighting important elements that governments need to consider and address to mobilize private sector resources and investment towards Article 6 mechanisms. The key elements were identified in discussions with our members and other business organizations, and we hope that, by articulating them together in this paper, IETA can help advance the use of Article 6 across relevant stakeholders.

²¹ Modelling the Economics of Article 6: A Capstone Report ([Link](#))

ICROA's Analysis of the Article 6 Rulebook and its Implications for the VCM

Author: IETA, ICROA

Date: December 2021

Online Source: [Website Link](#)

Summary: Analysis prepared by the [International Carbon Reduction & Offset Alliance](#), a non-profit initiative housed within IETA, exploring the implications of Article 6 on the Voluntary Carbon Market. This discussion is highly relevant to Canada, given that several provinces have expressed interest in voluntary markets (I.E., Saskatchewan, Alberta).

The Evolving Voluntary Carbon Market

Author: IETA

Date: March 2023

Online Source: [Website Link](#)

Summary: The purpose of The Evolving Voluntary Carbon Market Paper is to shed light on how the VCM is evolving. A group of IETA members have identified the issues and uncertainties that market players are experiencing due to the debate around the VCM and the ambitious role it can play. The Paper discusses a range of topics significantly impacting the market including the relationship between the VCM and country actions under the Paris Agreement.

Estimating the Potential of International Carbon Markets to Increase Climate Ambition

Authors: EDF, Lombard Odier Asset Management, Columbia University

Date: June 2023

Online Source: [Website Link](#)

Summary: By helping achieve emissions targets more inexpensively than expected, emissions trading systems can lower political resistance to more ambitious targets, enabling deeper and faster cuts in emissions over time. Using a dynamic global partial-equilibrium carbon market model, authors quantify cost savings under scenarios for emissions trading within and across countries, as well as the corresponding potential to escalate reductions if those cost savings were translated into greater mitigation. They find that use of carbon markets could allow the world to nearly double climate ambition relative to current Paris NDCs over 2020-2035, without increasing total costs compared to a base case without international markets. Significant potential to enhance ambition remain under scenarios where market participation is limited using a “heat map” analysis of countries’ market readiness, as well as with policy uncertainty that delays climate investments. Authors ultimately argue that high-integrity approaches for international market cooperation—as envisioned under Article 6 of the Paris Agreement and with the inclusion of tropical forests as a priority—thus merit significant policy attention as means of closing the global emissions gap.

About IETA: For over 20 years, IETA has been the leading global business voice on robust market solutions to tackle climate change while driving clean finance at scale. Our global non-profit organization represents over 300 companies, including many with operations and investments across Canada and the country's largest trade partners. IETA's expertise is regularly called upon to inform carbon market solutions that deliver measurable climate outcomes, address economic competitiveness and carbon leakage concerns, balance efficiencies with social equity, and support a just transition. Details about IETA's Mission and Membership available at www.ieta.org.