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ARTICLE 6 OF THE PARIS CLIMATE AGREEMENT: WHAT DOES IT MEAN FOR BUSINESSES?

__Article 6__ is a critical piece of the __Paris climate agreement__ that provides guidance for countries on how to trade emissions reductions internationally (‘internationally transferred mitigation outcomes’ or __ITMOs__) and achieve their nationally determined climate contributions (__NDCs__) - either through cooperative approaches or under a new __UNFCCC__ carbon mechanism. The inclusive nature of the Paris Agreement means that countries may turn to companies to help achieve these national climate contributions by using collaborative approaches outlined by Article 6. Many businesses are also eager to contribute directly to the Paris Agreement, and Article 6 is seen as a potential way to do so. As countries start exploring the use of Article 6 to achieve their NDCs, companies will receive better signals on the type of emission reduction activities that they can also engage in.

In a nutshell: Article 6 of the Paris Agreement

The global Paris climate agreement creates opportunities for countries to cooperate with one another when implementing their nationally determined contributions (NDCs). The frameworks for such collaboration are outlined in Article 6 and include:

1. Article 6.2: Internationally-transferable mitigation outcomes (bilateral or plurilateral transfers of emissions reductions)
2. Article 6.4: A new market mechanism, also known as the “Sustainable Development” or “Mitigation” Mechanism
3. Article 6.8: Non-market based approaches, such as technology transfer, capacity building, and climate finance support

Inclusive in nature, the Paris Agreement also calls on the private sector to help translate Article 6 collaboration frameworks into real action on the ground.

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Article 6 of the Paris Agreement: A home for carbon markets and corporate climate action

The Paris Agreement sets the course for global efforts on reducing emissions and limiting rising temperatures to below 2 degrees Celsius. It is an agreement where countries are firmly in the lead on setting their NDCs. The 197 countries who have committed to the Paris Agreement gather regularly at the UNFCCC to review progress in meeting their national climate targets, and to exchange best practices on policies, technologies and mechanisms to reduce emissions quickly and cost effectively.

Article 6 of the global climate pact includes three main elements that outline the process by which countries can work together to meet and exceed their respective emission reduction targets, and to successfully engage with the private sector. These three elements include:

Article 6.2

Countries can cooperate bilaterally or with a grouping of countries to transfer emission reduction units (referred to as ITMOs) to help achieve and improve their emissions targets.

What this means in practice: A country with an emissions trading scheme (ETS) buying emissions allowances or offsets issued from another country, such as South Korea buying credits from the New Zealand ETS.

Article 6.4

A new mechanism to help countries reduce emissions and help achieve sustainable development. This will be a mechanism that will be centrally administered by the UNFCCC process and will likely replace the Clean Development Mechanism (CDM) which generated more than 1 billion offsets under the Kyoto Protocol.

What this means in practice: Any country can use the new offset mechanism under Article 6.4, which could open up new domestic offset schemes in a wide variety of countries.

Article 6.8

Cooperation between countries without using market-based mechanisms.

What this means in practice: Cooperations, for instance, on HFC emissions under the **Kigali amendment of the Montreal Protocol** or on banning the use of short-lived climate pollutants.

Key considerations for corporate leaders

- **Article 6 is an opportunity for businesses:** Countries may turn to companies to help them realise national commitments to the Paris Agreement, and the collaboration mechanisms of Article 6 offer one avenue to do so.
- **There are many ways in which Article 6 may impact future investments and corporate engagements with carbon markets:** The text of Article 6 in the Paris Agreement does not yet define how exactly the private sector can participate in each of the three collaboration mechanisms. Companies can benefit by exploring options and markets to develop emission reduction activities that can be eligible under Article 6, together with South Pole.

Why companies need to pay attention to Article 6

> *"Countries' national climate contributions will continue to be crystallised and catapulted into laws and policies. Article 6 will affect the way in which this regulation is designed and implemented. The ensuing transitional risks - such as carbon pricing, private sector involvement in carbon markets, emission reduction project development, and a drop in demand for carbon-intensive products - are already having an effect on markets."*

The text of Article 6 does not yet define how the private sector can participate in each of its three key elements. However, the UNFCCC negotiating process at COP24 will likely issue a rulebook on how Article 6 will be fully implemented using these three main elements, and how it will involve the private sector. Having a clear role for the private sector in Article 6 is crucial: It will help unleash new technologies and methods that can further governments' efforts to reduce emissions and achieve the 2 degree goal of the Paris Agreement.

There are several ways in which Article 6 may impact future investments and engagements with carbon markets: A government might pass new laws that require companies to help meet national emission reduction targets by purchasing carbon credits from abroad. This could be done by using ITMOs - buying emissions allowances or offsets issued from one or more countries as the "currency" to meet their NDC - or by creating a new mechanism, in line with Article 6.4 A new domestic offset scheme might emerge in a country as a result of Article 6, which in turn could unleash new opportunities to deploy emissions saving technologies and practices. A recent example would be the launch of the Chinese ETS, which can be seen as a transitory policy tool, one that sends a market signal for companies and investors to shift away from heavily polluting sources.

In short, using Article 6 in the implementation of final NDC targets will involve the private sector, and companies can benefit from already exploring ways to develop emission reduction activities that can be eligible under Article 6.

Abbreviations & keywords

CDM
Clean Development Mechanism, one of the main mechanisms to reduce emissions under the Kyoto Protocol

COP24
The informal name for the 24th Conference of the Parties, the supreme body of the UNFCCC Convention.

ETS
Emissions Trading Scheme

ITMOs
Internationally Transferred Mitigation Outcomes

Kigali amendment of the Montreal Protocol
An agreement to eliminate hydrofluorocarbons (HFCs), usually used in e.g. refrigerators and air conditioners.

NDCs
Nationally Determined Climate contributions

UNFCCC
United Nations Framework Convention on Climate Change

Disclaimer

The Article 6 rulebook for the Paris Agreement is yet to be finalised, and might affect the claims made in this paper.

Our team at South Pole is ready to help organisations navigate the changing policy landscape as this new carbon market framework emerges. Building on over 10 years of experience working on the development of carbon markets and carbon offset standards, our team is pioneering the detailed implementation of Article 6 through our work with clients in government and the private sector. We are developing the first of its kind Article 6 emissions reduction activity involving a European government focused on renewable energy in Asia. We are also able to assist companies understand how to develop emission reduction activities that can be eligible under Article 6.

Read more about the practical recommendations on how to operationalise Article 6 in our latest report.

Get in touch to discuss how we can help you meet your goals

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