



Risks, challenges and unresolved issues related to Article 6

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Context

On February 19, 2021, the day when the US officially rejoined the Paris Agreement, the Group of Seven (G7) Heads of Governments committed, in the context of the UN climate summit (COP26), to “make progress on mitigation, adaptation and finance in accordance with the Paris Agreement and deliver a green transformation and clean energy transition that cut emissions and create good jobs on a path to net-zero no later than 2050¹.”

The United Kingdom (UK), which is both the G7 and COP26 President, is looking to ensure a successful summit in Glasgow that results in enhancing climate ambition and completing all the pieces of the Paris Agreement work programme. With the net-zero commitments being made in high-emitting nations such as China, the EU, the United States, Canada and Japan, the UK has said that they want to make the “net-zero debate” a societal issue. While it’s difficult to know what that exactly means, it’s possible to imagine that part of this debate includes turning the page on the tough negotiations around the rules of Article 6 of the Paris Agreement.

This briefing aims to present critical challenges around Article 6 to consider before the COP in Glasgow at the international and Canadian levels.

What is Article 6?

- Article 6 of the Paris Agreement creates an opportunity for countries to use international market-based tools to acquire mitigation outcomes credits in the context of the implementation of their NDCs.
- Mechanisms under Article 6 will replace existing UN carbon markets such as those associated with the Kyoto Protocol. Depending on the structure and the rules, Article 6 would also be used to finance adaptation through the share of proceeds and could, in theory, encourage the increase of technology transfer, capacity building and financial support to the Global South².
- Article 6 offers several options:
 - Under Article 6.2, countries could buy Internationally transferred mitigation outcomes (ITMOs) to count them against their NDCs. ITMOs are mitigation outcomes that could be traded between Parties to the Paris Agreement using international offset schemes.
 - A second option would be to participate in a much more structured carbon credit mechanism under Article 6.4 called the Sustainable Development Mechanism (SDM). The SDM should be governed by the UNFCCC who would potentially have the role to incentivize and facilitate the participation by the public and private entities, and even individuals.
 - Article 6.8 identifies non-market approaches to enhance public and private sector participation in implementing a country’s NDCs. As the scope of Article 6.8 is not yet defined, this briefing will not analyze the potential impacts of Article 6.8.

¹ [Joint statement of G7 Leaders, 2021](#)

² [IISD, 2019](#)

Why is Article 6 important?

- We must urge governments to focus on reducing emissions at home.
- Some stakeholders argue that in theory, international cooperation under a “well-designed” and implemented Article 6 framework could reduce the cost of implementing NDCs by about half - equivalent to a savings of US\$250 billion in 2030 or reduce global GHG emissions by an additional 50% percent compared to countries acting alone³.
- Increasingly, the oil and gas industry, in particular, is interested in the rapid implementation of Article 6. This sector has previously stated that without market-based approaches like those associated with Article 6 of the Paris Agreement, it will be challenging to meet net-zero “goals”.⁴
- However, these analyses don’t reflect the real challenges and potential political, economic and social impacts of carbon markets under the Paris Agreement. It builds on the assumption that Article 6 would produce cheap reductions globally that could be used by countries seeking to save costs. Current estimates are based on an “idealised model” rather than on concrete and convincing evidence⁵.

What are the challenges around the negotiation of Article 6?

- There are strongly divergent views on international trading schemes’ legitimacy, such as those proposed under Article 6. There are legitimate questions that need to be asked about these schemes’ credibility to increase total global ambition, reduce emissions, and do so equitably and fairly⁶.
- There are fundamental, highly technical, but also politically sensitive concerns. Kyoto Protocol credits transition, a levy on transfers of mitigation outcomes to funding adaptation efforts in vulnerable countries and countries in the Global South for both Article 6.2 and Article 6.4, and how to deliver overall mitigation of global emissions using cooperative approaches.
- Article 6 rules remain undefined because there are many interpretations around its domestic use. At the UNFCCC, countries have not agreed on the overarching goal of these cooperative approaches. The application of social, economic and environmental safeguards is needed to protect communities and nature from the harm Article 6 activities might cause.
- Traditionally, international carbon markets allow wealthier nations to meet climate targets at a lower cost by paying for reductions outside of their territory. With the adoption of the Paris Agreement, countries in the Global South need these low-cost emission reductions to meet and exceed their own emission reduction targets, which may make such investments unavailable to wealthier countries.
- The negotiations around Article 6 will require political conviction for cooperation to achieve real and verifiable emissions reductions.

³ [IETA, University of Maryland and CPLC, 2019](#)

⁴ [Carbon Brief, 2019](#)

⁵ [ibid.](#)

⁶ [CICC, 2021](#)

- Some countries and stakeholders are rightly concerned that any carbon market mechanisms under the Paris Agreement must reduce overall global emissions. However, other countries like Brazil or Australia have opened the door to adopting market rules based on supposed assets and traditional Clean Development Mechanism (CDM) approaches and focus mainly on reaching their climate targets using dubious accounting rules.

Why should we look at the design of Article 6 rules?

- There is currently no specific definition of what an ITMO is and how to quantify it. So an ITMO could either use a carbon dioxide equivalent [CO₂e] metric or other greenhouse gas (GHG) mitigation outcomes defined under Article 6 of the Paris Agreement.
- Poorly written rules could end up allowing the purchase of credits that are not credible and not adequately verifiable. There is a risk that the rules will directly undermine the environmental integrity of the Paris Agreement. For instance, imagine a situation where Canada acquires credits from a country in the Global South, and inadequate Article 6 rules allow for both the country selling and the country buying credits to count them against their NDCs at the same time. This is called double-counting, which needs to be avoided, particularly by agreeing on corresponding adjustments. Avoiding that a ton of CO₂ doesn't get counted multiple times by separate entities is still a controversial source at the UNFCCC negotiations.
- Poorly drafted rules might also help disincentivize countries from increasing their climate ambition and undermine NDC achievement. The Paris Agreement calls for governments to present economy-wide NDCs, to reflect their "highest possible ambition" to ensure there is no backsliding. Poorly written rules may incentivize host countries - meaning the country that sells credits - to sell their low-cost and easily accessible mitigation opportunities that host countries need to meet their mitigation obligations.
- In theory, ITMOs should be designed to enable host countries to pick the "high-hanging" mitigation opportunities that they would otherwise be unable to afford and should be steered away from the low-hanging mitigation opportunities host countries need to meet their own NDC commitments. There are no restrictions or protections to avoid countries selling ITMOs coming from low-hanging mitigation opportunities, facing the perverse incentive to not increase their NDC over time because of the opportunity cost in forgoing future sale of ITMOs⁷.
- Another unresolved issue around Article 6 is the transition from historic credit trading markets to new systems and old credits such as those coming from the Clean Development Mechanism (CDM)⁸.
- Carbon offsetting is only credible if, by paying for offsets, credits represent additional emissions beyond levels that would have otherwise occurred. In that sense, the quality of CDM credits is dubious. These reductions took place years ago.

⁷ [NewClimate Institute, 2018](#)

⁸ One of the Kyoto Mechanisms that allow developed countries to meet emission reduction targets at a lower cost by paying for emission reductions in developing countries

These projects will continue to generate emission reductions regardless of any future transaction, so there would be no additional effort that could come out of buying these credits⁹.

- The transition of old credits presents considerable challenges for Article 6 markets and other emerging markets. For instance, we can question their reliability - meaning that older credits may come from projects that started a decade ago and were regulated under less rigorous methodologies and standards. If these credits were not sold years ago, maybe that's because they didn't need carbon credits revenue for a project's viability; hence the project was not additional¹⁰.
- Without proper safeguards, Article 6 rules can exacerbate human rights abuses and negatively impact communities and Indigenous Peoples globally. Each mitigation credit has an origin and represents an investment that will directly affect communities globally. For example, some bioenergy projects could reduce emissions and help minimize dependence on fossil fuels; others increase greenhouse gas emissions. They can force people to be displaced and affect the health of people and communities. Not restricting potentially harmful projects or not correctly communicating ITMO projects' scope could lead to abuses between contractors and local communities¹¹.
- The High Commissioner for Human Rights has said that respect and fulfilment of human rights are essential to sustainable development. Carbon credit schemes and investments must be inclusive and rights-based. Each project should include a complete and transparent consultation process with civil society organizations and impacted communities, assess the equitable distribution of trade-offs and benefits, and entirely mitigate any impact that might increase economic costs on those most vulnerable.
- Other emission trading mechanisms such as California's cap and trade program have designed and implemented policies to ensure these mechanisms' burdens and benefits get equitably distributed. Some argue that it hasn't delivered on that potential¹².
- Concerned with the state of Article 6 negotiations in 2019 at COP25 in Madrid, 31 countries signed the San Jose Principles for High Ambition and Integrity in International Carbon Markets as the minimal requirement to ensure fair and robust carbon market rules¹³. Canada did not sign.

The San Jose Principles for High Ambition and Integrity in International Carbon Markets

- Ensures environmental integrity and enables the highest possible mitigation ambition
- Delivers an overall mitigation in global emissions, moving beyond zero-sum offsetting approaches to help accelerate the reduction of global greenhouse gas emissions

⁹ [Carbon Market Watch, 2021](#)

¹⁰ [Turner & Grocott, 2021](#)

¹¹ [Schade & Obergassel, 2014](#)

¹² [The Pew Trusts, 2020](#)

¹³ [DCC, 2019](#)

- Prohibits the use of pre-2020 units, Kyoto units and allowances, and any underlying reductions toward Paris Agreement and other international goals
- Ensures that double counting is avoided and that all use of markets toward international climate goals is subject to corresponding adjustments.
- Avoids locking in levels of emissions, technologies or carbon-intensive practices incompatible with the achievement of the Paris Agreement’s long-term temperature goal.
- Applies allocation methodologies and baseline methodologies that support domestic NDC achievement and contribute to achievement of the Paris Agreement’s long-term temperature goal
- Uses CO₂-equivalence in reporting and accounting for emissions and removals, fully applying the principles of transparency, accuracy, consistency, comparability and completeness
- Uses centrally and publicly accessible infrastructure and systems to collect, track, and share the information necessary for robust and transparent accounting
- Ensures incentives to progression and supports all Parties in moving toward economy-wide emission targets.
- Contributes to quantifiable and predictable financial resources to be used by developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation
- Recognizes the importance of capacity building to enable the widest possible participation by Parties under Article 6

Carbon markets, Article 6 and domestic implications for Canada

- Climate Action Tracker estimates that Canada is on at least a 3-degree warming pathway, and its climate commitment is rated to be insufficient.
- For Canada to do its fair share in light of science and equity, its target would have to double in ambition to reduce GHGs 60% below 2005 levels by 2030 while ramping up international climate finance to additionally mitigating the equivalent of 80% of Canada’s 2005 emissions in the Global South¹⁴.
- Canada has taken significant steps to price pollution. It has recently announced an increase of carbon pricing of \$170 per ton by 2030. Canada also introduced “C-12, the Net-Zero Emissions Accountability Act”. Among other recent policy announcements, Canada has released the “Healthy Environment and a Healthy Economy” plan, backed by a \$15 Billion commitment, to accelerate decarbonization and meet its national GHG reduction targets.
- At the national level, the Greenhouse Gas Pollution Pricing Act of Canada required provinces and territories to either develop their carbon pricing initiative in line with the criteria outlined in the Pan-Canadian Approach to Pricing Carbon Pollution — the federal benchmark—or have the national backstop system implemented in their jurisdictions. This federal system consists of two components: a consumer-level pollution price on fossil fuels; and a pollution price for industry, known as the Output-Based Pricing System (OBPS).

¹⁴ [Climate Action Network Canada, 2019](#)

- Carbon pricing frameworks have been included in national or sub-national climate policies worldwide. In 2020, carbon pricing initiatives covered 22.3% of global GHG emissions, and governments raised more than US\$45 billion from carbon pricing in 2019¹⁵. It is worth noting that the forestry sector constituted 42% of all credits issued in the last five years.
- Globally there are over 60 national and sub-national carbon markets that exist today.
- When it comes to international offsets, the Canadian Government has recognized that Canada could acquire offsets from other parts of the world¹⁶ to complement domestic emissions reductions. How this would work is still unclear.
- Some, like the Nordic Environment Finance Corporation, have tried to identify four categories where Article 6 activities could fit¹⁷:
 1. New activities intended to be recognized as part of Article 6 crediting activities. There is currently one active buyer of ITMOs, Switzerland¹⁸.
 2. Past activities that existed before adopting the Paris Agreement but that have a cooperative structure already built-in. That includes activities in existing trading schemes like the Western Climate Initiative, co-founded by California and Quebec, or the EU Emission Trading Schemes that could be counted as Article 6 activities.
 3. There are institutional initiatives like the Transformative Carbon Asset Facility led by the World Bank. These initiatives seek to attract contributor countries who want to acquire a portion of mitigation outcomes against their NDCs and give back a share of the seller Party's credits.
 4. Market-related activities outside of UNFCCC. The Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) is considered one of the most likely and most extensive sources of future carbon credit demand. Activities for CORSIA include, for example, airline companies that would need to offset the emissions.
- Like Quebec, some Canadian provinces have experience implementing cap and trade regulations in their jurisdictions¹⁹. But, considering how broad Article 6 is, its domestic implementation is much more challenging.
- The implementation of Article 6 domestically can have unintended consequences. Thus, we must ask ourselves the following:
 - Should a country like Canada rely on emission reductions outside of our territory, or should we focus primarily on achieving real domestic emissions reductions?
 - Should Canada use international carbon markets at all if its emission reduction target in its NDC is well below its fair share effort in a 1.5-degree scenario?
 - When would be the most appropriate time from now and up until 2050 to rely on international carbon markets?
 - What are domestic safeguards needed to ensure that Article 6 doesn't lead to perverse incentives at the national level?

¹⁵ [World Bank, 2020](#)

¹⁶ [ECCC, 2019](#)

¹⁷ [NEFCO, 2019](#)

¹⁸ [Ecosystem Marketplace, 2020](#)

¹⁹ [Ibid Footnote 15](#)

- What are the linkages between Article 6 activities, trade policy and climate finance?
- How will Canada account for emissions traded internationally by provinces?
- High emitting provinces such as Alberta and Saskatchewan are already speaking about the potential of acquiring ITMOs through technology transfer and financial support to other countries. The Canadian Government has also said in the past that it would want to seek credits toward Canada's emissions reduction targets for the GHG-reducing effects of Canadian exports.
 - Saskatchewan has asked the Canadian Government to transfer carbon capture and storage (CCS) technology to other countries to receive ITMOs. This province "strongly encourages the Government of Canada to rapidly support and enhance SaskPower's efforts to establish an ITMO focussed on CCS technology"²⁰.
 - Alberta would like to use forestry and agricultural offsets to trade ITMOs²¹. However, there is a strong backlash against aligning these efforts with Article 6 since they may encourage more significant oil and gas production.
- However, it is essential to acknowledge that Canada won't get Article 6 credits for low-carbon exports. That's not how the global GHG accounting system works. The current accounting system used at the United Nations Framework Convention on Climate Change (UNFCCC) covers "territorial-based" GHG inventories, meaning those emissions that take place within a nation's geographical borders.
- Emissions from projects such as those related to LNG production, for example, count towards Canada's national GHG inventory. If, when imported, GHG reduction occurs in other countries (in the case of LNG, more and more studies question whether gas has a lower global warming footprint than coal), they would benefit the importing country since the difference in emissions affects its national inventory, not Canada's.
- Uncertainties around technology development, global market trends and international policies impede the widespread adoption of emerging emission reduction technologies by heavy industries in Canada²².

Important considerations on the domestic implementation of Article 6

- Is there a possibility that using Article 6 will compromise domestic climate action? Given Canada's track record as a country that has missed every climate target it has ever set, this remains a genuine concern.
- Is it possible for Canada to develop stringent policies and robust environmental integrity standards to ensure an effective and ambitious offset trading system in the country? There can't be an effective design and implementation of Article 6 without proper safeguard measures to address the risks mentioned above.
- The New Climate Institute has suggested ideas to determine the eligibility to acquire ITMOs and criteria to avoid the risks related to using Article 6 as a disincentive for raising climate ambition: agreeing on standards to assess positive

²⁰ [IISD, 2019](#)

²¹ [Ibid Footnote 21](#)

²² [Ibid Footnote 20](#)

and negative lists for inaccessible actions; an international benchmark to determine the eligibility of ITMOs activities; stringent periods for using ITMOs that align with NDC cycles and restricting the volume of ITMO trade that is available based on a baseline of emissions levels achieved in previous NDCs²³. Should Canada align itself with efforts to spell out how ITMOs might be deployed with the greatest possible environmental integrity and fairness?

- Governments are and will be responsible for the authorization, approval, validation and verification of each project. Article 6 also requires Canada and all buyers and sellers to establish robust MRV systems to link Article 6 activities to the Biennial Transparency Report.
- State-to-state bilateral agreements will likely govern ITMO transactions. When acquiring ITMOs, Canada must agree on terms and conditions that bind the purchase of the emissions reductions with the country selling them. These terms and conditions will likely include the scope, obligations and responsibilities of each Party. They will also define the participation of stakeholders like the private sector, who have, in the past, been responsible for the project implementation. ITMO agreements will also determine the discretion of governments involved and define rules to ensure projects align with the obligations and goals of the Paris Agreement.
- Article 6 activities could take many forms, including linking emission trading systems across jurisdictions, investing in emission reduction projects, technology transfers, and even credits from REDD+ schemes.
- Some argue that Article 6 activities could also support reaching international climate finance targets, though some countries oppose this approach²⁴. For example, Canada could account for mitigation co-benefits from technologies to promote sustainable forest management and sustainable agriculture practices in developing countries such as India. While these activities would be focused on resource security and adaptation, they could also have a significant mitigation potential by reducing biomass-based energy and potentially even methane emissions from flooded fields. In theory, ITMOs could help overcome barriers of technology, know-how, and finance from the Global North to the Global South and promote low carbon and climate-resilient development. However, in Paris in 2015, countries agreed that any mechanism under Article 6.4 must reflect past lessons from the CDM.

Conclusion

It's difficult to see how the Government of Canada will ensure that Article 6 contains stringent regulatory frameworks to protect communities and the planet from any form of abuse and harm. It remains to be proved how Article 6 activities won't exacerbate colonial practices that seek to dispossess Indigenous Peoples, workers and local communities in the Global South from the lands, their rights, and their power to build a hopeful and thriving life. Canada will need to prove if it chooses to use Article 6 mechanisms, that doing so will not result in weak climate ambition, transgenerational trauma, cultural, economic, social and human losses that could come as a result of Article 6 transactions.

²³ [NewClimate Institute, 2018](#)

²⁴ [IISD, 2019](#)

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