

The role of Article 6 of the Paris Agreement

Article 6 of the Paris Agreement offers Parties the opportunity to pursue cooperative approaches with others as a route to achieving their respective Nationally Determined Contributions (NDC).

More widely, cooperation between nation states is often pursued through some form of trading arrangement. Trade underpins economic activity and offers society the flexibility to provide the wide range of goods and services that we all benefit from – not everyone can economically produce everything themselves. For example, trade in commodities provides materials for manufacturing and construction that may be unavailable domestically. Trade is often the underpinning reason for foreign direct investment. It encourages the business sector to engage in projects and activities outside their traditional base with a view to bringing goods and services into that base.

This is also true for managing emissions – not all countries can reduce emissions at the same rate, and, as illustrated, it is certainly not the case that every country can be at zero emissions when needed, so we could use trade to collectively get there through Article 6.

In Figure 1 below, we see three notional countries and a sector all with goals of zero emissions, but individually unable to achieve that outcome and meet other goals, such as energy infrastructure development.

As is clear in Article 4 of the Paris Agreement, balancing remaining sources of emissions against sinks (the permanent removal of carbon dioxide from the atmosphere) must be achieved in the second half of the



Figure 1 - With countries and sectors isolated, zero emissions is unlikely to be achieved.

century. The architects of the Agreement recognised that there will be pockets of emissions remaining for long after the time that we need to be at zero emissions, so constructed the balancing proposition of net-zero emissions. While sources of emissions may remain in many places, natural and industrial sinks may only be economically available in some places. As we collectively move towards net-zero emissions, the task of achieving that goal can be facilitated by matching sources and sinks through a cooperative approach based on trade. Article 6 of the Paris Agreement can be the foundation for long term cross border transfer of carbon units as the underpinning mechanism for such trade. With additional reductions in a given location being the more immediately cost-effective next step, these will attract investment in return for trade of carbon units representing the reductions.

Article 6 is essential for the journey to and destination of net-zero emissions. Recently published research¹, found that cooperation through Article 6 has the potential to reduce the total cost of implementing NDCs significantly, in the order of \$250 billion/year in 2030, or alternatively facilitate removal of more emissions, in the order of 5 GtCO₂/year in 2030, at no additional cost if those cost savings are reinvested into additional mitigation. The cost savings grow to \$320 billion annually by 2030, and the additional mitigation to 9 billion tonnes, if land-based mitigation is included.

By channelling investment towards zero emission energy systems and expanding the use of natural and artificial sinks, Article 6 can help deliver of the goals of the Paris Agreement. For the most part, this would be pursued through projects enabled by the private sector, including their use of the provisions within Article 6 and the issuance of tradable units by host governments. Progressing the example in Figure 1, we

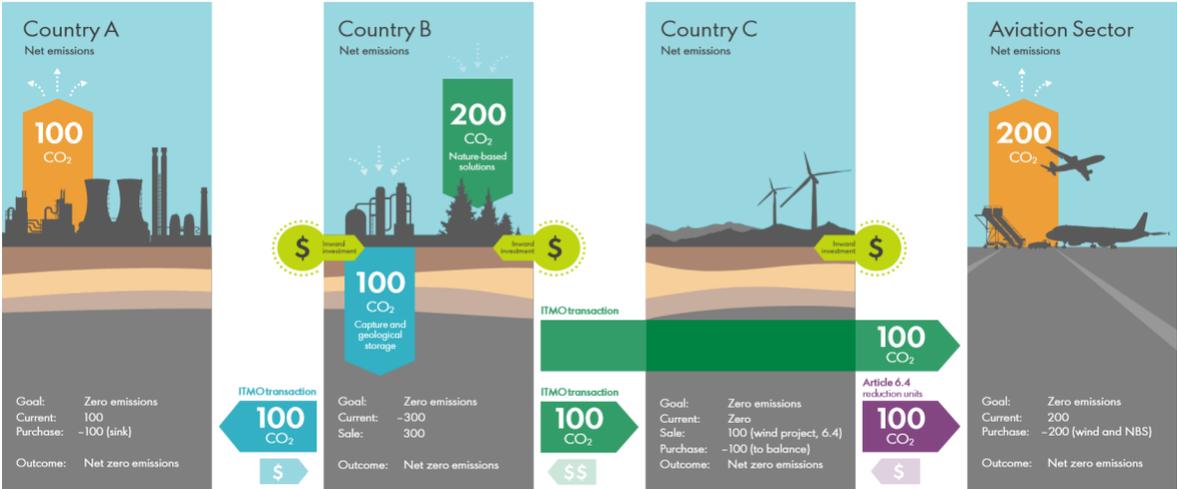


Figure 2 - Article 6 opens the possibility of trade in carbon units, drawing investment into areas where it would otherwise not occur and delivering a net-zero emissions outcome

¹ Some preliminary findings are available here: https://www.ieta.org/resources/International_WG/Article6/CLPC_A6%20report_no%20crops.pdf

see in Figure 2 below that cross-border cooperation through Article 6 and the use of trade has delivered the overall goal of net-zero emissions.

Article 6 offers the opportunity to scale the millions of tons of emission reductions that the Clean Development Mechanism (CDM) of the Kyoto Protocol delivered from a multitude of small projects to gigaton reductions from large-impact programmes featured in economy-wide NDCs. To do this, Article 6 must be fit for that purpose and not anchored to the thinking of two decades ago. We learned much from past mechanisms, but they were never designed for the long haul. Carbon would potentially trade at the scale of the commodities that underpin it, such as oil, coal and iron ore.

Business will have a major role to play in getting to net-zero emissions. It has the capital flows for the projects that will be needed, and Article 6 can facilitate that flow towards zero emitting technologies and crucially to sinks.

An essential component of Article 6 must be the emissions accounting methodology that ensures environmental integrity of trading and demonstrates an overall reduction in global emissions, aspects that were challenging under the CDM. Given the need for rapid scaling and high-volume trade in carbon units, the accounting approach used needs to be numerically based around the carbon reduction goals of the respective Nationally Determined Contributions (NDC), rather than subjectively assessed through baseline analysis and qualitative additionality tests for individual projects. If Article 6 provides a sound accounting basis to instil market confidence for large scale investment, economic studies show that both buying and selling countries will benefit from such trade.

Numerical assessment starts with carbon emissions quantification of the NDC. This paves the way for transparent adjustment of that quantification as a result of trade in carbon units and allows observers to see that the sought-after reductions of the NDC are achieved. Paragraph 2 of Article 6 and the relevant decisions from 1/CP.21 specify the need for such corresponding adjustments, which must take place for both the transfer of domestically created carbon units and carbon units created under Paragraph 4 of Article 6. Such adjustments ensure that the activities related to carbon unit trade are both additional and delivering the overall reductions in global emissions required by the NDCs.

In the context of all the above, COP25 must deliver a simple but rigorous rule book for Article 6, which is based on transparent numerical accounting, recognizes both natural and industrial sinks and supports and encourages large scale transactions.

The following associations and groups support this vision:

