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Article 6 Regulation Note: Key take-aways from COP 27



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For The World Bank Transformative Carbon Asset Facility

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1.

Introduction

At Glasgow, the Article 6 Rulebook was adopted, representing a breakthrough political compromise. The aim for Sharm El Sheikh was more modest: to adopt the detailed rules for implementation of Article 6. In that sense, it fitted perfectly with the overall character of COP 27, which the Egyptian Presidency had branded as an “Implementation COP”.

Parties made significant progress in further operationalizing Article 6 at COP 27 by adopting three substantial decisions. Important clarifications and decisions on details were made to allow for the further operationalization of Article 6.

Nevertheless, a significant gap remains towards full operationalization of both Article 6.2 and Article 6.4. It will take at least until the second half of 2024 until the Article 6.2 reporting and tracking infrastructure will be built and the Article 6.4 Supervisory Body is ready for registering activities.

During this time, the Clean Development Mechanism (CDM) will continue to serve mitigation activities on a provisional basis.

Overall, Article 6 negotiations in Sharm El Sheikh were criticized by market observers as “being even drier than the desert surrounding the COP”¹ and having failed to make substantial progress. However, Parties did consider a myriad of technical issues on which they managed to improve common understanding, secure progress on items that could be agreed upon, and structure the work ahead. By another measure, one could even argue that Article 6 negotiations have never been more productive. Parties adopted a total of 58 pages of decision text with detailed technical rules, which had not been discussed previously and were brand new negotiation text. By comparison, the Article 6 Rulebook consists of only 35 pages and was negotiated over a period of 6 years. Consequentially, market negotiations were characterized by a huge and physically straining workload.

This brief provides a snapshot at the key outcomes on the Article 6.2 and 6.4 work streams that are relevant for TCAF program transactions.

¹ Carbon Pulse (2022) COP27: Nations set to postpone even more carbon market decisions for a year, draft suggests. Available at: <https://carbon-pulse.com/180494/>

2. Outcomes on Article 6.2

The [decision on Article 6.2](#) builds on and further specifies the Article 6.2 guidance adopted in Glasgow. In Sharm El Sheikh, Parties considered the following topics:

- Outlines for reporting (initial report, annual reporting and regular information);
- Authorization;
- Tracking and Infrastructure (registries, database and central accounting and reporting platform);
- Guidelines for technical expert review;
- Training programme for technical expert reviews;
- Mandates from COP 26: emission avoidance and accounting approaches.

Key outcomes related to infrastructure, reporting outlines and the Article 6 technical review process are discussed in the following sub-sections.

2.1 Infrastructure

The negotiations of the tracking infrastructure proved particularly onerous and overwhelming for many negotiators. There was a significant gap in experience between developing and developed countries since only the latter already operated national registries under the Kyoto Protocol.

According to the Glasgow decision, Parties must possess or have access to a registry, such as the international registry. In Sharm El Sheikh, Parties sought to operationalize the international registry and adopt minimum requirements for the set-up of national registries. These negotiations were particularly difficult as the highly technical negotiation text on issues like interoperability or serialized units versus unique identifiers concealed their strategic implications and masked significant divergences between Parties. For example, Parties expressed different views whether carbon credits or only bookkeeping units would be traded on the international registry and whether registries of independent standards such as Verra or Gold Standard should be allowed to connect to the international registry. It was also unclear how the on-trading of Internationally Transferred Mitigation Outcomes (ITMOs) would work, in particular, if this involved the trade across (several) national registries and/or the international registry and whether Parties could trade in different registries.

Despite different visions and levels of understanding, Parties managed to agree on a skeleton infrastructure, while parking many issues for future negotiations. The decision requests the UNFCCC Secretariat to develop a test version of the transparency components of the infrastructure, the Centralized Accounting and Reporting Platform (CARP) and the Article 6 database, by June 2024, aiming to have a finalized first version by June 2025. Moreover, the Secretariat is requested to implement the international registry no later than 2024 and to make an interim solution available until it becomes operational.

Another key outcome is the establishment of a "voluntary forum of Article 6 registry system administrators and technical experts". This is significant insofar as it establishes a forum beyond the Subsidiary Body for Scientific and Technological Advice (SBSTA) in which technical discussions can be held. Unlike the Article 6.4 mechanism with its Supervisory Body (A6.4SB),

Article 6.2 does not have any support structures beyond the Secretariat, which contributed to the overwhelm of Party negotiators.

In the informal note provided by the SBSTA chair prior to the negotiations, there was also an attempt to address issues pertaining to authorization, such as the timing (for use of ITMOs by CORSIA), minimum requirements of an authorization letter and the question under which circumstances an authorization may be revoked or withdrawn. However, these issues could not be resolved, and were designated for future work.

2.2 Reporting outlines

Parties further adopted the outline of the initial report, the outline of the annex on information on cooperative approaches to the Biennial Transparency Report, and a draft version of the agreed electronic format (AEF) for annual submissions to the Article 6 database. All these items serve to ensure the transparency of operations under Article 6.

Among the main points of contention was the urgency of completing the AEF. Some Parties argued that ITMOs should not be reported to the UNFCCC before the initial report had been duly reviewed by the technical expert reviewers and inconsistencies could have been addressed. Hence, there would be no immediate need for adoption of the AEF. Others opined that since cooperative approaches were already happening in practice, one must not delay the reporting and transparency to the UNFCCC. It was agreed to adopt a draft version of the AEF, which would be tested and further commented upon while the sequencing and timing of the submission of the initial report, the completion of the technical expert review and the submission of the AEF would be further considered by the SBSTA.

Another point of contention related to the outline of initial reports, specifically whether illustrative guidance on filling the initial report would be part of the template. Some feared that this would lead to additional reporting requirements beyond what had been agreed in Glasgow. The final decision therefore closely bases the headlines on the reporting elements adopted in Glasgow and requests the Secretariat to produce a manual.

2.3 Article 6 technical review

On the technical expert review, the decision operationalized Article 6 in so far as the Secretariat can move forward with the training programme of technical experts, and Parties are invited to nominate technical experts with relevant qualifications for the roster. The guidelines, training programme and outline for technical reports have been adopted. One concern in the negotiations was how to deal with cases of recurring inconsistencies or Parties simply not providing sufficient information. Since the Paris Agreement is based on a non-punitive and facilitative compliance regime, the means of technical experts to require corrective action are by nature limited but Parties sought to at least ensure proper "naming and shaming" through making cases of recurring inconsistencies public on the CARP. A related issue was the dispute around labelling information as confidential. Parties may designate information provided to the review team as confidential. Notably, the decision stipulates that Parties should (not "shall") provide a basis (not "reason") for this. The fear is that the extent of confidential information may negatively impact the scrutiny that the cooperative approaches will receive, thus possibly undermining the integrity and credibility of Article 6.2 approaches.

3. Outcomes on Article 6.4

Compared to the Article 6.2 negotiations, negotiations on Article 6.4 proceeded with greater ease. This is to no small extent resulting from the fact that the more difficult technical conversations were held in the Article 6.4 Supervisory Body.

The [CMA 4 Decision on 6.4](#) contains guidance on:

- Transition of CDM activities
- Use of Certified Emission Reductions (CERs) towards Nationally Determined Contributions (NDCs)
- Reporting by host Parties on Article 6.4
- Operation of the mechanism registry
- Implementing the share of proceeds (SOP)
- Delivering overall mitigation of global emissions (OMGE)
- The rules of procedure of the A6.4SB

The guidance adopted in Sharm El Sheikh does not contain any decisions outside what was agreed in Glasgow but "elaborates the processes for implementing the rules, modalities and procedures (RMP)".

Two items were considered but could not be resolved in Sharm El Sheikh and hence entered the SBSTA work programme:

- Connection of the mechanism registry to the international registry, as well as to other (national) registries
- Statement by the host Party on the authorization of Article 6.4 Emission Reductions (A6.4ERs) including its timing, relevant information on the authorization and any revisions

The consideration of two other mandates from Glasgow were not considered critical for the operationalization of Article 6.4 and therefore postponed to future sessions of the SBSTA:

- Whether Article 6.4 activities could include emission avoidance and conservation enhancement activities
- Responsibilities of the A6.4SB and host Parties regarding national arrangements for the mechanism

3.1 Work of the Article 6.4 Supervisory Body

After a late start due to delays in nomination, the Article 6.4 Supervisory Body (SB) met three times in 2022. The last meeting took place just before the start of COP 27 and was the most difficult and inconclusive. Despite convening throughout the night, SB members failed to achieve their goal of defining the methodological principles, in order for CMA to adopt them. Overall, the SB had two quick wins: i) adopting its rules and procedures and ii) operationalizing the SOP. Unlike the CDM, the Article 6.4 mechanism levies a suite of monetary fees for registration, issuance, inclusion and post-registration changes. According to the rules of procedures, SB members are expected to serve in their personal capacity. It is noteworthy that the current composition of the SB is made up mainly of lead negotiators of the various negotiating blocks, so that it has become a highly political body.

The SB failed on two other objectives: to agree on the principles for mechanism methodologies and on an approach for dealing with removals. The latter stirred a lot of debate inside and outside the SB and resulted in only an immature draft. As a result, the CMA only adopted the rules of procedures

of the SB and operationalized the SOP as part of the Article 6.4 decision. The development of methodological principles was postponed by a year and will have to be adopted by CMA 5. At the same time, the development of methodologies is likely to make quicker progress next year as the SB has commenced putting in place its technical support structures.

3.2 CDM Transition

During the Article 6.4 negotiations, Parties criticized the SB for making no progress on operationalizing the process for CDM transition, which arguably is among the most time-critical issues due to the deadlines defined in the Glasgow decision. Parties therefore decided on a clear mandate to the SB to:

- Develop and operationalize a procedure for requesting transition, which includes relevant forms, by no later than June 2023;
- Develop and operationalize the transition process and reporting back to CMA 5.

This should allow project developers to request transition by the second half of next year in order to meet the 2023 deadline. It should also provide clarity regarding the details of the transition process, e.g. which forms will have to be filled, at which point a Designated Operational Entity needs to come in, and whether or not any additional requirements have to be met by CDM activities. Importantly, operationalizing the request template should also provide clarity by the end of the year how many CDM activities are eager to transition to the Article 6.4 mechanism.

The CMA furthermore clarified issues around crediting period, SOP and which Global Warming Potential to use for activities that are transitioning.

3.3 Mitigation contribution A6.4ERs

At Sharm El Sheikh some Parties questioned the usefulness of non-authorized A6.4ERs, which had been introduced as a compromise in Glasgow. The Article 6.4 decision gives a new name to unauthorized A6.4ERs, calling them "mitigation contribution A6.4ERs" and specifies that they "may be used, inter alia, for results-based climate finance, domestic mitigation pricing schemes, or domestic price-based measures, for the purpose of contributing to the reduction of emission levels in the host Party". Whereas the RMP adopted in Glasgow had left the door open for a variety of uses, which had widely been interpreted to include voluntary purposes, results-based climate finance and domestic carbon pricing schemes, it is not clear what is gained by highlighting two of the above while leaving voluntary markets to be covered by "inter alia". Without a further definition it is also unclear whether "domestic price-based measures" and "domestic mitigation pricing schemes" are not describing the same type of measures. Lastly, the phrasing of the provisions seems a bit odd considering that A6.4ERs would not directly be used to contribute to the reduction of emission levels in the host Party, but rather emission levels would decline in the host Party because of the Article 6.4 mitigation activity. Notwithstanding its little factual novelty, the introduction of mitigation contribution A6.4ERs has attracted most of market observers attention.

A related controversially addressed issue concerned the timing of authorization of A6.4ERs and whether authorization could retroactively be provided. Some Parties wanted to tie the decision on authorization to either the registration of Article 6.4 mitigation activities or to the issuances of A6.4ERs, whereas others insisted on the prerogative of the host Party to

provide an authorization at any point in time. The issue could not be agreed upon and is earmarked for further work of the SBSTA.

Another political controversy was the question whether corresponding adjustments had to be made if no authorization was provided for A6.4ERs for the portion that is SOP and OMGE. In the final decision all A6.4ERs that are not authorized are exempted from corresponding adjustments.

4.

Work ahead on Articles 6.2 and 6.4

One of the lessons learned from CMA 4 was the realization that the workload defined in Glasgow had been unrealistic for Parties to address within a year. To not repeat the same mistake, the future work for the SBSTA mandated in Sharm El Sheikh spreads over two years. Those issues that are considered less critical for the operationalization of Articles 6.2 and 6.4 were pushed to COP 29 (November-December 2024).

Tables 1 and 2 provide a summary of the mandates arising from COP 27 decisions related to Articles 6.2 and 6.4 respectively. A long list of homework has been given to the SBSTA, the A64SB, the Secretariat and to Parties.

Table 1. Mandates from COP 27 on Article 6.2

Item	Body/activity	Year
Draft version of the AEF	Secretariat/workshop	2023
	SBSTA/ recommendations	2023
	Parties/feedback	2023 (April)
Review: technical experts	Secretariat/development of initial version of courses for the training programme & implementation of programme	2023 - onwards
	Parties/nomination roster of experts	-
Special circumstances of LDCs and SIDS	SBSTA/ recommendations	2023
	Parties/ submission of views	2023
Review: modalities for reviewing confidential information & procedures in the case of inconsistencies	SBSTA/ recommendations	2023
	Parties/ submission of views	2023
Sequencing and timing of initial report (submission, review & submission of the AEF)	SBSTA/ recommendations	2023
	Parties/ submission of views	2023
Process of authorization for: entities, cooperative approaches & changes in the authorized use(s) of ITMOs	SBSTA/ recommendations	2023
	Parties/ submission of views	2023
Further guidance on “first transfer” of ITMOs	SBSTA/ recommendations	2023
Regular information: tables & possible implications of non-	SBSTA/ recommendations	2023
	Parties/	

GHG metric conversion methods	submission of views	
Article 6 database: processes related to inconsistencies	SBSTA/ recommendations	2023
International registry: accounts, role of administrator & information submission	SBSTA/ recommendations	2023
	Parties/ submission of views	2023
Common nomenclature: for cooperative approaches, first transfer & authorized use(s) of ITMOs	SBSTA/ recommendations	2023
	Parties/ submission of views	2023
Options for funding activities related to infrastructure & Article 6 expert review	Secretariat/ technical paper	2023
Manual for (updated) initial report & regular information	SBSTA/ recommendations	2023
	Secretariat/ development and update	-
Initial report: challenges & capacity building	Secretariat/ workshops & technical paper	2023/ 2024
	Parties/ submission of views	-
International registry & interim solution	Secretariat / implementation	2023/ 2024
Further guidance in relation to corresponding adjustments for multi-year & single-year NDC, to avoid double counting	SBSTA/ recommendations	2024
	Parties/submission of views	2024
Whether ITMOs could include emission avoidance	SBSTA/ recommendations	2024
	Parties/submission of views	2024
First version of CARP & Article 6 database	Secretariat/ development & implementation	2025 (June)
	Parties/submission of views on test versions	-

Table 2. Mandates from COP 27 on Article 6.4

Item	Body/Activity	Year
Whether Article 6.4 activities could include emission avoidance & conservation enhancement activities	SBSTA/ recommendations	2023
	Parties/submission of views	2023 (March)
Connection of the mechanism registry to the international registry	SBSTA/ recommendations	2023
	Parties/submission of views	2023 (March)

Statement by the host Party on authorization of A6.4ERs and for which uses	SBSTA/ recommendations	2023
	Parties/submission of views	2023 (March)
Activities involving removals	A6.4SB/ recommendations	2023
	Parties/submission of views	2023 (March)
Application of methodologies (as per the Glasgow decision)	A6.4SB/ recommendations	2023
Procedure for requesting activity transition from the CDM	A6.4SB/ development & operationalization	2023
Transition process	A6.4SB/ development & operationalization	2023
Responsibilities of the A6.4SB & host Parties regarding national arrangements for the mechanism	SBSTA/ recommendations	2024
Capacity building programme	Secretariat/ implementation	-
Trust fund for SOP	Secretariat/ establishment	-