



# Reflections on the Glasgow COP26 conference and negotiations: Carbon markets

**Hanna-Mari Ahonen**

Senior Consultant, Perspectives Climate Group

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# Content

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- Carbon markets and Article 6 in a nutshell
- Highlights of the new Article 6 rules
- Implications for voluntary carbon markets

# Carbon markets in a nutshell

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- Two types of **carbon market schemes** and related GHG units (1 tCO<sub>2</sub>e):
  - **Cap-and-trade**: Limits emissions by issuing (ex-ante) **emission allowances**
  - **Baseline-and-credit**: Rewards mitigation outcomes by issuing (ex-post) **carbon credits**
- Allowances/carbon credits are traded in **carbon markets**
  - **Compliance markets**: Trade in allowances/carbon credits for compliance use
  - **Voluntary markets**: Trade in carbon credits for voluntary use
- Various **crediting standards** issue carbon credits
  - International standards: CDM, Article 6.4 Mechanism
  - Bilateral standards: Joint Crediting Mechanism
  - Independent standards: Gold Standard, VCS, ACR, CAR etc.

- **Article 6 of the Paris Agreement provides for voluntary market-based cooperation**
  - **Article 6.2:** Cooperation involving use of internationally transferred mitigation outcomes (ITMOs)
  - **Article 6.4:** Internationally supervised baseline-and-credit mechanism under the Paris Agreement
  
- **Article 6 criteria and rules develop through iterative process**
  - Paris (2015): Key criteria agreed: higher ambition, environmental integrity, transparency, robust accounting, including avoiding double counting, sustainable development
  - Katowice (2018): Rules for reporting agreed, including for ITMO use for “other purposes”
  - Glasgow (2021): Rules for operationalising Article 6 agreed
  - 2022, 2023... Further decisions on Article 6 to be adopted

# Carbon market linkages

## Crediting Standards

- Similar criteria
- Gold Standard
  - Verified Carbon Standard
  - American Carbon Registry
  - Climate Action Reserve
  - Clean Development Mechanism
  - Article 6.4 Mechanism

## Market Segments

### VOLUNTARY

Voluntary Carbon Markets (VCMs)

### COMPLIANCE

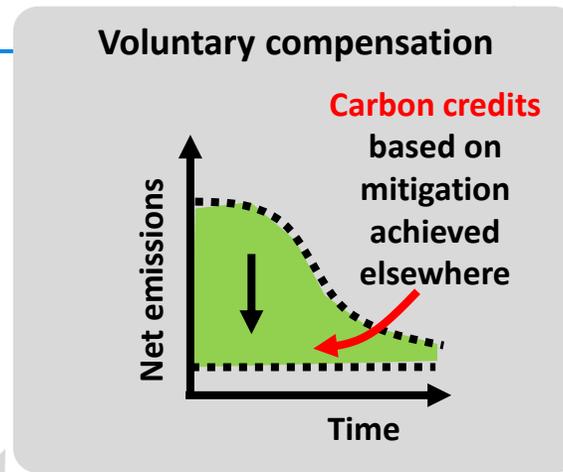
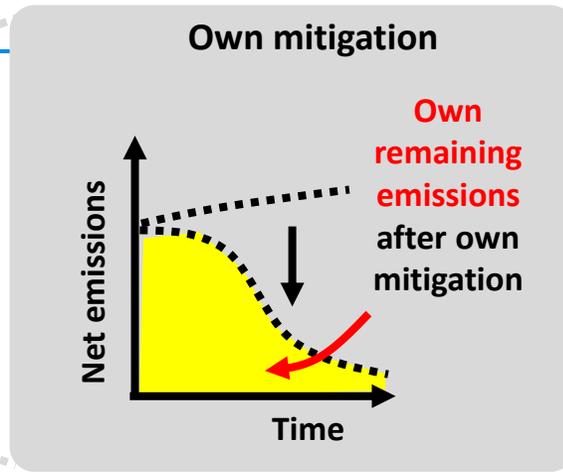
Paris Agreement (NDCs)

CORSIA (international aviation)

Domestic (e.g., cap-and-trade, tax)

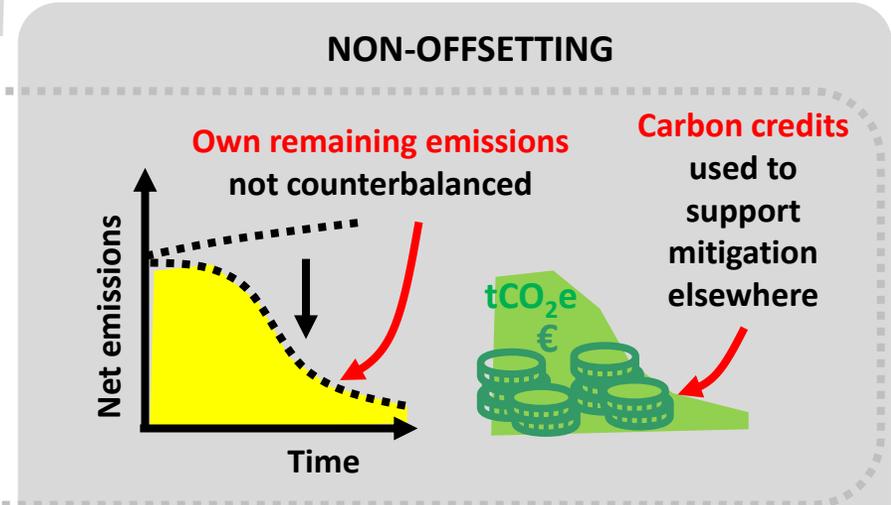
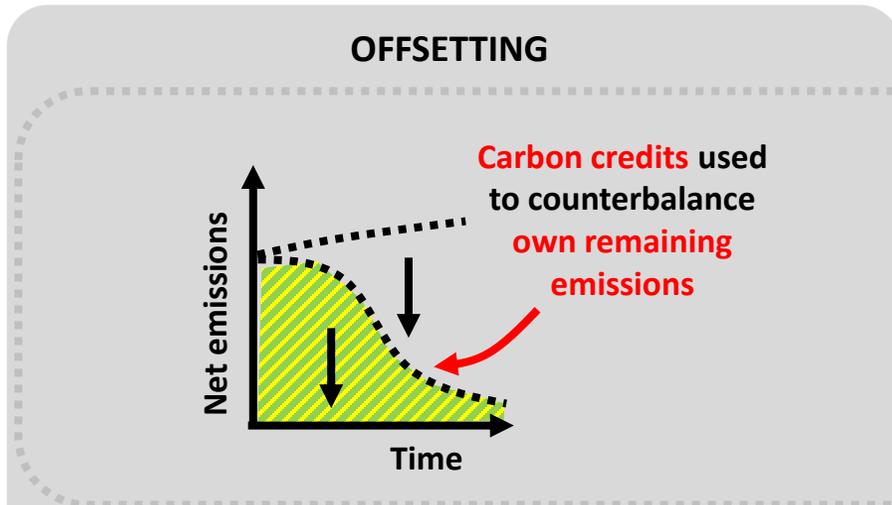
Impact on criteria

# Voluntary use of carbon credits and related claims



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USE

CLAIM

Net zero

Carbon neutrality

Climate finance

Mitigation contribution

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# Carbon market rules: Article 6.2

- Rules for voluntary “cooperative approaches” that involve the use of ITMOs
- Internationally Transferred Mitigation Outcome (ITMO) is defined as, inter alia:
  - Real, verified and additional emission reductions or removals
  - Mitigation outcome authorised by a host country for use:
    - 1) towards an NDC
    - 2) for international mitigation purposes and/or
    - 3) for other purposes } “Other international mitigation purposes”
  - Article 6.4 emission reductions (A6.4ERs) when authorised for 1), 2) and/or 3)
- Host country must apply corresponding adjustments (CAs) to all ITMOs to avoid double-counting
- Participating countries must report e.g. how they ensure environmental integrity and avoidance of double counting, promote sustainable development, consider obligations on human rights, the rights of indigenous peoples and gender equality... The reporting is subject to a review.
- Registries and an Article 6 database will be established for recording and tracking ITMOs
- Voluntary contributions to adaptation finance and/or an overall mitigation in global emissions (OMGE)

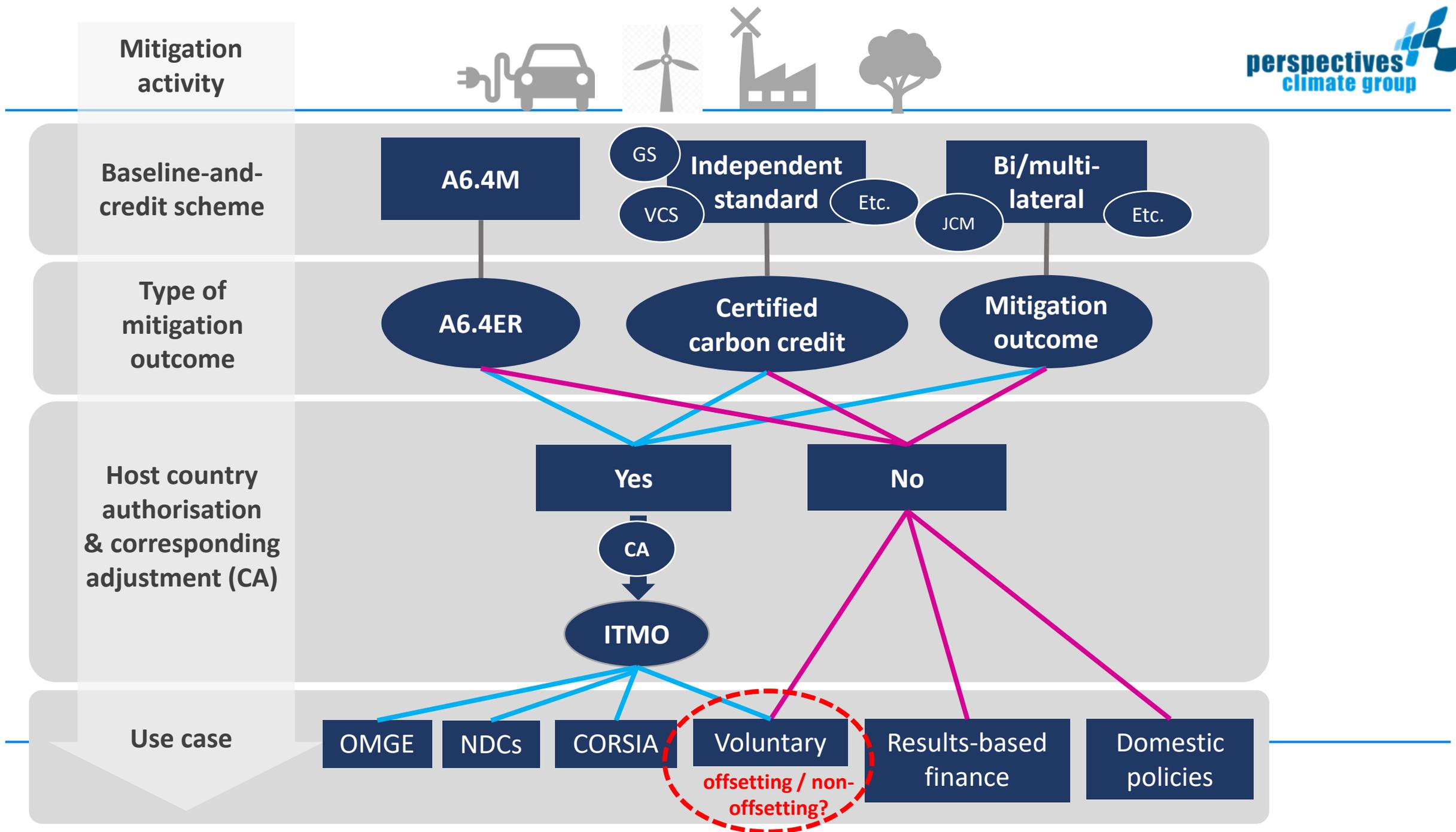
# Carbon market rules: Article 6.4

- Rules for a voluntary international baseline-and-credit mechanism (Article 6.4 Mechanism, A6.4M) governed by Supervisory Body under the guidance of the Paris Agreement
- Requirements for e.g. mechanism methodologies, local stakeholder consultation, environmental and social safeguards and sustainable development assessment, activity cycle, crediting periods, including to e.g.
  - ensure environmental integrity (via additionality, baselines, monitoring, verification etc.)
  - address non-permanence, avoid leakage and negative environmental and social impacts
  - encourage ambition over time
  - align with host country NDC, long-term strategies and long-term goals of the Paris Agreement
  - avoid locking in incompatible levels of emissions, technologies or carbon-intensive practices
- Mandatory levies for adaptation, administration and overall mitigation in global emissions (OMGE)
- International mechanism registry for issuing, first-transferring and voluntarily cancelling A6.4ERs
- Transition of CDM activities (subject to approval and revision) and CDM credits (use for 1<sup>st</sup> NDCs)
- Capacity building support programme for host countries

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# What Art 6 means for voluntary markets?

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- Article 6 **does not directly regulate** voluntary uses but **influences** voluntary markets by setting global standard
- Independent crediting standards are **aligning with Paris** Agreement via revisions, labelling of credits
- Article 6 ITMO process and Article 6.4 Mechanism are **available** (but not required) for voluntary uses
  - Article 6.2 for enabling ambition-raising
  - Article 6.4 for carbon credit quality control
- Voluntary use of Article 6 motivated by **ambition-raising, credibility and reputation risk**
  - Wide agreement that ITMOs can be used for credible voluntary offset-based claims
  - Diverging views on credibility of using mitigation outcomes without CAs for offset-based claims
  - Wide agreement that mitigation outcomes without CAs can be used for credible non-offset-based claims
- **Guidance** on voluntary carbon credit use and related claims emerging **outside of Article 6**
  - International guidance on voluntary carbon credit use and related claims is under work
  - Consumer authorities are paying increasing attention to claims (e.g. case Arla in Denmark and Sweden)
  - Global stakeholders collectively judge the legitimacy of carbon credit use and related claims



**Thank you – Kiitos!**

**Hanna-Mari Ahonen**  
**ahonen@perspectives.cc**