

Article 6: how the voluntary carbon market players ally with emerging economies wanting to undermine stringency

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Article 6: key features

Article 6.2 Cooperative Approaches

- Between two or more countries, on the basis of **bilateral** agreements
- Involves the use of internationally transferred mitigation outcomes (ITMOs)
- Limited international oversight

Article 6.4 Mechanism

- Open to all countries
- Contributes to GHG mitigation and sustainable development
- **subject to international rules, overseen by Article 6.4 Supervisory Body**

Common principles

- **Environmental integrity (→ additionality, NDC ambition)**
 - **Transparency, prevention of double counting**

Tasks to resolve on Article 6.2

- Tables and outlines for **reporting and review**
 - Agreed electronic format (AEF)
- Sequencing and timing of the **submission of initial report**, its review and submission of AEF together with review
- Identifying, notifying and correcting **inconsistencies in data** in central database (CARP)
- Treatment of **confidential information**
- International **registry**
- **Authorisation and first transfer**
- **Special circumstances of LDCs and SIDS**
- *Seemingly **innocuous** and **very technical** issues but crucial for **transparency** and **possibility of independent actors to check environmental integrity** of cooperative approaches given the **absence of international oversight***

Tasks to resolve on Article 6.4

- Emission **avoidance** and **conservation enhancement** activities
 - Only **Philippines** push this, all others want to drop the topic
 - **Authorization**
 - Connection from **mechanism registry** to **international registry** and other registries
 - Moreover, CMA has to decide on two key documents developed by the **Article 6.4 Supervisory Body** to **operationalize the principles** agreed at COP26:
 - **Methodology** guidance
 - **Removals** guidance
- *Article 6.4 has **very stringent principles** that now need to be operationalized. This operationalization will decide whether Article 6.4 will become the “**guardrail**” for all international carbon markets (Article 6.2 and voluntary carbon markets) or whether it will be “**hollowed out**”*

Key contentious issues

1. What is a cooperative approach – a single project/activity or the framework of cooperation (not looking at specific activities)?

➤ *Unilateral approach pushed by voluntary market players*

2. Which registries should be involved in Article 6?

- International registry under 6.2 / mechanism registry under 6.4 broad or narrow?
 - Transaction registry (EU, LDCs, South Africa)
 - Accounting-only “pulling & viewing” registry (China, LMDC, Arab Group, US, Singapore)
 - Coexistence of both: Japan, EIG
- *Essentially fight on whether private carbon market programmes should be the **only option for trading ITMOs** or whether such trade can be done through international registry – issue of high commercial relevance!*
- *Quality of private programmes varies significantly – **additionality doubtful**, often prone to **conflict of interests**,*

Key contentious issues II

2. For what authorization is to be done?

- “Master” or “system” authorization without authorization of specific ITMOs (US)
- **Differentiation: cooperative approach, entities and ITMOs** (EU, AILAC, AGN, NZ, Japan, UK)
 - *US approach would allow governments to provide a **single “blanket” authorization** which would essentially eliminate the control function of government for specific transactions.*

3. Can authorization be revoked?

- **Yes** (LMDC, ABU, AGN)
- **Not after first transfer** (EU, EU, AILAC, Singapore, South Korea, NZ, Australia, India, Canada)

4. Timing and content of authorization under Art. 6.4

- **prior to issuance** (EU, AILAC)
- **at issuance** (Australia, Russia, NZ, EIG)
- **at any time** (LMDC, AGN)
- **Minimum requirements for authorization** (AILAC, LDC, UK)

Key contentious issues III

4. Is the purpose of ITMO use fixed or flexible?

- Same faultlines as for revocation

➤ *If flexible, market actors can choose the **most attractive purpose**. Changes after issuance complicate accounting*

5. AEF

- Developing countries want capacity building funding before further negotiations

6. Dealing with inconsistencies

- Inconsistencies are dealt with via an **automated process** - consistency check in A6 database (**LMDC, China**) vs: **process is needed (many groups)**
- Non-responsiveness of Parties to raised inconsistencies to be addressed by **Compliance Committee** (EU, ABU), published in TER reports (AGN)
- Naming and shaming is important!

7. How to deal with the meth and removal guidance?

- Removal guidance heavily criticized for being very open, will not pass
- Methodology guidance could pass, albeit with restrictions

The difficult operationalization

1. Removals guidance

- Many parties and NGOs want more detailed guidance regarding key aspects:
 - Negligible risks and risk definition procedure for stopping monitoring
 - Avoidable vs. unavoidable reversals
 - Safeguards, human rights, ..
- Work programme for SB60

2. Methodology guidance

- Downward adjustment of baselines required for all activity types or not for removals or not at all (LMDC, Ukraine)?
 - *Critical for credibility of mechanism and for ambition increase in the future*
 - *Can methodologies be developed only by the SB or by activity developers?*
- *If guidance is not accepted by CMA, **Article 6.4 mechanism is stalled for another year!***
- *This would work in favour of the **voluntary market “carbon cowboys”***



Thank you!

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