

REPORT

Article 6 of the Paris Agreement

What you need to know heading into 2025

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Executive Summary

1 COP29 finalised the rules of emissions trading under Article 6 of the Paris Agreement

2 The most important breakthrough was the creation of the new centralised Paris Agreement Crediting Mechanism (PACM)

3 With the rules agreed, Article 6 now enters a new phase of implementation and further refinement of specific technical elements

This breakthrough is likely to have important implications for the VCM, in terms of;

- 4
- New sources of demand
 - New norms and expectations within the VCM
 - New questions that go to the heart of integrity in the VCM

5 Overall the agreement reached at COP29 heralds a new phase in the convergence of voluntary, compliance and intergovernmental carbon markets

1. Introduction

Introduction

In the early hours of Sunday 24 November 2024, COP29 in Baku finalised the rules for Article 6. It not only agreed final details on how countries can trade bilaterally but also achieved something only seen once before in history: the creation of a new UNFCCC carbon crediting mechanism, the Paris Agreement Crediting Mechanism (PACM).

This marked the end of nine years of negotiations, following the Paris Agreement being reached at COP21, on how countries may trade emissions reductions and removals. It built on the major breakthroughs achieved at COP26 in Glasgow, and to a lesser extent at COP27 in Sharm El Sheikh.

- With the rules now agreed, the focus turns to implementation. In order for market participants, from the private and public sectors, to make the most of these new arrangements, this report provides:

A thorough grounding in the key points of Article 6, and where we are following COP29 (sections 2)



An overview of what we now know, and what comes next (section 3)



A deep dive into what was agreed on Article 6 at COP29 (section 4)



Thoughts on the implications for the voluntary carbon markets (section 6)



A glossary and an annex setting out what was agreed on Article 6 at COP26, COP27 and COP28.



2. Key Concepts



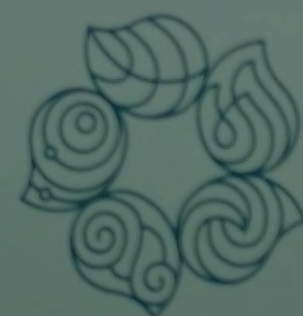
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Key Concepts

Mechanisms under Article 6

Article 6 of the Paris Agreement allows countries to cooperate to achieve their targets under the Paris Agreement (referred to as Nationally Determined Contributions or NDCs) through market mechanisms (Articles 6.2 and 6.4) or non-market mechanisms (Article 8).

Article 6.2 allows decentralized bilateral trade of carbon credits between countries. The exchanged reduction or removal credits are known as Internationally Transferred Mitigation Outcomes (ITMOs).

Article 6.4 allows countries and private actors to issue and trade carbon credits through a new centralized mechanism governed by the UNFCCC called the Paris Agreement Crediting Mechanism (PACM) which replaces the Kyoto Protocol's Clean Development Mechanism (CDM). Carbon credits issued under Article 6.4 are called 6.4 Emissions Reductions (ERs), and depending on whether they are authorized or not (see next section), they become either ITMOs or Mitigation Contribution 6.4ERs (MCERS), respectively.

A third mechanism, under **Article 6.8**, deals with 'non-market approaches', and is likely to involve donations and sharing expertise.

Key Concepts

| | Article 6.2 | Article 6.4 |
|-------------|---|--|
| Description | A market-based mechanism allowing decentralized bilateral trades between countries. | A centralized market-based mechanism governed by the UNFCCC for issuing and trading carbon credits. |
| Example | Switzerland buys ITMOs from Ghana for use towards its NDC. | Indonesia issues 6.4ERs which can be sold to state or non-state buyers, for a number of possible uses (see page 26). |
| Credits | ITMOs | ITMOs (IF AUTHORIZED) / MCERs (IF NOT AUTHORIZED) |

The ultimate decision making body for Article 6 is known as the CMA, or Conference of the Parties serving as the meeting of the Parties to the Paris Agreement.

The CMA is an annual meeting held as part of the COP (which is the Conference of the Parties to the UNFCCC, the parent treaty under which the Paris Agreement was created). COP29 was the 29th meeting of the COP but also the 6th meeting of the CMA, hence it was both COP29 and CMA6.

Key Concepts

Corresponding Adjustments, OIMP, Authorization

Article 6 addresses the risk of double counting through corresponding adjustments (CAs), an accounting measure that prevents two countries or entities from each counting the same emissions reduction or removal. This would be problematic as it would result in overstated estimations of the amount of collective climate action being taken.

Article 6 requires that if emissions reductions or removals are to be claimed by any entity other than the host country in which the reductions or removals took place, then it must essentially increase its national emissions ledger by the same amount as the credits it has sold. This claiming could either be by:

- A country other than the host, which buys the ITMOs in order to claim them towards their NDC; or
- A private company for a specific designated purpose, such as an airline active in the CORSIA aviation compliance scheme - this use case is referred to under Article 6 as 'Other International Mitigation Purposes' (OIMP).

Before ITMOs are traded and CAs are applied, host countries must 'authorize' the emissions reductions or removals that they plan to sell outside their borders. This authorization is a commitment to apply a CA in due course, and reflected in a Letter of Authorization (LoA).

Key Concepts

OMGE and SoP

All 6.4ERs issued through Article 6.4 will have two levies applied in order to (i) fund adaptation in developing countries, and (ii) ensure the mechanism overall results in a net negative, rather than merely stable, impact on global emissions. These levies are applied in the form of a proportion of the 6.4ERs issued which go into these specific funds, rather than to the project proponent.

The first, 5%, known as a Share of Proceeds (SoP), will go towards the Adaptation Fund, a scheme to finance climate adaptation in developing nations. Projects located in Least Developed Countries (LDC) and Small Island Developing States (SIDS) will be exempt from the SoP levy.

The second, 2%, will be deducted to ensure that all carbon trades result in Overall Mitigation of Global Emissions (OMGE). In other words, carbon trading is not a zero-sum game but directly reduces emissions in addition to accelerating progress through cooperation.



Key Concepts

| | Levy | Intent | Exemptions |
|--|------|---|---|
| Share of proceeds (SoP) | 5% | Raise money for the Global Fund on Adaption. | Projects in Least Developed Countries (LDC) and Small Island Developing States (SIDS) - though they are invited to voluntarily apply to the levy. |
| Overall Mitigation of Global Outcomes (OMGE) | 2% | Ensure that PACM results in net negative emissions overall. | None. |

While these percentages are small, they do set a precedent for scaling further ambition. Although these contributions are not mandatory under Article 6.2, countries are encouraged to make them and many already plan to do so in their Article 6 frameworks.

3. Where we are now



Where we are now

After nine years of negotiations following COP21, we now have a full set of rules to operationalise Article 6. The COP (specifically the CMA) won't negotiate Article 6 again until 2028, as the focus shifts to implementation. Here is a brief overview of where we are now with Article 6.2 and Article 6.4.

Article 6.2

- Many countries considered Article 6.2 to be largely operationalised at COP27, and the early stages of trading have been under way for a few years already. Most notably:

Bilateral agreements continued to be signed between countries intending to

- cooperate through Article 6.2, with a wave of announcements during COP28 and COP29; a deep dive into what was agreed on Article 6;
- The first transfer of ITMOs, between Switzerland and Thailand, was recorded in January 2024;
- Countries, like Rwanda and Malawi, have unilaterally authorized credits in the VCM.

- COP29 clarified topics that are essential to unlocking the expansion of Article 6.2 implementation, such as the international registry, authorization, or review processes.

- Partnerships between the private and public sectors, such as the partnership between Sylvera and Singapore, will further inject momentum into the process.

- It was also decided at COP29 that Article 6.2 will not be on a CMA agenda until 2028.
- At the time of writing there are over 90 formalised bilateral agreements relating to Article 6.2, with many more in the works.

Map of agreements under 6.2



Where we are now

Article 6.4

- The 6.4 mechanism is now operational, and will be known as the Paris Agreement Crediting Mechanism (PACM).
- In its last meeting before COP29, in October 2024, the Supervisory Body for the Article 6.4 Mechanism, or SBM, agreed on the standards for methodologies and standards for removals. These were endorsed by the CMA on the first day of COP29. While some countries and other stakeholders were concerned about how this decision was taken, others welcomed the developments after years of unsuccessful negotiations of Article 6.4 methodological guidance.
- In addition, the final Article 6.4 text defines the authorization processes and clarifies the link between the international and the PACM registries.
- It was also decided at COP29 that Article 6.4 will not be on a CMA agenda until 2028, with the exception of the requirement that the SBM report to the CMA annually (providing the CMA with the opportunity to interrogate and guide the SBM's work).

4. In depth - what did COP29 agree on Article 6?

In depth - what did COP29 agree on Article 6?

One of the main goals of COP29 was to finalize the Article 6 rulebook and expectations were exceeded with the agreement on final texts for Article 6.2 and Article 6.4 (as well as what was agreed on day 1).

Negotiations moved from the technical to the political level for the second week and finally, ministers reached a consensus on the last day of COP29. Outside negotiations, several initiatives emerged focusing on Article 6 implementation such as the Norwegian Global Emission Reduction (NOGER) Initiative, a \$740m Article 6 buying initiative.



In depth - what did COP29 agree on Article 6?

Key decisions on Article 6.2

1

Definition of cooperative approach

The definition of cooperative approach was much debated but ultimately excluded from the final text living room to interpretation. This means that cooperative approaches are not limited to agreements between two countries, but can include actors outside the remit of the Paris Agreement, such as companies.

2

Authorization

There is now a clear list of the elements that need to be included in LoAs and the UNFCCC Secretariat will develop a voluntary LOA template. Changes to authorization (including revocation - see section 5) are not allowed after the ITMOs have been transferred unless indicated otherwise in the LoA. Each LoA will include its own T&Cs to possible changes and will be made available in a publicly available UNFCCC repository.

3

International registry

The international registry will have a pull-and-view functionality (meaning it only collects data from national registries but lacks functions like issuing credits) as its foundation, with the option for countries to request the UNFCCC Secretariat for an additional service to issue and track ITMOs on the registry. Some countries do not have the resources and capacity to develop their own registries to issue ITMOs so the possibility of using the international registry for this purpose, democratizes Article 6.2 participation.

4

Review process and inconsistencies

Trained technical experts will review the reporting documents and identify inconsistencies (including missing, contradictory, and conflicting information). The review results will be publicly available in the UNFCCC Centralized Accounting and Reporting Platform (CARP) and all inconsistencies should be addressed. Technical experts will notify when inconsistencies are significant enough to question the issuance or transaction of ITMOs and a separate committee will decide on the consequences.

In depth - what did COP29 agree on Article 6?

Key decisions on Article 6.4

1

Standards for methodologies and removals

The CMA 'took note' of the standards for carbon methodologies and removals suggested by the SBM earlier this year without following the established UNFCCC process.

2

Authorization

The host country shall provide to the SBM an approval of the activity, prior to the request of registration, and authorization should also be given at this point. But A6.4MCERs can be authorized at a later stage as long as the units do not leave the PACM registry. The maximum amount of time that can pass between approval and authorization is yet to be defined.

3

PACM Registry

The interaction of this registry with the international registries and national registries has been clarified.

4

SoP levy exemptions

Activities located in LDC and SIDS do not need to contribute to SoP and are exempt from the 5% levy.

5. Remaining Issues



Remaining Issues

The finalization of the Article 6 rulebook at COP29 has provided much clarity, but there are still some open questions, the answers to which are likely to emerge through the process of implementation

Quality criteria

PACM is operational in theory, but quality criteria are still under development. The Article 6.4 decision operationalises the PACM and many expect the first A6.4ER to be issued from a transitioning CDM project in the first half of 2025. However, the establishment of a quality threshold for PACM projects is still on the SBM's work plan for 2025.

This includes the development of tools and guidelines for the downward adjustment of baselines, additionality, leakage, risk reversal assessment, and further criteria based by which project quality is typically assessed.

Particularly for additionality, the SBM will set a higher threshold than under the CDM to encourage higher ambition and integrity in carbon projects. Methodologies will then be evaluated against these tools and guidelines before being approved for use by new PACM projects and by those transitioning from the CDM.

Who and what is authorized

COP29 established the notion that there are three different types of authorization required: of the cooperative approach (i.e. the project or the partnership), of the ITMOs themselves, and of the 'entities'. This third authorization has caused some confusion, as it is unclear whether it means that end users of the ITMOs must be individually authorized, and if so, how and by who. It is likely that different countries will interpret this requirement differently, resulting in inconsistencies in the short- to medium-term, until clear guidance and/or norms emerge.

Remaining Issues

CDM Transition, renewables and REDD

CDM projects transitioning to the PACM will have to be approved by their host countries by 31st December 2025. China, India, and Brazil host the most CDM projects that are eligible and have requested a transition to the PACM. Many of these are renewable energy projects using methodologies similar to those that have recently been rejected for the high-integrity Core Carbon Principles or CCP label by the Integrity Council for the VCM (IC VCM), on account of being non-additional.

However, these projects, after transition, should eventually adopt new or updated methodologies that are expected to be approved under the PACM standards. It remains to be seen how renewable energy methodologies are revamped to ensure that they meet the SBM's requirements. If projects that transition to the PACM continue to be found lacking in additionality, it could create a stir by introducing large volumes of what is regarded as low-quality carbon credits into the market.

The status of REDD+ within the PACM is also yet to be tested, though, in theory, there is no automatic disqualification of REDD+ projects. Some REDD+ activities, such as REDD or improved forest management (IFM), have not been within the scope of the CDM and will have to be introduced into the PACM after demonstrating their compliance with the SBM's standards and guidance for methodologies.

Afforestation and reforestation projects existed during the CDM and were given the green light to transition to the PACM by the Article 6.4 text that emerged in this COP.

CORSIA acceptance of jurisdictional REDD+ and the ICVCM's recent approval of three REDD+ methodologies could set the grounds for including this activity type under the PACM.

Remaining Issues

Revocation

The Article 6.2 text finally concluded its position on the revocation of authorization granted to ITMOs, bringing clarity to market actors who had been concerned about authorization-related risks. However, it still demands caution as the option to revoke authorization after the first transfer of ITMOs is available to countries if agreed beforehand. The Article 6.2 text itself does not suggest how such a consequence should be addressed, but existing and evolving practices in the international carbon market can fill this gap.

Earlier this year the International Civil Aviation Organization (ICAO) required independent carbon standards such as Verra and Gold Standard to have procedures in place to address the consequences in case of host country defaults related to authorization and application of corresponding adjustments, for CORSIA (within the scope of OIMPs under Article 6.2) ITMOs.

Most standards have put the onus on project developers/owners to compensate by canceling an equal volume of ITMOs from a pre-established buffer pool to replace those that have been revoked or not correspondingly adjusted. They have also allowed for insurance products in the market, such as the Article 6 insurance under development by the World Bank's Multilateral Investment Guarantee Agency (MIGA) for financial reimbursement.

Overall, it appears likely that risks related to authorization will be addressed and compensated not by host countries but by other carbon market actors.

6. What does this all mean for voluntary carbon markets?

What does this all mean for voluntary carbon markets?

The implications of the COP29 decisions on the voluntary carbon markets are significant, and broad. They can be divided into three groups: implications for demand, challenging new questions, and new norms

New sources of demand

The COP29 agreement to fully operationalise Article 6 is likely to create new sources of demand for credits which could be authorized by host countries and hence counted towards a buying country's NDC. This is likely to accelerate due to the clear political signal coming from COP29 that all countries believe the markets should get going.

This development comes at the same time as two further demand drivers are coming into focus. The first is that new and updated NDCs, to 2035, are due in February and many have already been announced, indicating that higher ambition is very squarely on the table (hence increasing the appeal of markets, which can make higher ambition more affordable). The second is that CORSIA demand is now materialising as the international aviation sector's emissions are exceeding their baseline.

At the same time as demand is increasing through all these Article 6 channels, the supply of credits perceived to be high quality is relatively low. This has produced an imbalance which is likely to see prices rise within the VCM (in particular for projects seen as high quality).

Challenging new questions

The remaining issues outlined in section 5 have a range of uncertain implications for the VCM. For example, the CDM transition could create disagreements and confusion on credit quality, which would probably filter over into the VCM. The emergence of clear rules for Article 6 also raises important questions for the VCM regarding the potential importance of CAs and NDCs in relation to concepts such as credit quality, or double counting.

What does this all mean for voluntary carbon markets?

New norms and expectations within the VCM

VCM stakeholders have been watching Article 6 with interest. Historically, decisions made about international mechanisms such as the CDM have shaped the development of the VCM. Since Article 6 was agreed upon, concepts such as Corresponding Adjustments and Mitigation Contributions have translated across the VCM and have begun to shape trends in credit use and demand.

Also, the PACM standards are likely to have a significant impact on the VCM as they are expected to be used as a universally accepted benchmark for quality. These advances provide clarity for investors, carbon project developers, and carbon standards, which are expected to reflect the PACM standards in their future and updated methodologies.

Crediting standards' approaches to CA labelling



The more stringent PACM standards have also been said, by industry insiders, to raise the costs of producing eligible credits - further exacerbating the supply / demand trends detailed above.

If you have specific questions about climate policy and carbon markets, contact us to speak to our team of carbon market experts

Contact Us

7. Glossary



Glossary

Corresponding adjustment - CA

The accounting mechanism built into Article 6 to avoid double counting. The amount of emissions traded are subtracted from the buyer's NDC and added to the seller's NDC.

Clean Development Mechanism - CDM

One of the mechanisms of trading carbon under the Kyoto Protocol.

Certified Emissions Reduction - CER

Credits issued under the CDM.

Carbon Offsetting and Reduction Scheme for International Aviation - CORSIA

International scheme for the aviation industry to achieve carbon neutral growth. Implemented in phases, with the compliance phase starting in 2027.

Internationally transferred mitigation outcome - ITMO

Carbon transferred between countries under Article 6.2.

Mitigation Contribution 6.4 Emissions Reductions - MC 6.4ERs

Carbon credits issued under the Article 6.4 mechanism, which have not been authorized by the host country to have a Corresponding Adjustment applied.

The Kyoto Protocol

The first major international climate-related treaty signed as part of the UNFCCC in 1997 and in force from 2005-2020.

Nationally determined contributions - NDC

Each country which is a party to the Paris Agreement must submit an NDC, which includes its emissions targets at least up to 2030 and steps to achieve it. These must be resubmitted every 5 years, with increasing ambition

Other International Mitigation Purposes - OIMP

Carbon traded between a country and another international compliance scheme, such as CORSIA.

Overall Mitigation of Global Emissions - OMGE

Every trade under Article 6.4 has an automatic cancellation of 2%, to ensure that as a whole, the mechanism contributes to global emissions falling.

The Paris Agreement

The latest UNFCCC treaty, agreed in 2015 at COP21 to replace the Kyoto protocol.

The UNFCC's Subsidiary Body for Scientific and Technological Advice - SBSTA

Body of the UNFCCC that advises countries on the implementation of Article 6, among other things.

Share of Proceeds - SoP

Every trade under Article 6.4 has an automatic cancellation of 5%, to raise funds for the Adaptation Fund, a scheme to finance climate adaptation in developing nations.

United Nations Framework on Climate Change - UNFCCC

An international treaty agreed in 1992 which underpins all global climate diplomacy, including the Paris Agreement. The UNFCCC has the ultimate aim of preventing "dangerous" human interference with the climate system.

Voluntary Carbon Market - VCM

The forum for carbon to be traded for purposes not required by national or international policies and regulations. For example, companies that want to voluntarily offset their emissions can purchase carbon credits via VCM.

A6.4 Emission Reduction - 6.4 ER

The carbon credits issued under Article 6.4 of the Paris Agreement.

6.4 Supervisory Body - SBM

The UNFCCC body advising countries on the implementation of Article 6.4.

8. Annex

Building a Sustainable
Future, Together

Annex

Article 6 at COP26, COP27 and COP28

Each year the countries that have signed up to the Paris Agreement meet at COP, which stands for the ‘Conference of the Parties to the UNFCCC’, the framework treaty under which the Paris Agreement sits. The first breakthrough on Article 6 was at COP26 back in 2021, with further progress made at COP27 and (informally) at COP28. This Annex provides a brief history of these three COPs, which provide crucial background to what was finalised at COP29 (see section 4).

Annex

What happened at COP26?

Not only was Article 6 signed at COP26, but we also got some early clarity on how these mechanisms will work and how they relate to wider climate policies.

Article 6.4 is the successor to the Clean Development Mechanism (CDM)

The precursor to the Paris Agreement, the Kyoto Protocol, had its own carbon trading mechanisms, including the CDM. Although the CDM issued a huge number of credits, many of which are still available on the market today, it has been criticized by some countries for having a patchy record on environmental integrity. Specifically, it has been accused of allowing “hot air”, or poor-quality credits, to be issued and traded.

Some countries have long argued that a new mechanism should be created to replace it and learn from its successes as well as its shortcomings. The Article 6.4 mechanism will hopefully be able to achieve this.

Some CDM credits will be carried over, but they will be easily distinguishable.

The controversial question of whether credits from the CDM, known as Certified Emissions Reduction (CER) units, would be carried over into the new Article 6.4 system was finally settled in Glasgow.

A limited amount of these credits can be carried over, provided they were issued by projects registered after 1 January 2013. They will be clearly labeled and their use will be restricted. Some countries have argued that none of these credits should be carried over, due to concerns about their environmental integrity, and many of these countries have ruled out purchasing them.

Annex

Two bodies oversee the implementation of Article 6

Two distinct bodies make recommendations on two sets of questions to the COPs, which then make the final decisions. The two bodies are the new Supervisory Body for the Article 6.4 crediting mechanism and the UNFCCC's Subsidiary Body for Scientific and Technological Advice (SBSTA).

The membership of the 6.4 Supervisory Body (SBM) was finally agreed in July 2022 after much wrangling, and was able to present some draft texts at COP27, but was limited by the short timeframe it had to achieve its objectives. In 2023 it was able to make more progress and presented draft texts to COP28, but these were not accepted.

The new Article 6.4 Supervisory Body (SBM) will:

Review CDM accreditation standards and procedures.

Establish new procedures and methodologies for the mechanism to replace the CDM.

Make recommendations on projects relating to greenhouse gas removals, such as afforestation and reforestation projects.

The Subsidiary Body for Scientific and Technological Advice (SBSTA) will report on:

Whether avoided emissions projects should be allowed to count towards NDCs and any other claims.

How CAs should work.

How the automatic cancellation of credits that lead to SoP, AF, and OMGE should work.

What the special circumstances for Least Developed Countries (LDCs) and Small Island Developing States (SIDs) should be.

Annex

What happened at COP27?

After COP26's breakthrough deal, the work on Article 6 at COP27 focused on agreeing the technical details necessary for implementation. Among the procedural decisions, there were also debates that reflected the divergence in countries' fundamental vision of what market mechanisms should look like.

Some of the outcomes most likely to affect carbon markets included:

The first transfer under Article 6.2 was authorized

Even ahead of COP26 countries such as Switzerland had started to agree specific partnerships in anticipation of a deal on Article 6. Since the details of Article 6.2 were first agreed, countries have continued to sign agreements and memoranda of understanding (MOUs). At COP27, Ghana announced they had authorized the first transfer of ITMOs to Switzerland. This reflects that although the exact details of the mechanism are still being ironed out, there are no barriers to Article 6.2 cooperation starting now.

Some rules for CDM transitions were clarified

Projects that wish to transition from the CDM to the Article 6.4 mechanism now have clarity on the process they must follow.

The standard and procedure for transition will be effective from 1 January 2024.

The issue of authorization and Corresponding Adjustments remained a hot topic for Article 6.2, and for 6.4, leading to a new category of credits.

Annex

Ultimately, the draft language on this was removed from the final text, as no agreement was reached.

The existing 6.4 guidance did not require all credits to be authorized and have a CA applied. There was much debate about this in and around the COP27 negotiations, especially as this will have significant implications for how these credits can be used and what claims can be made. These agreements are very likely to have impacts on claims and norms in the VCM too.

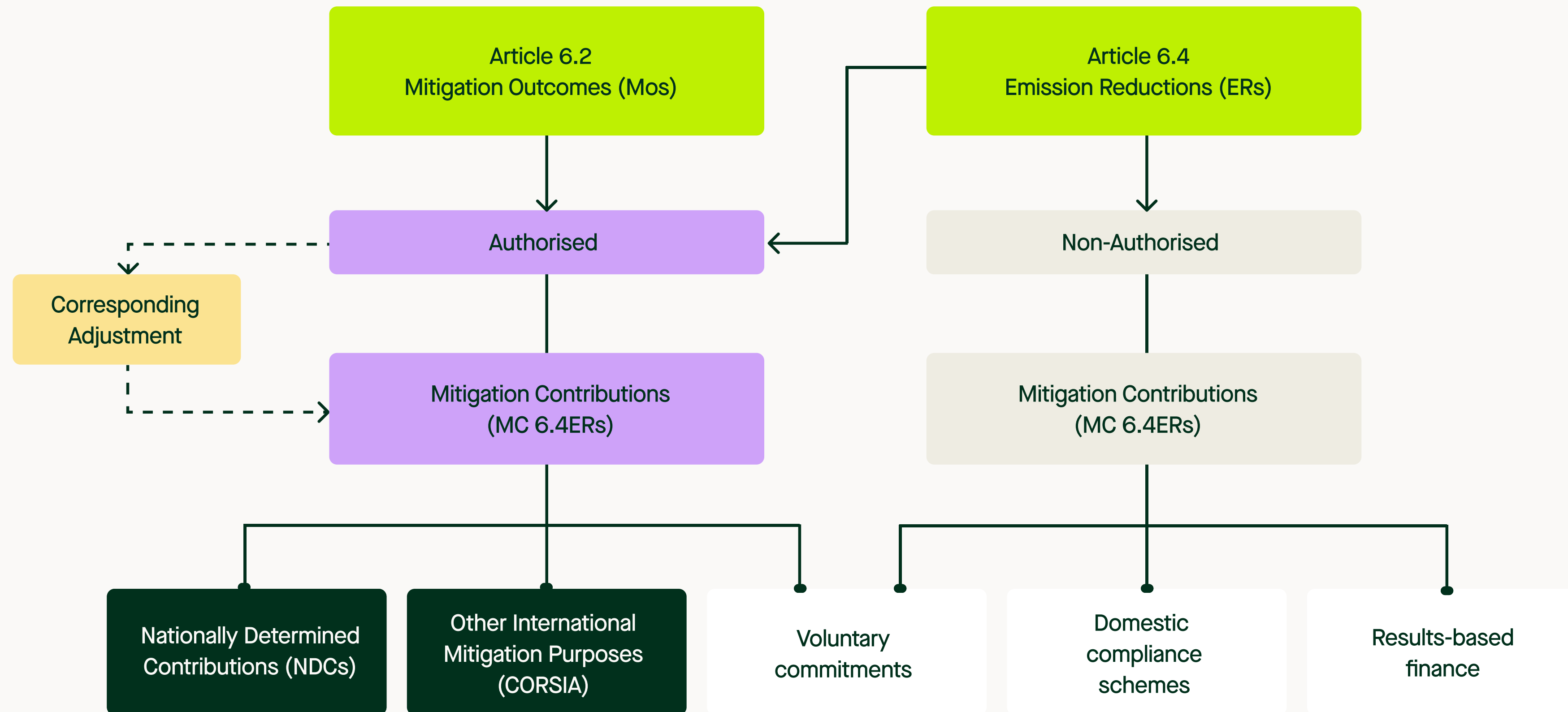
It was agreed that 6.4ERs to be used towards NDCs or for OIMP must be authorized and have a CA applied. Non-authorized 6.4ERs are now also known as “mitigation contribution 6.4ERs” or 6.4 MCERs. These will still have the same fees applied, as well as SoP and OMGE cancellations, but cannot be used for mechanisms such as CORSIA or towards the buyer’s NDC.

The agreed text lists how they can be used: “inter alia, for results-based climate finance, domestic mitigation pricing scheme, or domestic price-based measures.” The key term here, which has already been poured over, is inter alia - a legal term meaning ‘among other things’. So, although the list focuses on domestic uses, it does not rule out the international transfer of 6.4 MCERs, as long as they are not used for international compliance purposes. As it stands, it is understood that 6.4 MCERs also cannot be used for offsetting purposes.

This seemingly very technical dissection of the legalese actually has fundamental implications for the future of carbon markets. The claims that buyers can make from using carbon credits are what determines the demand for them. What is ultimately decided for 6.4 is likely to be reflected in VCMs too.

Annex

International transfer of carbon credits under Article 6



Annex

What happened at COP28?

Compared to the low expectations before COP28, the early win for the Loss and Damage Fund and groundbreaking inclusion of language to ‘transition away from fossil fuels’ were successes.

COP28 was a good COP for the VCM

A roundtable on Finance Day that featured US climate envoy John Kerry and ministers from Singapore, the UK, Ghana and Indonesia, marked the most substantial political endorsement the VCM has yet received. In addition to John Kerry, other influential figures, including EU Commission President Ursula von der Leyen and former UK Prime Minister Tony Blair, championed efforts to revive the market as a pivotal means of driving investment toward real climate solutions that would otherwise go unfunded.

The VCM landscape saw many other promising announcements and proposals, including guidance from the CFTC, solidifying carbon credits’ position as an important emerging commodity class, and a Consultation Report from IOSCO to promote the integrity and orderly functioning of VCM, adding another level of trust and financial integrity to the market.

Crucially, prominent entities like SBTi, VCMI, GHG Protocol and ICVCM joined forces to establish an End-to-End Integrity Framework, which more clearly outlines how they collectively guide the voluntary decarbonization journey. For corporates, this will provide clarity on how carbon credits fit into their overall net zero strategies and should build confidence in investing in the market.

Other prominent VCM commitments included:

- John Kerry also shared updates on the Energy Transition Accelerator, set to be fully operational by Earth Day 2024 and mobilize up to \$200 billion in energy transition finance for developing countries by 2035.
- The LEAF Coalition announced groundbreaking emissions reduction purchase agreements with Costa Rica and Ghana, amounting to over \$60 million.

Annex

Challenges and Limited Progress in Article 6 Negotiations

Article 6 negotiations proved more fractious than anticipated, with disagreements on technical issues like the relationship between different registries and the format for declaring trades.

While the operationalization of Article 6.4 was once again delayed Article 6.2 implementation continued while waiting for consensus on key issues and a final text.



Crediting standards' approaches to CA labelling

| | Gold Standard (GS) | Verra's VCS | American Carbon Registry (ACR) | Climate Action Reserve (CAR) |
|---------------------------------|---|---|---|---|
| Units | GSVER - Gold Standard Verified Emission Reductions | VCU - Verified Carbon Units | ERR - Emission Reduction or Removal | CRT - Climate Reserve Tonnes |
| A6 label and application of CAs | <p>Provides guidance on processes for A6 labels and application of CAs. This guidance is mandatory for GSVERs with a vintage of 2021 or later to be eligible for</p> <ol style="list-style-type: none"> 1 Use towards an NDC or domestic climate mitigation target other than that of the Host Country 2 Use towards CORSIA <p>It is optional for GSVERs used for voluntary purposes.</p> | <p>Provides guidance on processes for A6 labels and application of CAs. The guidance is meant to align with A6 rules on NDC use and CORSIA use.</p> <p>But VCUs used for voluntary purposes will follow the same guidance if they need to apply CAs</p> | <p>Provides guidance on processes for A6 labels and application of CAs. The guidance is meant to align with A6 rules on NDC use and CORSIA rules.</p> <p>But ERRs for voluntary purposes will follow the same guidance if they need to apply CAs.</p> | <p>Provides guidance on processes for A6 labels and application of CAs. The guidance is meant to align with A6 rules on NDC use and CORSIA rules.</p> <p>But CRTs for voluntary purposes will follow the same guidance if they need to apply CAs</p> |
| Labels and Stages | <p>LABEL ATTRIBUTION AT 2 STAGES</p> <p>1. Authorization Stage Three labels - one for each authorized use:</p> <ol style="list-style-type: none"> A Authorized for compliance (means authorized for NDC - could be a specific NDC or any NDC) B Authorized for CORSIA (means authorized for CORSIA or other international mitigation purposes) C Authorized for other purposes (means auth for other purposes including voluntary use) <p>2. Corresponding Adjustment Stage</p> <ol style="list-style-type: none"> A Not Yet Applied by Host Country B Authorized for CORSIA (means authorized for CORSIA Applied by Host Country) | <p>LABEL ATTRIBUTION AT 1 STAGE</p> <p>Three labels - one for each authorized use:</p> <ol style="list-style-type: none"> 1 Authorized for NDC 2 Authorized for International Mitigation Purposes other than NDC (CORSIA) 3 Authorized for other purposes (including voluntary use) <p>Verra does not have labels for when a CA is applied or not. When a VCU with an Authorisation Label is used towards a purpose that it is authorized for, it will be shown in the retirement section of the registry like any other retired VCU.</p> <p>Verra will then monitor host party submission to check if CA is applied within 2 years.</p> | <p>LABEL ATTRIBUTION AT 2 STAGES</p> <p>1. Authorization Stage Label ERRs that have a Letter of Authorization. LoAs will also be made public.</p> <p>2. Corresponding Adjustment Stage Label ERRs for which CAs have been applied</p> | <p>LABEL ATTRIBUTION AT 2 STAGES</p> <p>1. Authorization Stage The registry system will disclose:</p> <ol style="list-style-type: none"> 1 authorization status of credits; 2 host country authorization letters; 3 purpose of credit retirement or cancellation (such as for CORSIA obligations, Paris Agreement targets, or Other International Mitigation Purposes) <p>2. Corresponding Adjustment Stage The Reserve will be responsible for documenting Corresponding Adjustments on the registry (including confirming that the host country has made the Corresponding Adjustment, and it has been reported to the UNFCCC and other relevant parties).</p> |

