COP25
ARTICLE 6 OF THE PARIS AGREEMENT

A PRIMER FOR BUSINESS

Under the **Paris Agreement**, the 194 Parties to the United Nations Framework Convention on Climate Change (UNFCCC) committed to shifting the world's course towards sustainable development and "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels."[1]

In order to achieve this goal, all participating countries are required to set national greenhouse gas (GHG) emissions reductions targets—nationally determined contributions (NDCs). The next review of the NDCs will take place in 2020 and it will be necessary for countries to increase ambition in order to meet the goals of the Paris Agreement, recognising that this would significantly reduce the risks and impacts of climate change.

One of the keys to this increased ambition lies in the full implementation of the Paris Agreement. At COP24, in Katowice, Poland last December, participating countries reached an agreement on the vast majority of the implementation of the Paris Agreement—the so called **Paris Rulebook**—but they could not reach an agreement on the implementation of Article 6.

ICC—on behalf of 45 million institutional members in over 100 countries—is urging Parties to reach a conclusion on the effective and transparent implementation of Article 6 at **COP25**.

What is Article 6 of the Paris Agreement?

Article 6 of the Paris Agreement aims at promoting integrated, holistic and balanced approaches that will assist governments in implementing their NDCs through voluntary international cooperation. This cooperation mechanism, if properly designed, should make it easier to achieve reduction targets and raise ambition. In particular, Article 6 could also establish a policy foundation for an emissions trading system, which could help lead to a global carbon market.

Under this mechanism, countries that lower their emissions below their commitments would be allowed to sell some of their emission reductions to other nations; an overall cap of GHG emissions would ensure a net emission reduction. Supply and demand for emissions allowances would lead to the establishment of a global carbon market that would tie the negative externalities of GHG emissions to polluters. In other words, by putting a price on carbon, states exceeding the commitments in their NDCs would bear the costs of global warming.

Through this flexible approach, GHG emissions would undergo a strong decline, coupled with early stimulation for innovative and cleaner technologies and an overall transition towards a net zero emissions economy.

In addition to being a driver for enhanced NDCs and carbon pricing, the successful implementation of Article 6 could create new channels for climate finance; lead to technology transfer and capacity-building; and help to support sustainable development in many ways.

1 See Article 2.1(a) of the Paris Agreement. https://unfccc.int/sites/default/files/english_paris_agreement.pdf

Business recommendations on the implementation of Article 6 of the Paris Agreement

Whilst acknowledging that market mechanisms are only one part of the policy mix that is needed to meet the goals of the Paris Agreement, business strongly welcomes the availability of market provisions under Article 6 of the Paris Agreement and their potential to send clear price signals to drive the transition and encourage ambition.

Business calls on Parties at COP25 to reach an agreement on the effective and transparent implementation of Article 6 of the Paris Agreement and stands ready to inform the process of identifying the best ways forward to build up a framework for Article 6. Business recommendations include:

1. **Build and agree on a framework for measuring, reporting and verification (MRV) of emissions that takes into consideration generally accepted existing international and national MRV frameworks and that is linked to the transparency framework developed under Article 13 of the Paris Agreement.**

   Many credible methods for international and national MRVs are already in place and generally accepted (e.g. through the Kyoto mechanisms[2], Intergovernmental Panel on Climate Change (IPCC)[3] methodologies and the UNFCCC inventories) and should be taken into account when developing an MRV framework. It will also be important to link MRV for the mechanisms of Article 6 of the Paris Agreement to the Transparency Framework developed under Article 13 of the Paris Agreement.

   To encourage investments by business, it is vital that future emission reduction projects deriving from Article 6 are supported by strong and robust MRV systems that cover mitigation of emissions as well as sinks of greenhouse gases. Such frameworks are also essential to demonstrate net emission reduction as well as environmental integrity and to prevent double counting.

2. **Adopt simple, clear, effective and flexible rules, using familiar terms and procedures, to incentivise business participation and avoid double counting**

   The environmental integrity of any mitigation action under a market mechanism must have highest priority. This can be achieved through the development and adoption of clearly defined appropriate upfront standards that projects under a market mechanism must fulfill.

   The development of such standards should be based on lessons learned from past experience with the use of market instruments on international, national and regional levels in order to ensure long-term predictability, integrity, transparency and reliability for business projects and related investments. To ensure long term predictability—also in regard to the previous system and its mechanisms (Clean Development Mechanism, Joint Implementation and Emissions Trading)—transition regulations and procedures that avoid the discontinuation of projects and related investments should be considered.

2 *Kyoto mechanisms*: Three procedures established under the Kyoto Protocol to increase the flexibility and reduce the costs of making greenhouse-gas emissions cuts. They are the Clean Development Mechanism, Emissions Trading and Joint Implementation (UNFCCC, 2016)

3 Established in 1988 by the World Meteorological Organization and the UN Environment Programme, the IPCC surveys world-wide scientific and technical literature and publishes assessment reports that are widely recognised as the most credible existing sources of information on climate change. The IPCC also works on methodologies and responds to specific requests from the Convention's subsidiary bodies. The IPCC is independent of the Convention (UNFCCC, 2016).

Cooperative approaches and emission reductions under the mechanisms of Article 6 of the Paris Agreement should prevent double counting/double claiming and deliver real and measurable emission reductions. Key to this are the transparency measures which should be guided by and linked to the Transparency Framework under Article 13 of the Paris Agreement.

3. **Encourage ambition and predictability by developing comparable and measurable standards for emission reduction for NDC reviews**

   The Paris Agreement states that Article 6 mechanisms shall "incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party."[4] To help stimulate investments in this area, it is important that governments reflect in their NDCs how they intend to participate and make use of the mechanisms under Article 6. As NDCs are updated, it is essential that participating countries outline in a transparent way how they intend to increase their ambition including through voluntary cooperation and the use of market-based instruments.

   Clarity from countries on the use of Article 6 mechanisms is essential to enable comparability of action between countries and sectors, thereby allowing evaluation of mitigation actions, the ability to raise ambition over time and understand and avoid negative impacts such as carbon leakage.

THE INTERNATIONAL CHAMBER OF COMMERCE (ICC)

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4 See Article 6.4(a) of the Paris Agreement. https://unfccc.int/sites/default/files/english_paris_agreement.pdf