

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 mechanisms², 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)

The International Chamber of Commerce (ICC) is the institutional representative of more than 45 million companies in over 100 countries. ICC’s core mission is to make business work for everyone, every day, everywhere. Through a unique mix of advocacy, solutions and standard setting, we promote international trade, responsible business conduct and a global approach to regulation, in addition to providing market-leading dispute resolution services. Our members include many of the world’s leading companies, SMEs, business associations and local chambers of commerce.

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

BUSINESS VIEWS ON ARTICLE 6—FOR PARTIES

Business strongly supports the use of market-based approaches under the Paris Agreement. Article 6 of the Paris Agreement, if designed and implemented appropriately, can be a driver for enhanced ambition of the Nationally Determined Contributions (NDCs); set a framework for effective carbon pricing; create new channels for climate finance; lead to technology transfer and capacity-building; and help to support sustainable development in many ways.

With the upcoming first period of NDC reviews approaching in 2020, 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.

ICC'S COMMENTS AND RECOMMENDATIONS ON THE IMPLEMENTATION OF ARTICLE 6 OF THE PARIS AGREEMENT

1. BUILD AND AGREE ON A FRAMEWORK FOR MEASURING, REPORTING AND VERIFICATION (MRV)

- Many credible methods for international and national MRV are already in place and generally accepted (e.g. through the Kyoto mechanisms, Intergovernmental Panel on Climate Change methodologies and the UNFCCC inventories) and should be considered when developing an MRV framework.
- It will 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.
- A clear MRV framework is essential to demonstrate net emission reduction; environmental integrity; prevent double counting; and promote investment and engagement in emission reduction projects deriving from the Paris Agreement.

2. INTEGRITY, TRANSPARENCY AND RELIABILITY

- 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 the experience of the use of market instruments at international, national and regional levels.
- To ensure long term predictability, transition regulations and procedures that avoid discontinuation of projects and related investments should be considered.
- Cooperative approaches and emission reductions under the mechanisms of Article 6 of the Paris Agreement should prevent double counting or 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. AMBITION AND PREDICTABILITY

- 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.”¹ To help stimulate investments in this area it is important that Parties 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 in 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.

4. TECHNOLOGICAL NEUTRALITY AND COST EFFECTIVENESS

- Article 6 mechanisms should be designed to allow for the identification and selection of the most cost-effective mitigation options and the principle of technology neutrality should be applied.

5. ACCESSIBILITY BY PARTIES AND BUSINESS

- The Article 6 ruleset should be simple and should not lead to unnecessary administrative burdens in order to encourage broad multi-stakeholder participation.

6. SECTORAL BASELINES AND STANDARDS FOR EMISSION REDUCTION LEVELS

- Standards are vital for environmental integrity and will enable tracking and transparency of the use of emission reductions and internationally transferred mitigation outcomes.
- The development of comparable and measurable standards and baselines for emission reduction activities under the Article 6 mechanism and for voluntary cooperation should be transparent and take into account sectoral expert consultations, as well as existing experience with MRV principles under the UNFCCC.

Please also refer to the [Katowice Declaration on Sound Carbon Accounting: Avoiding Double Counting in Carbon Markets](#).

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