



PROJECT DEVELOPER FORUM

Credible Climate Action.

Art 6 Authorizations

Paper

A study report brought to you by [The Project Developer Forum](#)

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Introduction

COP 26 in Glasgow introduced the new concept of corresponding adjustments (CA) into carbon markets. The Art. 6 rules prescribe that corresponding adjustments need to be implemented for all authorized carbon credits under the Art 6. cooperative approaches. This means that – as all countries now have nationally determined commitments for emission reductions and removals – any sales of Art.6 carbon credits need to be reflected in the national inventories of the respective countries engaged in cooperative approaches.

It is quite clear that CA are necessary if carbon credits are exchanged between countries for compliance purposes under the Paris Agreement. In this context ICAO and IMO need to be considered as countries with borders above global air space and beyond 200 miles zones before the coasts.

It is less clear if CAs are needed for voluntary carbon markets. In principle, non-authorized Art. 6 carbon credits do not need CA and can be used for voluntary mitigation purposes as long as only corporates buy these credits. In practice, each participating Party has the sovereign authority to decide whether or not voluntary carbon market credits need CA or not. The Project Developer Forum supports the voluntary use of carbon credits with CA as they align with higher mitigation ambition. The host country project cannot just sell emission reductions but needs to take care that sooner or later this exported emission reduction will be compensated nationally.

Clarity regarding the processes and timeframes for the authorisations of mitigation outcomes for international transfer, between participating Parties, is therefore key.

Art 6 Authorizations

A summary of discussions relating to the matter of Authorization under Art. 6 cooperative approaches are as follows. During the COP27 in Sharm El Sheik, the following decisions and statements on authorizations were published around Art 6:

6.2: para. 17(b) “requests the Subsidiary Body for Scientific and Technological Advice [...] to develop recommendations [...] for consideration and adoption [at COP28] on: The process of authorization [...], notably the scope of changes to authorization of Internationally Transferred Mitigation Outcomes (ITMOs) towards use(s), and the process for managing them and for authorization of entities and cooperative approaches with a view to ensuring transparency and consistency.”

6.4: “requests the Subsidiary Body for Scientific and Technological Advice to continue its consideration of, and to develop [...] recommendations for consideration and adoption [at COP28] on: [...] (c) Provision of a statement by the host Party to the Supervisory Body specifying whether it authorizes Article 6, paragraph 4, emission reductions issued for an Article 6, paragraph 4, activity for use towards the achievement of nationally determined



contributions and/or for other international mitigation purposes, as defined in [Glasgow 6.2 guidance], in accordance with paragraph 42 of the rules, modalities and procedures [i.e., Glasgow 6.4 guidance], including its timing, relevant information on the authorization and any revisions.”

Context on Authorizations

As of the date of writing and as per the *Informal note by the co-facilitators on SBSTA 58 agenda item 13 Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement and in decision 2/CMA.3*, three types of authorizations exist:

1. Authorisation of cooperative approach (as per paragraph 18(g) of the Article 6.2 guidance)
2. Authorisation of Entities (6.2)¹ (as per paragraph 1(f) of the Article 6.2 guidance)
3. Authorisation of Units For Use² (as per paragraph 1(f) of the Article 6.2 guidance):
 - towards the achievement of a Party’s Nationally Determined Contribution (NDC)
 - for Other International Mitigation Purposes (OIMP)

Under Art. 6.2, all three of these authorizations must be given for the carbon credits to be used as ITMOs. Under Art. 6.4, non-authorized units may be defined as “Mitigation Contribution ERs”, however it is currently unclear what their use will be.

However, for purposes related to carbon project developers, only Art 6.2 authorisations for use of Entities and Project Activities (item 2 above) and use of ITMOs (item 3 above) are relevant. The authorisation of cooperative approaches will be undertaken at a bilateral or multilateral level between participating Parties, and may not necessarily include project developers.

It is therefore necessary for carbon project developers to consider the authorisation processes and requirements at both a project level (i.e. authorisation of Entities and by extension, the Project Activity in question) and a carbon credit level (i.e. the use of Units).

Templates for Art 6.2 Letter of Authorisation for Project Activities (A6.2 PA LoA) and Art. 6.2 Letter of Authorization for ITMOs (Art. 6.2 ITMO LoA)

- Which information should be included on a A6.2 PA LoA and A6.2 IMTO LoA templates? Should the template be flexible and light or straight with a lot of requirements?

¹ The *Informal note by the co-facilitators on SBSTA 58 agenda item 13 Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement and in decision 2/CMA.3* notes that there is currently a lack of clarity on defining the term “Entities”. One may therefore assume, in the absence of clarity at the time of writing, that this refers to project entities such as project developers.

² Units = ITMOs. For the purpose of this opinion paper, it is assumed that the Units and ITMOs under consideration are measured in tCO_{2e} and are therefore carbon credits.



PD Forum position: we recommend that the contents should be kept as simple as possible, focusing on relevant information that is needed to uniquely identify the issued ER at the time of international transfer! The format should be standard, simple and digital.

For each A6.2 PA LoA the following relevant information should be included: authorising entity, date, name of project, ID (if already available), brief project description, methodology, activity participant(s), authorised uses, how and when CA will be applied (same as IETA).

Finally, the authorised uses within the A6.2 PA LoA should be clear on whether authorisation is granted for use towards an NDC or OIMP, or both.

Timing

Timing for Art. 6.2 authorization has not yet been defined, stated as being a national prerogative, however the following options were discussed during COP27:

- Prior to registration of the project activity
- Prior to the issuance of units in the relevant registry
- At any time at the discretion of the host Party

Application for an A6.2 PA LoA at the earliest possible stage may be preferable for project developers, even if at that time, the exact number of expected credits is not yet entirely clear. Vintages, authorized users and so on may be even less clear.

To start a project - thus in many cases also the investment – without at least a basic approval by the host country, that the credits generated may be exported, can be a risk: what if the Host country refuses to give its authorization?

However, from the perspective of participating Parties, applying for an A6.2 PA LoA only before project registration seems way too risky: Host country then perhaps has nothing to offer as CA anymore as his “budget for CAs” may be exhausted by that time.

So, best apply for LoA even before project start, based on rough estimation on expected tCO₂e units, perhaps agree on a minimum-maximum range: When underperformed -> PE simply goes empty (he would tackle this risk in his business plan); When overperformed -> PE would have to see for the surplus what to do with them, e.g. sell them as “VER without CA” for contribution claims.

PD Forum position: we suggest that issuance of a LoA may be initiated once the project is validated to minimise risks for all participants.

Changes

SBSTA highlights the need for more guidance in the process of changes in authorization, including the scope and impact of such changes. As with other elements, host countries are sovereign in applying changes to the authorization of units generated under Art 6.2.



PD Forum position: we suggest limiting changes to mistakes and issues of fraud / Gross misconduct and/or negligence that have been indicated by a national legal court. We want to make sure that changes are not arbitrary and can be appealed.

Revocation

As of now, the general position under the SBSTA discussion is that “revision or revocation” is a national prerogative. However, the SBSTA states that revocation should be avoided as much as possible, and allowed only in exceptional circumstances (fraudulent activities) noting that it is important to clarify under which conditions authorization can be revised and/or revoked and how it could be implemented accordingly. They should be avoided if they affect legal certainty or credibility and transparency of the Article 6 mechanisms.

IETA also raised the following points:

What are the circumstances when revocation is acceptable/beneficial (Fraud)?

Should revocation apply to units that have already been issued?

- What happens to units that have already been used?
- What happens to whoever holds the units at the time of change (in the secondary market)?

PD Forum position: we suggest – as for changes – that revocations are limited to fraud / Gross misconduct and/or negligence and should affect only not yet issued credits. For credits that have been issued already the first supplier needs to take responsibility and offer an exchange of fraudulent credits and/or indemnify buyers.

About the PD Forum

The Project Developer Forum (PD Forum) is a collaborative association and collective voice of companies and practitioners that are developing and financing greenhouse gas emission reduction projects worldwide. With almost 40 full and affiliate members, we work on a global scale and evaluate opportunities to deploy climate financing and carbon market instruments to accelerate investments for greenhouse gas mitigation and sustainable development, under both compliance and voluntary carbon standards.

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