

How to raise ambition, increase international cooperation and private sector engagement under the Paris Agreement – Background note on Article 6 cooperation

Higher ambition

The Paris Agreement Article 6 introduces the next generation of carbon market cooperation, explicitly designed to promote higher ambition, and align with the long-term goals of the Paris Agreement. International cooperation and private sector engagement are crucial for achieving the transformation set out by the Paris Agreement and the UN Sustainable Development Goals. If used responsibly, carbon market mechanisms can help countries to harness the expertise and financial resources also from private companies in support of these goals.

Carbon markets enable voluntary cooperation to support climate change mitigation and sustainable development. They allow public and private actors from different countries to join forces to design, finance and implement activities that reduce emissions or remove carbon dioxide from the atmosphere and that would not happen otherwise (i.e., that are additional). Carbon markets mobilise the private sector to identify and realise the most cost-effective additional mitigation opportunities, helping to make the most of limited resources. Moreover, mitigation activities can also contribute to sustainable development impacts such as clean energy, water and air, food security and gender equality as well to adaptation in some activities.

The Paris Agreement expanded mitigation targets to all countries through their Nationally Determined Contributions (NDCs). The Agreement requires countries participating in carbon market cooperation to ensure that their cooperation meets international requirements relating to environmental integrity, transparency, robust accounting, and sustainable development. This fundamentally changes the incentive structure for engaging in carbon markets, since achieving their own NDC targets now requires host countries to implement the cheapest mitigation options domestically, while carbon market cooperation should mobilize more “high-hanging fruit” that are more expensive or face other barriers.

Voluntary carbon markets are also important tool to support climate action, and they are currently being more and more aligned with the Paris Agreement approach.

Exceptional Nordic expertise

Nordic countries have pioneered in international carbon markets for over twenty years and are also taking a leadership role in fostering a new generation of carbon market cooperation in support of the Paris Agreement. Finland started its Kyoto Protocol Pilot Programme in 1999 with positive outcomes, Sweden its own procurement programme in 2002, Denmark in 2003 and Norway in 2007. Nefco has been active in carbon markets since 2004.¹ Nordic countries are currently collaborating on Article 6 issues e.g., under the Nordic Initiative for Cooperative Approaches (NICA).² In addition, Sweden and Norway have notable bilateral Article 6 activities currently on-going.

Early Article 6 piloting is a powerful approach to developing best practices and building capacity noting the long lead times in project development. By combining technical assistance and practical implementation of concrete activities, Nordic public and private actors can develop required expertise and methodologies while delivering

¹ <https://www.nefco.int/wp-content/uploads/2022/05/Nefco-carbon-funds-publication-May-2022.pdf>

² https://www.nefco.int/wp-content/uploads/2022/08/Nefco_NICA_Framework-summary-report_June-2022_.pdf

robust and sustainable mitigation action through carbon markets for the benefit of all partners. For example, some of climate finance could be targeted even now towards Article 6 activities. Should there be no need for external emission reductions in meeting the domestic targets in the future, emission reductions units (ITMO³) could simply be cancelled, and Article 6 would have been used as robust monitoring and verification tool – with an option to generate emission reduction units.

As highlighted in the Swedish report “*The pathway to a climate-positive future – strategy and action plan for achieving negative greenhouse gas emissions after 2045*”⁴, supplementing domestic action with carbon market cooperation can increase flexibility and cost-effectiveness, thus providing opportunities for setting and meeting more ambitious targets than would be possible with domestic action alone.

PROMOTING BEST PRACTICES AND NORDIC PRIORITIES WITH NORDIC ARTICLE 6 COOPERATION

The Nordic Initiative for Cooperative Approaches (NICA) was launched in 2018 to contribute to the operationalisation of Article 6 to accelerate ambition in climate action. NICA is a collaboration between Finland, Norway, Sweden, the Nordic Environment Finance Corporation (Nefco) and the Nordic Council of Ministers’ Working Group for Climate and Air. NICA strives to demonstrate how international partnerships can scale up and accelerate ambitious climate action, promote sustainable development, and harness private sector finance and innovation. A proposal for general framework for Nordic countries’ Article 6 cooperation was completed in early 2022. The key international criteria and proposed Nordic priorities for robust and impactful Article 6 cooperation include:

- **Ensuring environmental integrity of mitigation outcomes:** Nordic countries recognise that the Paris Agreement requires ensuring the environmental integrity of mitigation outcomes of Article 6 cooperation. Nordic Article 6 cooperation strives to demonstrate the feasibility and benefits of ensuring environmental integrity.
- **Promoting ambition:** Nordic countries recognise that the Paris Agreement requires carbon market cooperation to encourage higher ambition and align with partner countries’ NDCs, long-term low emission development strategies and the long-term goals of the Paris Agreement. Nordic Article 6 cooperation aims to support all participants to raise ambition and strives to demonstrate alignment with national and global goals.
- **Applying robust accounting, including ensuring the avoidance of double counting:** Nordic countries recognise that the Paris Agreement requires the application of robust accounting, including the avoidance of double counting, to Article 6 cooperation. Nordic Article 6 cooperation strives to demonstrate the feasibility and benefits of robust accounting.

³ An internationally transferred mitigation outcome (ITMO)

⁴ <https://www.regeringen.se/4a9e84/contentassets/1c43bca1d0e74d44af84a0e2387bfbcc/vagen-till-enklimatpositiv-framtid-sou-20204>

- **Promoting sustainable development, especially gender equality:** Nordic countries recognise that the Paris Agreement requires the application of robust social and environmental safeguards, engagement of local stakeholders and promotion of sustainable development in carbon market cooperation. Nordic Article 6 cooperation supports activities that are aligned with the UN SDGs, the partner country's sustainable development plans and priorities and the social and environmental criteria applied in Nordic international development cooperation. Nordic Article 6 cooperation strives to demonstrate that robust approaches relating to safeguards, stakeholder engagement and sustainable development (including adaptation) co-benefits are feasible and beneficial, and key for fostering the acceptability, ownership and sustainability of the results achieved under Article 6 cooperation. A particular priority for Nordic Article 6 cooperation is the fostering of gender equality.

Cost-effectiveness of Article 6

A World Bank-commissioned study⁵ in 2019 concluded that the potential benefits to cooperation in achieving the NDCs under Article 6 are notable and all parties could benefit. Potential cost reductions from independent implementation of countries' NDCs could total about \$250 billion per year by 2030. Cost reductions from cooperative implementation are achieved through improved economic efficiency. If countries are inspired to invest these cost savings in enhanced ambition, then Article 6 could facilitate additional abatement under the Paris Agreement by 50 per cent or approximately 5 GtCO₂/year in 2030. Robust rules, however, are critical to obtain these benefits.

⁵ <https://openknowledge.worldbank.org/handle/10986/33523>