CARBON MARKET WATCH

Article 6 carbon markets at COP31

Carbon Market Watch's recommendations

The Article 6 implementation era has started on shaky foundations. The first years of implementation have shown that Article 6, as it stands, poses a real risk to overall progress on climate ambition. COP31 offers an opportunity to recognise that the current rules are inadequate and must be strengthened during the review of the overall Article 6 guidance, starting in 2028.

Article 6.2

The Article 6.2 rulebook provides a weak framework for countries to establish cooperative approaches, and the results of the first two rounds of Technical Expert Reviews paint a bleak picture: a large number of inconsistencies were identified in the TER synthesis report.

Some inconsistencies can be solved during the TER process by additional information from the reviewed Party. The Secretariat's Technical Expert Review synthesis report provides no figures on how many inconsistencies this information would actually resolve when published. **A preliminary CMW analysis of the first five review reports found that, when reviewers deemed the additional information relevant, it would resolve the inconsistency in only 36.5% of cases.** In the remaining 63.5%, the reviewers indicated that the requirement would still not be met.

At COP31, Parties should:

Identify and recognise the current gaps and loopholes in the Article 6.2 framework. Frank discussions are needed at the Technical Expert Review Dialogue, as well as at other Article 6.2 informal consultations and contact groups, without shying away from pinpointing the shortcomings and how they should be addressed. **As a result, ambitious priorities for the 2028 review of the guidance should be set,** and areas for improvement must be identified. At a minimum, these should include:

- **Addressing accounting loopholes**. The current guidance contains two loopholes that could result in double counting of mitigation outcomes: averaging

(Decision 2/CMA.3, Annex, para. 7a) and changes to authorisation (Decision 4/CMA.6, paragraphs 5.g, 7-9).

- **Strengthening the current reporting requirements.** Parties should define the level of detail to be included in the Initial Reports and create a mandatory template with disaggregated prompts for each Initial Report requirement, including example responses to clarify what information is requested. The authorisation statement template should also be mandatory.
- **Elevating supplementary elements of the Initial Report from 4/CMA.6, para. 18 to 'shall' requirements.** These are essential for assessing the quality of cooperative approaches. At their first meeting, the lead reviewers noted that this information could help Parties address the inconsistencies identified in their reports (Conclusions from the 1st meeting of lead reviewers, para. 16)
- **Adding a reporting requirement on the additionality of ITMOs** to the current Initial Report requirements under para. 18(h).
- **Correcting inconsistencies before authorisation of ITMOs.** Parties should submit their Initial Report prior to ITMO authorisation, and ensure that the cooperative approach is evaluated and inconsistencies are corrected before ITMOs are authorised.
- **Adopting a clear definition of "significant inconsistency" that also covers serious problems outside the emissions balance, such as human rights.** In the conclusions from the 1st meeting of lead reviewers of Article 6, the lead reviewers agreed that the criteria applied during the second review cycle are a floor, not a ceiling (para. 27), and the TER Synthesis report (para. 25) suggests the definition could include inconsistencies in the requirements in 2/CMA.3, Annex, paragraph 18(i).
- **Elevating the consequences of the Technical Expert Review's findings,** including by adding a 'shall' requirement on halting trade of ITMOs with significant inconsistencies, provided that the scope of significant inconsistencies is expanded (see previous recommendation).
- **Setting up a centralised web platform to increase accessibility of TER findings.** For each cooperative approach, it should show, in real time and in an easily accessible, machine-readable format, every inconsistency identified, and whether the reviewers found that the additional information provided during the review would resolve it if included in the Party's next report, with the option to view disaggregated data per reporting requirement.

In addition, adequate resources should be ensured to continue and strengthen the Technical Expert Review (TER) process. All those participating in Article 6.2 should

contribute to this, with a primary emphasis on buyer Parties and entities. Where needed, this funding should be earmarked and prioritised above less essential Article 6.2 infrastructure.

Article 6.4

COP31 remains a crucial moment for the implementation of the PACM. Parties should use it to recognise the progress made by the SBM over the past year and to support the choices it has made to strengthen the mechanism's integrity. SBM023 outcomes were somewhat promising, although further steps are still needed to guarantee the integrity of PACM credits.

At COP31, Parties should:

Stay the course on environmental integrity. Parties should support the Supervisory Body in following the advice of its technical experts, in line with its mandate to ensure environmental integrity based on the best available science. Similar to COP30, some actors are lobbying to weaken the recently adopted good provisions, as well as other previously agreed-upon crucial integrity provisions, such as downward adjustment. At COP31, Parties, especially potential buyers, should express support for higher price points as a consequence of units' higher integrity.

Recognise the need for a stronger Sustainable Development tool. The ongoing revision of the SD tool matters: a geospatial assessment by Carbon Market Watch and Land Matrix of land-intensive projects in the Article 6 pipeline indicates substantial potential overlap with the lands of Indigenous Peoples and local communities. The existing gaps in the current tool must therefore be closed. Parties should see this as a priority for the SBM's work in 2027.

Ensure that funding pressures do not weaken the PACM's integrity. Parties should ensure that important decisions by the SBM are not rushed, and that standards, procedures and tools are not weakened with the goal of increasing the volume of credits traded. Integrity must be retained regardless of the availability of funding.

Request more information about who participates in consultations. Paragraph 21 from decision 20/CMA.7 requests the SBM to facilitate the engagement of a broad range of stakeholders, including those that cannot easily participate, such as Indigenous Peoples and local communities, and to report on its outreach measures. The SBM's annual report (para. 100) lists the measures taken and notes that more than 270 inputs were received during the year, but it does not identify who submitted them. Reporting

on measures is not enough. Parties should request the SBM to report on the types of stakeholders responding, including how many are Indigenous Peoples and local community organisations.

Contact

Federica Dossi
Expert on Global Carbon Markets
federica.dossi@carbonmarketwatch.org

Isa Mulder
Expert on Global Carbon Markets
isa.mulder@carbonmarketwatch.org