

Article 6 authorisation: Key issues and implications

10/2023

Workshop paper

Hanna-Mari Ahonen, Juliana Keßler, Ximena Samaniego, Aayushi Singh, Ingrid Wawrzynowicz

IMPRINT

Publisher:

Perspectives Climate Research gGmbH

Lead authors:

Hanna-Mari Ahonen, Juliana Keßler, Ximena Samaniego, Aayushi Singh, Ingrid Wawrzynowicz

Date:

10/2023

ACKNOWLEDGEMENTS

This paper was developed by Perspectives Climate Research gGmbH (PCR), with inputs from the Carbon Market Mechanisms Working Group (CMM-WG). We thank all the working group members and technical experts as well as the workshop speakers for their input to this paper.

The CMM-WG is chaired by PCR and is funded and coordinated in close collaboration with the German Federal Ministry for Economic Affairs and Climate Action. The CMM-WG focuses on technical aspects of programmatic and upscaled crediting mechanisms in Article 6 of the Paris Agreement as well as results-based climate finance. The working group aims to facilitate a continuous dialogue on technical issues among key carbon market stakeholders. For more information go to:

<https://www.carbon-mechanisms.de/en/news-details/cmm-wg>

DISCLAIMER

The analysis, results, and recommendations in this paper, funded by the German Federal Ministry for Economic Affairs and Climate Action, represent the opinions of the authors and are not necessarily representative of the position of the funder.

Contact CMM-WG coordinator:

Juliana Keßler

kessler@perspectives.cc

Table of contents

1. INTRODUCTION	2
2. TYPES AND CONTENT OF AUTHORISATION	3
3. TIMING OF AUTHORISATION	5
4. CHANGES OR REVOCATIONS TO AUTHORISATION	9
4.1. TYPOLOGY OF CHANGES AND REVOCATIONS	9
4.2. IMPLICATIONS OF CHANGES OR REVOCATIONS	11
5. CONCLUSIONS	13
REFERENCES	15

1. Introduction

Authorisation is a key step in the context of international carbon market cooperation under Article 6 of the Paris Agreement. Authorising entities act as gatekeepers that decide which emission reductions or removals (jointly referred to as mitigation outcomes, MOs) can be exported from the host country, which purposes they can be used for, and by which buyers.

The focus is usually on the authorisation of MOs as internationally transferred mitigation outcomes (ITMOs) for use for specific purposes. A MO could be, for example, an Article 6.4 emission reduction (A6.4ER) issued under the Article 6.4 mechanism, a carbon credit issued under a private carbon crediting programme, or an emission allowance issued under a jurisdictional emissions trading system. Participating countries can authorise ITMOs for use towards another country's NDC, international mitigation purposes, and/or other purposes (e.g., as a basis for voluntary ambition-raising). The two latter purposes are jointly referred to as other international mitigation purposes (OIMP).

According to the Article 6.2 guidance¹, authorisation by the host country turns a mitigation outcome into an ITMO and commits the host country to avoid double counting by applying corresponding adjustments (CAs) to its emissions balance to exported ("first-transferred") ITMOs. This means that the host country excludes the associated mitigation from being counted towards its nationally determined contribution (NDC), thus enabling them to be counted uniquely by the buyer towards its targets or other purposes. Since authorisation can have implications on the host country's ability to meet its national targets, the host country must carefully consider which MOs it can authorise without jeopardising the achievement of its national targets.

Parties participating in cooperation that involves the use of ITMOs must comply with the Article 6.2 guidance. The Article 6.2 guidance requires participating countries to ensure environmental integrity and transparency, to promote sustainable development and apply robust accounting, including to avoid double counting. Article 6.4 rules include specific provisions for a host country statement on the authorisation of A6.4ERs for specific uses. The Article 6.2 provisions apply to both the authorisation of A6.4ERs and other types of MOs.

Parties aim to discuss and adopt further guidance on some aspects relating to authorisation – both under Article 6.2 and 6.4 – at the United Nations Climate Change Conference (COP28) in December 2023. For Article 6.2 guidance, these include:

- Differentiation between different types of authorisation (e.g. cooperative approach, entities, ITMOs)
- Authorisation by host and/or buyer country
- Format and content of the authorisation
- Timing of the authorisation
- Reporting of the authorisation

¹ Article 6.2 guidance refer to relevant decisions adopted by the Conference of Parties serving as the meeting of the Parties to the Paris Agreement (CMA) at its past and future sessions. Decision 2/CMA.3 on Article 6.2 adopted by CMA3 in Glasgow in 2021 forms the basis of the Article 6.2 guidance and is referred to as the Glasgow decision on Article 6.2 guidance in this paper.

- Possible changes to authorisation or its revocation and the process of managing the changes

In the context of Article 6.4, the following items are discussed:

- Timing of providing authorisation
- Content of the authorisation statement
- Revision and/or revocation of the authorisation

In this discussion paper, we will consider the differentiation of authorisation types and focus on the implications of the timing, changes and revocations of authorisation. We have identified these issues as having important implications to host countries and buyers as well as on social and environmental integrity and thus warranting closer analysis of the different options proposed in the negotiations. Other issues will be covered to the extent that they relate to these focus issues.

2. Types and content of authorisation

In the negotiations to date, some Parties propose to clearly differentiate between different types of authorisation while others support a single system-level authorisation and do not see a need for different authorisation types. International guidance on authorisation types has implications on other key issues such as the content of authorisation, including any minimum requirements for the information to be provided in an authorisation.

Referring to the Article 6.2 guidance, some Parties identify three different types of authorisation: authorisation of a cooperative approach (Decision 2/CMA.3, annex, para. 18g), authorisation of entities (Decision 2/CMA.3, annex, para. 18g) and authorisation of MOs (Decision 2/CMA.3, annex, para. 1f).

Some Parties are in favour of a system-level authorisation and do not see a need for explicit authorisation of cooperative approaches and entities. Instead, such a system-level authorisation allows for activities of different nature and scale (see examples below). Parties that support this approach have referred to the particularities of their legal system and/or their national prerogative regarding authorisation processes.

The differences in Parties' views on authorisation types may stem from different emphases on the benefits of national flexibility versus international harmonisation and/or differences in the nature and scale of ITMO cooperation that Parties intend to engage in. For example, Parties that intend to link their emissions trading systems (ETs) may be inclined to favour a single system-level authorisation to apply to the bilateral linking arrangement (cooperative approach), all covered installations (entities) and net transfers of emission allowances between the systems (ITMOs). Similarly, Parties that plan to cooperate in the context of a bilateral ITMO agreement or sectoral crediting may wish to provide a system-level authorisation at the level of the bilateral/sectoral framework, rather than at the level of individual activities, entities and MOs. By contrast, Parties that expect to engage in ITMO cooperation based on MOs from a potentially high number of stand-alone projects and programmes by many different entities, without ex ante information about buyers and end users, may wish to apply a case-by-case approach to authorising MOs and entities.

Regarding the content of authorisation, some Parties support agreeing on international guidance for minimum requirements for the information provided in an authorisation and their public availability while some Parties do not see need for further international guidance. Advocates of international guidance stress that a common minimum level of information for (all types of) authorisation are vital for supporting transparency and enabling accurate tracking and reconciliation of ITMO transfers and use, appropriate application of CAs, and robust reporting. The contents of authorisation have many implications also on the timing of, and potential changes to authorisation. For example, if minimum requirements include providing information (e.g., end user and use of ITMOs) that is not available until a certain point in time, this would influence the timing of the authorisation. If the minimum requirements include providing information that may change over time (e.g., verified volume of MOs, end use of ITMOs), this would create need for changes in the authorisation as the requirement information changes. In one end of the spectrum, the lack of any international minimum requirements on the content of authorisation provides full flexibility for host countries but creates fragmentation and prevents comparison between countries, potentially creating uncertainties for buyers. The lack of clear and consistent information on authorisations may even undermine robust reporting and accounting. In the other end of the spectrum, highly detailed and prescriptive minimum requirements would limit national flexibility and could potentially undermine innovation (e.g., elements of conditionality, see below), delay the timing of authorisation and increase the likelihood for ex post changes, thus creating risks and uncertainties for the buyers. On the other hand, detailed information could support environmental integrity by facilitating reporting and accounting. In between, there are a range of options for the level of detail of minimum requirements and the types of content such as elements of conditionality.

A conditional authorisation is an authorisation that will become final only if and when certain conditions are met. While the Article 6.2 rules do not recognise nor provide for conditional authorisation, they do not prevent countries from providing conditional authorisations and elaborating conditions for their authorisations, for example in their national authorisation criteria and/or in bilateral agreements with partner countries. . Conditionality could be applied to information that is inherently less accurate at early stages of activity development and becomes more accurate over time as the activity is implemented and its outcomes monitored and verified (e.g., the volume of mitigation outcomes and the co-benefits generated by the activity) (Marr et al. 2023). The authorisation could also be made conditional to meeting relevant national criteria that has not yet been met at the time of applying the authorisation (e.g., due to the early stage of the activity development), such as applying national baselines when quantifying the volume of mitigation outcomes, monitoring and verifying sustainable development co-benefits, avoiding certain negative environmental and social impacts, such as human rights, and/or contributing to OMGE and SOP. Conditional elements that are related to the activity's design and performance reduce the risks that the country authorises mitigation outcomes from early-stage activities that later turn out not to meet key criteria relating to environmental integrity and alignment with national climate and sustainable development goals and priorities. Such conditional elements also reduce the uncertainties and risks to the activity developer by providing clarity of relevant requirements, enabling authorisation at early stages of activity development and reducing the likelihood of unexpected ex post changes to or revocation of authorisa-

tion. Conditionality could also be linked to issues that are unrelated to the activity's performance, such as the host country making sufficient progress in achieving its NDC. Such conditional elements could reduce risks to the host country of exporting mitigation outcomes in cases where it is not on track to meet its NDC, thus safeguarding NDC achievement. However, it would impose the risk of the host country's non-performance (persisting throughout the NDC period, and beyond) on activity developers who do not have any control over or means to mitigate this risk. This could potentially discouraging entities from developing additional activities in the first place and favouring countries that do not impose such risks to activity developers.

For A6.4ERs issued for an activity, the host country is to specify in an authorisation statement to the Article 6.4 Supervisory Body (SB) whether it authorises these for use towards NDC achievement and/or for OIMP and, if the host Party authorises any such uses, the Party may provide relevant information on the authorisation, such as any applicable terms and provisions (Decision 3/CMA.3, annex, para. 42). At CMA4, SBSTA was requested to provide recommendations on the host country authorisation statement, including "its timing, relevant information on the authorisation, and any revisions" (Decision 7/CMA.4 para. 9c). Meanwhile, the SB is developing a draft procedure for the mechanism's activity cycle, which describes required steps for Article 6.4 activities, including an approval from the Host Party and an authorisation from Participating Parties. The current draft specifies requirements for the contents of the approval, including, inter alia, information on the authorisation of the activity participants (UNFCCC 2023c, para. 21). As for the provisions for the authorisation statement, the SB will include them in the draft procedure, if adopted by the CMA.

3. Timing of authorisation

Some Parties see no need to provide international guidance on the timing of authorisation, while some Parties propose to adopt international guidance that links the timing of authorisation to the generation, verification or first-transfer of MOs. The timing of an authorisation has implications to both buyers and host countries, as it shifts the different risks between actors. Authorisation of early-stage activities could attract potential buyers but would require host countries to make decisions based on preliminary information. Authorisation of more advanced activities would allow host countries to base their decision on more accurate information, while activity developers and buyers would need to shoulder a longer period of uncertainty about the activity's authorisation status. Late authorisations could also undermine the robust application of overall mitigation in global emissions (OMGE) and Share of Proceeds (SOP).

The Glasgow decision on Article 6.2 guidance leaves some room for interpretation when it comes to the timing of authorisation (Lo Re et al. 2022). The timing is neither clearly defined in the paragraph that define ITMOs (para 1) nor in the paragraph that specifies the timing of the initial report which is no later than the authorisation of ITMOs (para 18). Para 2 defines "first transfer": for ITMOs authorised for use towards NDCs, first transfer is defined as the first international transfer (para 2a) while, for ITMOs authorised for OIMP, the participating Party can specify whether "first transfer" is the authorisation, the issuance or the use or cancellation of the MO (para. 2b). This could be interpreted as an indication of authorisation taking place before the issuance, first international transfer, use or cancellation of ITMOs.

For A6.4ERs issued for an activity, the host country is to specify in a statement to the Article 6.4 Supervisory Body (SB) whether it authorises these for use towards NDC achievement and/or for OIMP, and in case of OIMP, how it defines “first transfer” (Decision 3/CMA.3, para. 42). Under Article 6.4, SBSTA has been requested to provide recommendations on the host country’s authorisation statement, including its timing (Decision 7/CMA.4 para. 9c).

Since Glasgow, Parties have proposed different options for international guidance on the timing of authorisation, including authorisation taking place:

- at any time
- before the generation of MOs
- after the generation of MOs
- after the verification of MOs
- before or at the time of first transfer
- prior to the ITMOs’ use
- after the Party has demonstrated that it has achieved its NDC²

These options have implications on host countries, activity developers, buyers and environmental integrity, as well as on the potential ex post changes and revocation of authorisation. Key implications are summarised in the tables below.

Implications of authorisation taking place at any time	
Host country	<ul style="list-style-type: none"> • Full national prerogative to make decisions on authorisation flexibly based on national preferences, reducing risks of taking decisions based on insufficient information
Developer/Buyer	<ul style="list-style-type: none"> • Differences across national approaches to authorisation may create fragmentation and uncertainties to developers/buyers • Developers/buyers may favour countries that provide early authorisation and/or provide clear criteria, processes and timelines for authorisation • The implications of later authorisations are discussed below
Environmental integrity	<ul style="list-style-type: none"> • Differences across national approaches to authorisation may create fragmentation and inconsistencies. These, in turn, can impact reporting processes. For example, the initial report needs to be submitted no later than authorisation of ITMOs or in conjunction with the next biennial transparency report. Submitting this information late in the process, e.g. only at the time of use of ITMOs, would hamper opportunities for public scrutiny of e.g. how environmental integrity is ensured and CAs applied.

² Please note that the last option proposed is against the general use of carbon markets for NDC achievement and will therefore not be further focused upon.

Implications of authorisation taking place before the generation of MOs	
Host country	<ul style="list-style-type: none"> • Host country needs to make decisions on authorisation based on preliminary information on the MOs and the underlying activity, which can undermine the host country's ability to reliably assess e.g., NDC alignment, additionality or mitigation potential and make informed decisions to safeguard its NDC achievement to avoid overselling. Host countries might need accurate information on MOs to monitor whether its mitigation pathway is in line with the NDC targets and might on that basis want to keep a reserve of certain MOs. • Risks relating to the preliminary nature of information can be reduced by introducing conditional elements, e.g., making the authorisation conditional to the verification of MOs, environmental and social safeguards and/or co-benefits. Risks relating to overselling can be reduced by introducing conditional elements relating to the host country's progress towards achieving its NDC.
Developer/Buyer	<ul style="list-style-type: none"> • Risks relating to the authorisation status are limited to the early stage of the activity development, which can support especially truly additional activities that need a green light on authorisation to unlock upfront finance. • Conditional elements related to activity performance (and thus within the control of the developer/buyer) can enable earlier authorisation and incentivise the developer/buyer to implement the activity in line with the activity design but can also create uncertainties in case of deviations from the design during implementation. Conditional elements related to the host country's relating to the host country's NDC performance (and thus beyond the control of the developer/buyer) impose risks to the developer/buyer that can disincentivise the development of additional activities.
Environmental integrity	<ul style="list-style-type: none"> • Authorisation based on only preliminary information may undermine informed decision-making, thereby creating risks of authorising activities that undermine environmental integrity.

Implications of authorisation taking place at or after the generation/verification/issuance of MOs but before the first international transfer or, in the case of OIMP, before use or cancellation	
Host country	<ul style="list-style-type: none"> • Host country can make decisions on authorisation based on monitored/verified information on the MOs from realised mitigation activities, which can facilitate the host country's ability to reliably assess e.g., NDC alignment, additionality or mitigation potential and make informed decisions to safeguard its NDC achievement.
Developer/Buyer	<ul style="list-style-type: none"> • Developer/buyer bears risk of pending authorisation status throughout activity development, implementation and monitoring/verification, and some truly additional activities may not be able to shoulder this risk.

Environmental integrity	<ul style="list-style-type: none"> • Authorisation based on information on monitored/verified MOs from realised activities facilitates informed decision-making, thereby reducing risks of undermining environmental integrity. • Risks relating to the pending authorisation status undermine the activities' access to carbon finance, thus undermining the implementation of additional mitigation activities.
-------------------------	---

Implications of authorisation taking place after the first international transfer or, in case of OIMP, after the use or cancellation

Host country	<ul style="list-style-type: none"> • Host country can make decisions on authorisation based on the latest information on progress towards its NDC, enabling it to change authorisations in a way that safeguards its NDC achievement. • Lack of clarity on the authorisation status at the point of international transfer, use or cancellation can undermine the host Party's possibilities for robust and timely reporting and accounting, including the appropriate application of CAs.
Developer/Buyer	<ul style="list-style-type: none"> • Developer/buyer bears risk of pending authorisation status even after the issuance of mitigation outcomes, and most truly additional activities may not be able to shoulder this risk.
Environmental integrity	<ul style="list-style-type: none"> • Lack of clarity on the authorisation status at the point of international transfer, use or cancellation can undermine robust reporting and accounting, including the appropriate application of CAs, as well as the appropriate application of OMGE and SOP, thereby potentially undermining environmental integrity. • Risks relating to the pending authorisation status undermine the activities' access to carbon finance, thus undermining the implementation of additional mitigation activities.

A specific consideration relating to the timing of authorisation is its link to the timing of the application of the CA. Host countries must apply CAs for authorised and first-transferred ITMOs to the emissions balance for the year in which the mitigation outcome occurred. If the authorisation status is unclear after the first transfer, it is unclear whether CAs should be applied to the emissions balance for specific MOs. This becomes topical at the latest two or three years after the MO have been generated, when the generation year is due to be included in the biennial report and CAs are to be applied to the emissions balance.

A related issue is the implementation of OMGE and SOP, which are mandatory for A6.4ERs and voluntary under Article 6.2. Article 6.4 rules allow A6.4ERs to be used towards NDCs or international mitigation purposes only if they are authorised, and if a CA is applied also to A6.4ERs that are levied for a SOP or cancelled for OMGE. SOP and OMGE are implemented at the issuance of A6.4ERs. Until there is certainty about the authorisation status of A6.4ERs, they cannot be used towards NDCs or international mitigation purposes. This implies that authorisation cannot take place after ITMO use. In the context of Article 6.2, this becomes

an issue if the authorisation includes a requirement for an OMGE (and/or SOP) but it is issued at a time that no longer allows for the application of the OMGE (e.g. because the ITMO has already been used).

4. Changes or revocations to authorisation

Some Parties do not see any need for international guidance on changes and revocations of authorisations and consider them to be an issue of national prerogative. Some Parties support agreeing on international guidance on the process and scope for changes to authorisations, including potential limitations to when and what changes can be made, and on what basis.

Authorisations provided under Article 6.2 and authorisation statements provided under the Article 6.4 mechanism can include changes or revisions (Decision 2/CMA.3, annex, para. 21c refers to information on any changes to previous authorisations; Decision 7/CMA.4 para. 9c refers to information on authorisations, including any revisions). Decisions to date do not contain any further details on (e.g., the possible types of changes) and do not include any explicit mention to the revocation of authorisation.

The need for, and types of, changes to authorisations may be influenced by various factors, such as the definition of first transfer, type of authorisation in question, minimum information required to clarify what has been authorised, relevant information reported by Parties, and the consistency of the application of corresponding adjustments will influence the determination of possible changes applicable to authorisations already granted.

Below, the types of changes and revocations to authorisations are presented, and their implications analysed.

4.1. Typology of changes and revocations

Given the wide range of potential contents included in authorisations, relating to e.g. its scope, criteria, terms and provisions, changes to authorisation would have different implications depending on which contents are changed and how. Parties have noted that some changes to authorisation may be minor and administrative, like changes to the name of an entity, while other changes could be significant, like changes in the scope of the authorisation (UNFCCC 2023a). Some changes may limit the authorisation, e.g., by reducing the scope of the authorisation in terms of e.g., the volume of ITMOs or types of authorised uses, while other changes could expand the authorisation, e.g., by increasing the volume of ITMOs or types of authorised uses. Lo Re et al. (2022) state that purely administrative changes would not affect the design or operation of an ITMO-generating activity or the content of any bilateral agreement between participating Parties, or the use of ITMOs. By contrast, significant changes that have substantive implications on the activity, bilateral framework and/or ITMO use, and thus material impacts on emissions accounting and/or financial flows, warrant closer consideration (Lo Re et al. 2022). In this paper, we classify changes to authorisation into purely administrative changes, non-administrative changes (i.e., changes that affect the authorised element significantly and in turn have implications on accounting), and revocations. The following tables shows examples of the types of possible changes and revocations.

Table 1: Types of changes to authorisations (Authors building on Lo Re et al. 2022)

Type of change	Examples
Administrative changes	<ul style="list-style-type: none"> • Change of Participants' names • Adding or removing an authorised entity • Modification of effective dates
Non-administrative changes (i.e., changes that can have an impact on accounting)	<p>Activity-specific changes:</p> <ul style="list-style-type: none"> • Increase or decrease the original volume of authorised ITMOs <ul style="list-style-type: none"> ◦ Note that the rationale for the reduction could be to reflect lower-than-expected volume of verified mitigation outcomes and/or to address any reversals of emission reductions or removals (that have not been addressed in other ways). <p>Non-activity-specific changes:</p> <ul style="list-style-type: none"> • Extending or reducing the scope of authorisation for use compared with the original scope • Increase or decrease the original volume of ITMOs to transfer i.e., country backtracking for non-activity related reasons, lack of progress in NDC, new government changes, new policy, among others.
Revocations	<ul style="list-style-type: none"> • Revocation of authorisation due to activity performance such as failure to register the activity or verify mitigation outcomes, failure to deliver pre-agreed co-benefits, evidence of serious negative environmental or social impacts (e.g. human right violation) or fraud, among others, that are triggered by predetermined conditions and indicators in e.g., conditional authorisation • Revocation due to e.g. lower-than-expected performance of national policies and consequent insufficient progress towards NDC achievement • Revocation due to political changes

Parties have proposed different approaches to which types of changes could be allowed and under what conditions they could apply, taking into account related proposals on the minimum content and the type of authorisation.

At SB58, Parties discussed the different types of changes to authorisation under Article 6.2. These include, inter alia: changes to ITMO volumes and/or their authorised uses; changes that do not affect the ITMO volumes and/or their authorised uses; changes to authorisation

only under circumstances of a human rights violation or violation of the cooperative approach agreement (UNFCCC 2023a). Revocations were seen as the most extreme change to authorisation. Some Parties support the option of not allowing revocations, while others support allowing some (but not all) types of revocations, such as allowing revocations that only affect ITMOs not yet first transferred or transferred (UNFCCC 2023a, para. 37).

[In terms of timing, many Parties considered any changes (including revocations) made after (first) transferring of units as problematic (UNFCCC 2023a). Changes that are applied before the first international transfer or use/cancellation have limited impact on consistency and double counting provisions, while changes that are applied after the first international transfer or use could affect legal certainty, credibility and transparency of both Article 6.2 and the Article 6.4 mechanism (EU 2023). Therefore, some Parties stressed that changes should not be applied retroactively to ITMOs that had already been transferred/used/cancelled at the time of the change (EU 2023; Russian Federation 2023).

Parties discussed the importance of finding a balance between flexibility for allowing and managing changes and mitigating any negative impacts on markets and entities, while recognising that authorisation under Article 6.2 and Article 6.4 is a national prerogative. Standardising the process of making changes to authorisation was seen as difficult due to factors such as the performance of activities or national policies or changes in political priorities. Some options discussed to manage changes include: providing a justification of the changes that is tracked in the reporting infrastructure and is subject to a consistency check by the UNFCCC Secretariat; including provisions in bilateral agreements for managing changes; managing changes at the level of a cooperative approach (including for a general authorisation wherein relevant additional detail may be added over time in relation to authorising specific categories, activities, vintages, etc., or by expanding the scope of authorisation) (UNFCCC 2023a).

4.2. Implications of changes or revocations

As mentioned in chapter 2, the following elements might potentially be subject to authorisation, and therefore, subject to changes: cooperative approaches, ITMOs and entities.

Experiences under the CDM, where ex-post changes were possible, are considered a precedent for this discussion (Lo Re et al. 2022). Under the CDM, different actions were defined according to the type of change. For instance, changes that do not affect accounting or finance issues of the project design (immaterial, e.g., changes of up to two years to the start date of a crediting period) only required notification to the CDM's Executive Board. In contrast, for changes that affect the project substantially (material), further examination and approval by the CDM Executive Board and/or a Designated Operational Entity was required.

As discussed in chapter 2, the possibility to make changes to authorisation could have different implications, depending on whether these changes impose additional risks. Therefore, changes in the volume of authorised ITMOs, and/or changes to the potential use of authorised ITMOs, could have significant consequences within and between Parties. These consequences could potentially encompass financial and/or reputational consequences for the entities and Parties involved, as well as impacting the potential achievement of the NDC of one or both Parties (Lo Re et al. 2022).

In the following, we summarise potential implications of different types of changes or revocations to authorisation applied at different points in time, to host countries, buyers, developers and social and environmental integrity, and identify the relevant types of risks. Relevant types of risks include risks to reputation, accounting, reporting, financial aspects, and environmental integrity.

Accounting and reporting risks are linked to changes e.g. to common nomenclatures and their elements and volume of ITMOs or A6.4ERs already reported, including its use. Financial risks refer to risks that undermine the activity's financial viability and access to finance, thus increasing the risk that the activity is not implemented, and the mitigation outcomes do not materialise. Risks that undermine environmental integrity relate to factors that undermine additionality testing, baseline setting, monitoring, verification, addressing any risks of reversals and other aspects that are relevant for ensuring that the mitigation outcomes are additional, conservatively quantified and independently verified, and promote – rather than undermine – ambitious climate action.

Non-substantial changes do not impose risks to any entity or to social and environmental integrity. Substantial changes, on the contrary, can either limit or expand the opportunities for ITMO cooperation by reducing or increasing the volume of ITMOs and the scope of use cases. Limitations can impose financial risks to activity developers/buyers if they are arbitrary and not related to the activity's performance and thus beyond the control of the developers. Expansions, on the other hand, can benefit the developer/ buyer if they enable access to a greater volume of ITMOs and/or higher unit price and/or a broader buyer base (e.g., CORSIA, NDC and voluntary buyers). Revocations is an extreme form of limitation, as it cancels the approval to generate ITMOs. Its consequences depend on the timing. The risk of revocation can undermine the activity developer's ability to mobilise finance and find buyers, the buyer's trust in receiving ITMOs, and the participating countries' ability to apply robust accounting and reporting which, in turn, can undermine environmental integrity.

What concerns the timing, the implications of changes to authorisation or revocations to authorisation before the first international transfer, or in case of OIMP, before or at issuance, are limited regarding reporting and robustness of accounting. There are still opportunities to adjust authorisation volumes based on the latest (e.g. verified) information, and, in case of downward adjustments, some potential is freed up to authorise other MOs. While the initial report might be submitted earlier on (at point of authorisation) under Article 6.2, the agreed electronic format (AEF) for the annual information containing all quantitative information is to be submitted no later than 15 April of the following year. Consequently, it is unlikely that the annual information has already been submitted by the time of the authorisation change/revocation. So, no reports would need to be adjusted as well as any information forwarded to the Article 6 database.

Changes or revocations to authorisation after the first international transfer or, in the case of OIMP, after the issuance, but before the use or cancellation, can result in inconsistencies of reporting of participating Parties. This requires changing or updating previously reported information and undoing possible transactions. This can lead to accounting and reporting risks as well as to the risk of undermining environmental integrity. For NDC use, the change or revocation after the first international transfer may entail the need for the host country to readjust its emissions balance and participating Parties might need to correct their annual information and potentially also the regular one including information forwarded to

the Article 6 database or incorporated in the biennial transparency reports. In the case of a change or revocation of the original volume of authorised ITMOs, this will create complexity that can undermine transparency of ITMO transactions and consequently trust in the market.

Regarding implications of changes or revocations to authorisation after using or cancelling ITMOs, the environmental integrity risk for the host country and buyer is high due to potential double claiming of ITMOs. In addition, this might disincentivise ambition raising. For buyers, there is actual failure risk to comply with their targets (e.g., NDC achievement, CORSIA compliance or voluntary claims).

As discussed above, changes or revocations that affect previously reported information can have severe repercussions on environmental integrity. Instead of such changes and revocations, different actors can make use of other approaches to manage changes to authorisations, such as host countries can include provisions to manage changes in the bilateral agreement, while buyers can include provisions to manage changes in the Mitigation Outcome Purchase Agreements (MOPA).

5. Conclusions

Article 6 authorisation is a key step in ITMO cooperation. Its content and timing, as well as possible changes and revocation can have various implications to host countries, activity developers, buyers and environmental integrity.

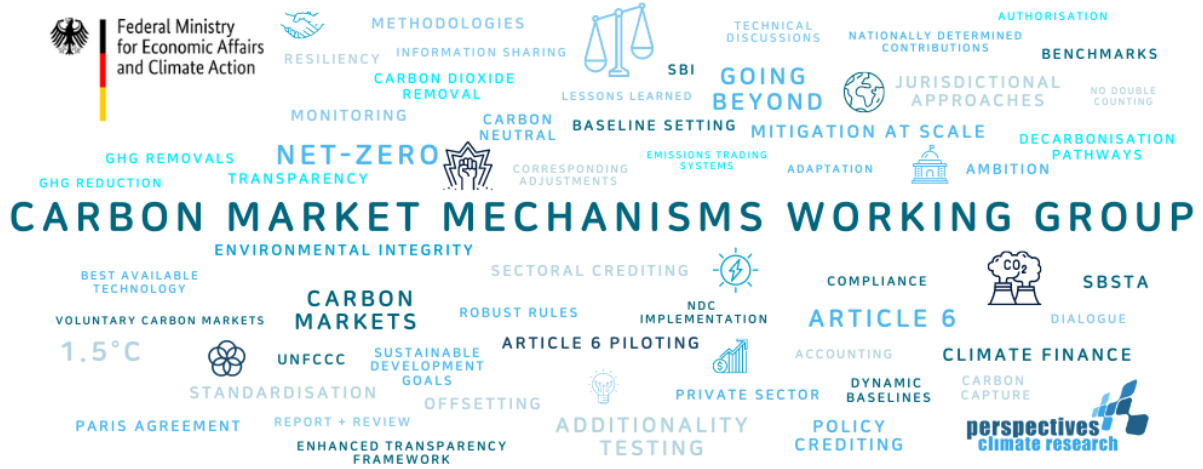
If the international Article 6.2 rules require certain minimum information, this can have implications on the timing of the authorisation and the likelihood of changes to the authorisation if and when this information changes. Activity developers and buyers are likely to benefit from authorisations that are provided before the implementation of the activity and its mitigation outcomes, as this can help them to unlock finance for the activity's implementation. In this case, the authorising Party would need to base the authorisation decision on the activity's anticipated performance, e.g., relating to mitigation outcomes and environmental and social impacts. Thus, they may favour a later timing when more information is available on the activity's actual performance as well as national progress towards NDC achievement. Providing authorisation only after the issuance of carbon credits, and especially after their first international transfer or use, is problematic for activity developers and buyers, as it would prolong the investment uncertainty. Some countries are providing early authorisations that include conditions that need to be met for the authorisation to be deemed final.

Changes and revocations that reflect the actual performance of the activity (e.g., changing the authorised ITMO volume based on verified mitigation outcomes or revoking authorisations of activities that are not implemented) would not impose significant investment risks to the activity developers and buyers. By contrast, changes that are unrelated to the activity's performance (e.g., reducing the authorised ITMO volumes due to insufficient host country progress towards its NDC) would create investment risks. The retroactive application of changes or revocations to ITMOs that have already been transferred, used and/or cancelled at the time of the change or revocation are especially problematic for activity de-

velopers and buyers, as well as for ensuring consistent and robust reporting and accounting. Changes and revocations are not a recommended tool for host countries to manage the risk of overselling. While revocations may be justified in cases where the authorised activity violates human rights or breaches the cooperative approach agreement, national arrangements and/or bilateral agreements can also provide for other means to address such violations.

References

- Decision 2/CMA.3: Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement, Glasgow
- Decision 3/CMA.3: Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement, Glasgow
- Decision 6/CMA.4: Matters relating to cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement, Sharm el-Sheikh
- Decision 7/CMA.4: Guidance on the mechanism established by Article 6, paragraph 4, of the Paris Agreement, Sharm el-Sheikh
- European Union (2023): Submission by Spain and the European Commission on behalf of The European Union and its member states. Submission on Article 6.2 of the Paris Agreement including views on authorizations, the agreed electronic format (AEF) and first transfers, and views on the functional requirements for the centralized accounting and reporting platform (CARP), the Article 6 database (A6 DB) and the international registry. Madrid, 14 July 2023. [https://collaborate.unfccc.int/submissions/Archive/202307141122---ES-2023-07-14%20EU%20Submission%20on%20Article%206.2%20\(authorisations%20AEF%20CARP%20database%20and%20registries\).pdf](https://collaborate.unfccc.int/submissions/Archive/202307141122---ES-2023-07-14%20EU%20Submission%20on%20Article%206.2%20(authorisations%20AEF%20CARP%20database%20and%20registries).pdf) (accessed September 12, 2023)
- Lo Re, Luca; Ellis, Jane; Greiner, Sandra (2022): The birth of an ITMO: authorisation under Article 6 of the Paris Agreement, <https://www.oecd-ilibrary.org/docserver/3d175652-en.pdf?expires=1694793057&id=id&accname=guest&checksum=489E11415EB90F8E9940B460FE2BECE6> (accessed September 12, 2023)
- Marc André Marr, Hanna-Mari Ahonen, Ximena Samaniego Figueroa (all Perspectives Climate Group), Moritz von Unger (Atlas Environmental Law Advisory) (2023): Supporting authorizations under Article 6 of the Paris Agreement: Lessons learned and key considerations. https://www.perspectives.cc/public/fileadmin/user_upload/FINAL_PUBLICATION_Design_Supporting_authorizations_under_Article_6_of_the_Paris_Agreement_.pdf (accessed September 12, 2023)
- OECD (2022): The birth of an ITMO: Authorisation under Article 6 of the Paris Agreement, <https://www.oecd.org/publications/the-birth-of-an-itmo-authorisation-under-article-6-of-the-paris-agreement-3d175652-en.htm> (accessed on June 21, 2023)
- UNFCCC (2023a): 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, https://unfccc.int/sites/default/files/resource/Art6.2_Informal_note_SBSTA58.i13.2.pdf (accessed on June 21, 2023)
- UNFCCC (2023b): Informal note by the co-facilitators on SBSTA 58 agenda item 14. Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement and referred to in decision 3/CMA.3, <https://unfccc.int/sites/default/files/resource/IN.SBSTA58.i14.4.pdf> (accessed on June 21, 2023)
- UNFCCC 2023c: A6.4-SB006-A03 Draft Procedure Article 6.4 mechanism activity cycle procedure for projects. Version 03.1. https://unfccc.int/sites/default/files/resource/a64-sb006_a03_1.pdf (accessed on June 21, 2023)



Perspectives Climate Research gGmbH

Hugstetter Str. 7 | 79106 Freiburg | Germany

info@perspectives.cc | www.perspectives.cc