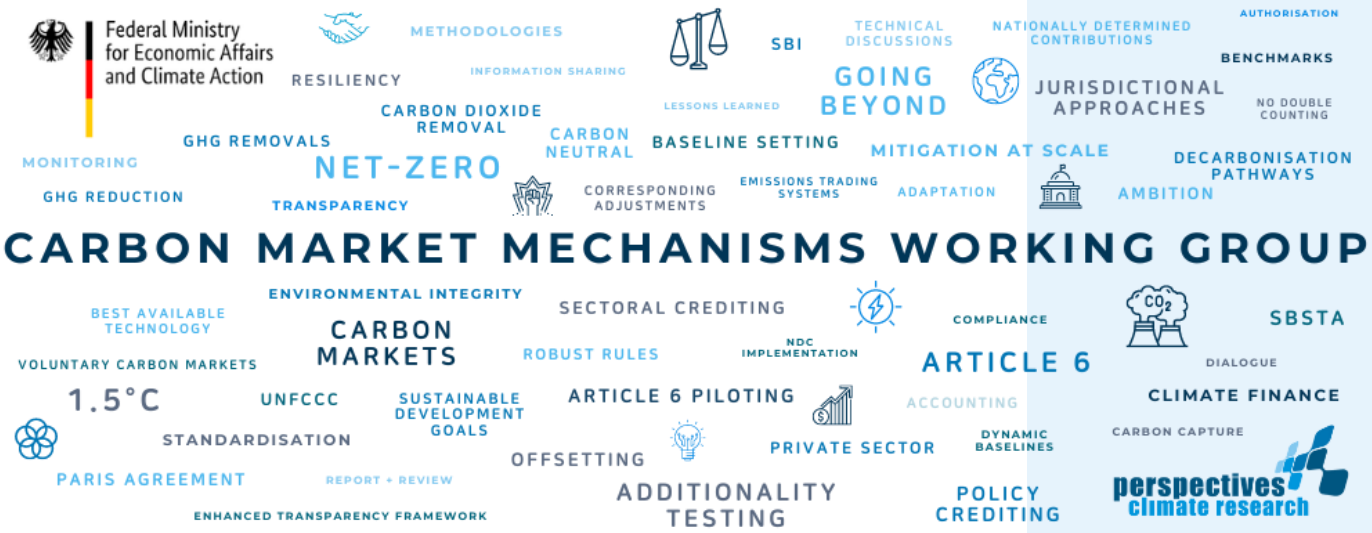
Key issues regarding Article 6 authorisation

October 2024



Discussion paper

Axel Michaelowa, Aayushi Singh, Ximena Samaniego, Juliana Keßler

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Contact CMM-WG coordinator:

Juliana Keßler

kessler@perspectives.cc

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1. Introduction

Authorisation is a key cornerstone of international carbon market action under Article 6 of the Paris Agreement, as it determines which greenhouse gas emissions reductions or removals (jointly referred to as mitigation outcomes) can be first transferred as Internationally Transferred Mitigation Outcomes (ITMOs) by the host country for specific uses towards Nationally Determined Contributions (NDCs), international mitigation purposes such as international aviation or voluntary mitigation action. The two latter purposes are jointly referred to as other international mitigation purposes (OIMP). Mitigation outcomes from Article 6.2 cooperative approaches, mitigation outcomes from Article 6.4 activities (Article 6.4 emission reductions, A6.4ERs), carbon credits issued for activities registered under private carbon crediting programmes and emissions allowances issued for activities under jurisdictional emissions trading systems can be eligible for host country authorisation as ITMOs.

Once a mitigation outcome is authorised, the host country is committed to avoid double counting by applying corresponding adjustments (CAs) to its emissions balance. The trigger for applying CAs is the 'first transfer'. The authorisation is a precondition for a "first transfer, and the latter is a distinct action.

While the Article 6 rulebook[1] provides some degree of clarity on how and when an authorisation must occur, Parties continue to negotiate matters related to content and timing, as well as possible changes to and revocation of authorisation. This process is proving to be challenging, as different options may have significant implications for host countries, activity developers, buyers and other carbon market stakeholders.

Even though some international rules on Article 6 authorisation are still negotiated, a growing number of authorisations have been provided, both within bilateral Article 6 cooperations but also unilaterally for transfer to non-state entities. Regarding bilateral Article 6.2 cooperation, all authorisations have so far been undertaken by Switzerland as an ITMO buyer and one of the countries it is cooperating with. In the context of the cooperation between Ghana and Switzerland, three projects have already received authorisations from the Ghanaian Ministry of Environment, Science, Technology and Innovation (MESTI) and a corresponding authorisation statement was issued by the Swiss Federal Office for the Environment (FOEN). The projects comprise a cookstove activity, methane reduction from rice production and a waste management activity. In February 2023, Thailand and FOEN authorised the use of ITMOs from the Bangkok e-bus programme (FOEN 2023b; Office of Natural Resource 2023). Vanuatu published a Letter of Authorisation (LoA) and FOEN an authorisation statement synchronously in March 2023 for an activity rolling out decentralised solar power installations (FOEN 2023c; Government of the Republic of Vanuatu 2023).

Several host countries have authorised mitigation outcomes outside a bilateral cooperation framework, through "unilateral approaches"[2]. Suriname has authorised ITMOs originating

[1] The paper collectively refers to all decisions made under Article 6 thus far – namely, Decision 2/CMA.3, Decision 3/CMA.3, Decision 6/CMA.4 and Decision 7/CMA.4 – as the 'Article 6 rulebook'.
[2] This trend is similar to what happened under the Clean Development Mechanism (CDM) of the Kyoto Protocol, where the original idea of having a Letter of Approval by both the buyer and the seller country of Certified Emission Reductions (CERs) was quickly replaced by "unilateral" CER sales only based on a host country Letter of Approval.

from REDD+ activities (Government of Suriname 2024). In February 2024, Guyana published a Letter of Assurance and Authorisation for emission reductions or removals issued by the jurisdictional crediting programme Architecture for REDD+ Transactions (ART) in 2021. Further unilateral authorisations include authorisations by Gambia (1), Madagascar (4), Malawi (2), Morocco (1), Nigeria (1), Oman (1), Rwanda (4), Tanzania (1) and UAE (1). In total, by September 2024 there were 18 unilateral authorisations.

In the negotiations room, Parties have varying understandings on the need for further international guidance on authorisation processes. The differences in Parties' views on authorisation may also stem from different views regarding the benefits of national flexibility compared to international harmonisation and/or differences in the nature and scale of ITMO cooperation that Parties intend to engage in.

This short paper discusses the latest developments in negotiations on matters related to authorisation and the characteristics of authorisations taking place on the ground. The paper also discusses how authorisation processes influence accounting, reporting, and review processes under Article 6. It builds on discussions during a workshop of the Carbon Market Mechanisms Working Group (CMM-WG) on 24 September 2024.

2. Status of negotiations on Article 6 authorisations

This section discusses key issues and positions in the negotiations on authorisation under Article 6.2 and 6.4 at the 28th Conference of the Parties (COP28) and the 60th session of the Subsidiary Body for Scientific and Technological Advice (SBSTA60).

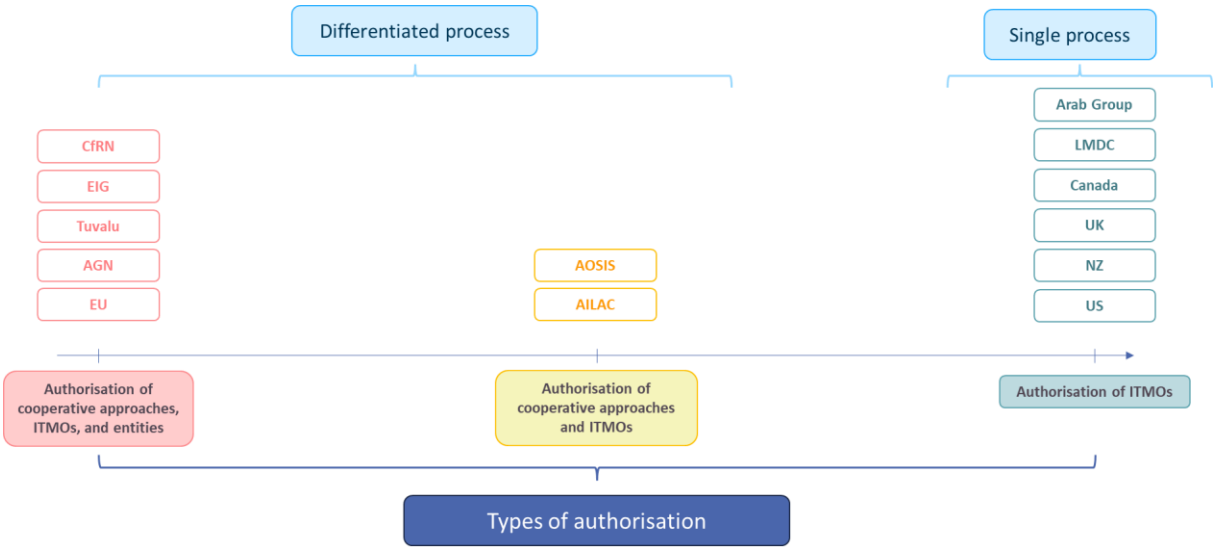
2.1. Scope of the authorisation

Regarding the scope, Parties are debating whether to clearly differentiate between three types of authorisations – namely, for cooperative approaches, entities[3] and ITMOs– or to implement a single, system-level authorisation solely for ITMOs. Parties in favour of the authorisation of a cooperative approach argue that it is essential for ensuring transparency and building trust in cooperative approaches, as it enables the provision of early information on their nature and to understand the quality of the cooperation model and the resulting units. These Parties also stress the provision in para 18 (g) of Decision 2/CMA.3, annex, which specifies that each participating Party must provide a copy of authorisation for each cooperative approach. Parties that oppose the authorisation of cooperative approaches advocate solely

[3] At SB60, several Parties began to lean towards recognising only two types: authorisation: of cooperative approaches and ITMOs.

for ITMO authorisations to be flexible regarding the type of cooperative approach that generates the ITMO. Party positions on this issue area are illustrated in Figure 1.

Figure 1: Negotiation positions on the scope of authorisation(s) (Source: Authors)



Note: AGN - African Group of Negotiators; AILAC - Independent Association of Latin America and the Caribbean; AOSIS - Alliance of Small Island States; CfRN - Coalition for Rainforest Nations; EIG - Environmental Integrity Group; EU - European Union; LMDC - Like-Minded Developing Countries; NZ - New Zealand; UK - United Kingdom; US – United States of America

2.2. Content of authorisation

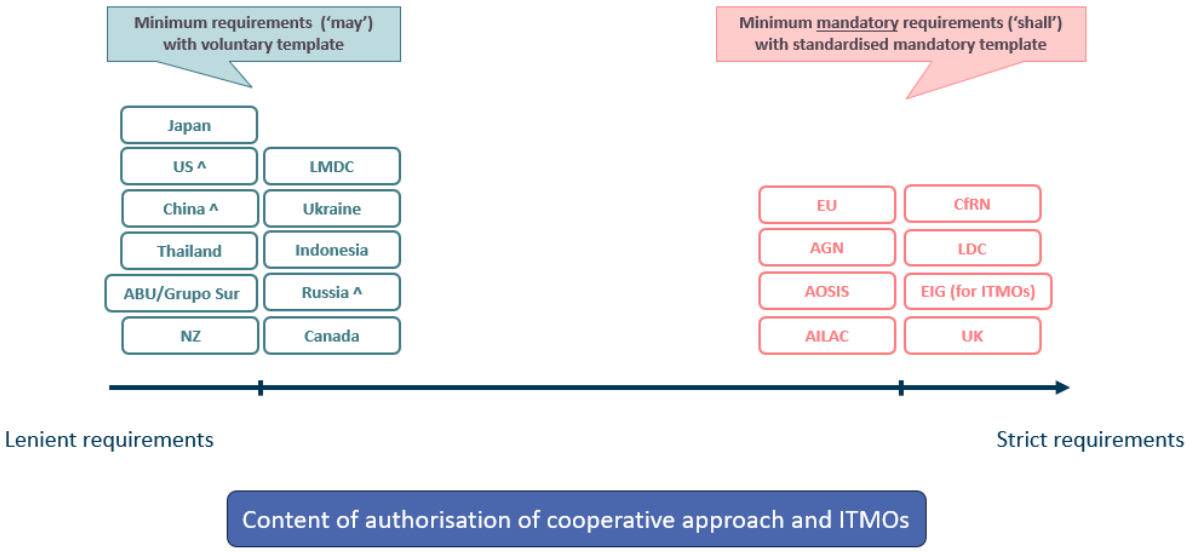
The differing positions of Parties on the scope of authorisation(s) also have influenced their statements regarding the content of authorisations. Several Parties are advocating for international guidance on the minimum requirements for information to be provided on authorisation in a standardised format, with this information being made publicly available. They emphasise that a common standard for (all types of) authorisation is essential for ensuring transparency, enabling accurate tracking and reconciliation of ITMO transfers and use, ensuring the appropriate application of CAs, and supporting robust reporting.

However, other Parties argue that such detailed guidance is unnecessary, as highly prescriptive minimum requirements would limit national flexibility, delay the authorisation process and increase the likelihood for ex post changes, thus creating risks and uncertainties for the buyers. These Parties further stress that defining minimum information requirements is redundant as authorisation forms already part of the initial report (IR) which provides the necessary information. They therefore advocate to align authorisation with the reporting requirements under the initial report and the biennial transparency report (BTR).

Parties calling for the development of guidance on information requirements have also proposed the use of a standardised template to ensure consistency and comparability in reporting, avoid a 'confetti' of different templates and support developing country Parties in their reporting efforts. Other Parties argue that authorisations are a national prerogative and propose creating a voluntary reporting template and including it, along with as further

guidance, in a manual to assist Parties in reporting information. The negotiation positions of various Parties on this matter are illustrated in Figure 2 below.

Figure 2: Negotiation positions on the content of authorisation (Source: Authors)



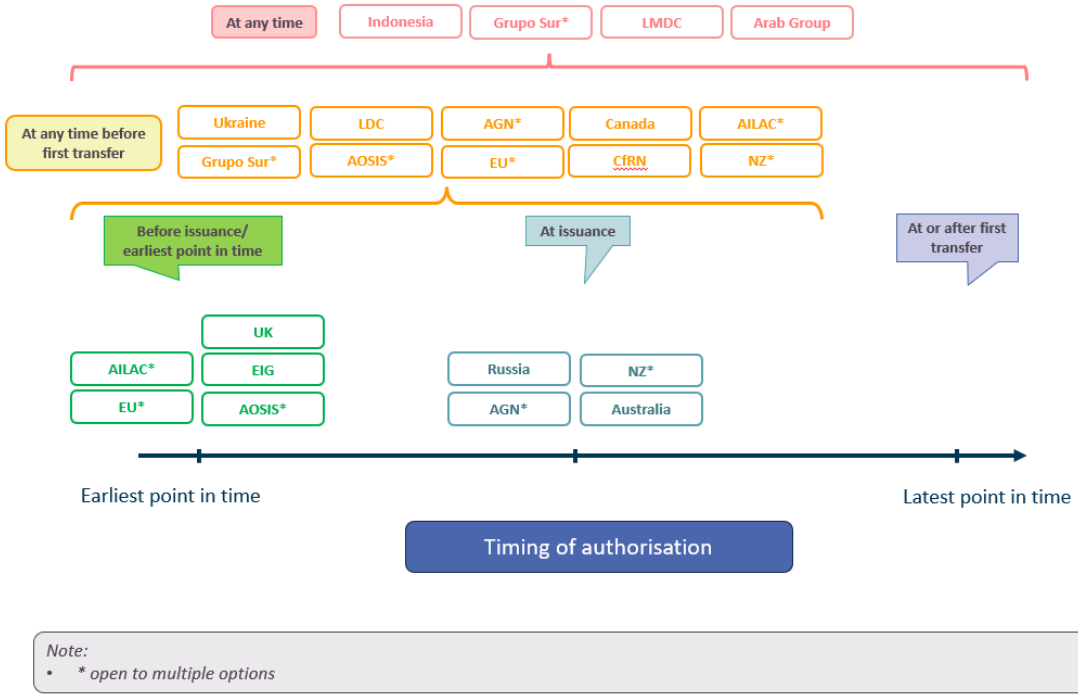
Note: ABU – Argentina, Brazil and Uruguay; AGN - African Group of Negotiators; AILAC - Independent Association of Latin America and the Caribbean; AOSIS - Alliance of Small Island States; CfRN - Coalition for Rainforest Nations; EIG - Environmental Integrity Group; EU - European Union; LDC - Least Developed Countries; LMDC - Like-Minded Developing Countries; NZ - New Zealand; UK - United Kingdom; US – United States of America

2.3. Timing of the authorisation

Options for timing of authorisation in the negotiations now include: i) at any time, ii) at any time before 'first transfer', iii) at issuance, iv) before issuance or as early as possible[4]. Negotiation positions of different Parties on this matter are presented in Figure 3 below. The timing of an authorisation is a critical issue as it can shift risks between actors: Authorisation of early-stage activities is attractive for ITMO 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 accept a longer period of uncertainty about the activity's authorisation status, potentially undermining investment decision.

[4] In addition to this, the EU and AILAC firmly believe that authorisation of a cooperative approach must occur before the authorisation of ITMOs.

Figure 3: Negotiation positions on timing of authorisations (Source: Authors)



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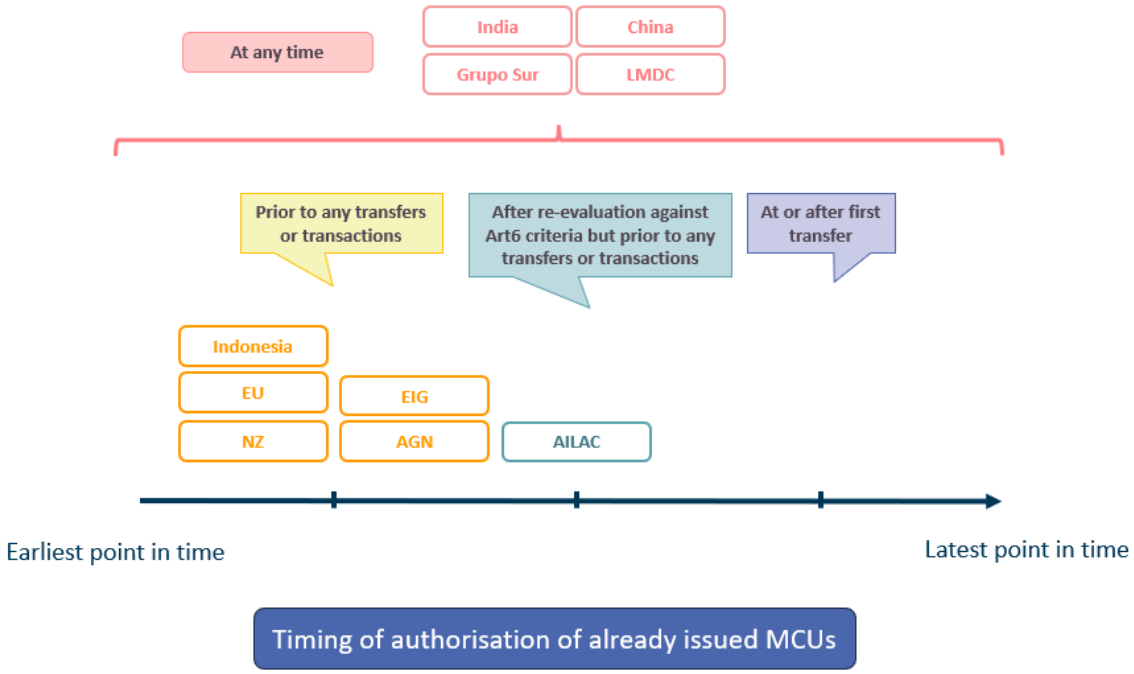
A key issue raised during SB60 regarding the timing of authorisations was whether Article 6.4 emissions reductions (A6.4ERs) already issued as mitigation contribution units (MCUs) can be authorised at a later stage to convert the MCUs into ITMOs. Proponents of this approach argue that MCUs meet the stringent requirements of the Article 6.4 mechanism, making them high-quality units, and therefore, they should be eligible for authorisation. Opponents, however, contend that authorising already-issued MCUs has implications for corresponding adjustments (CAs), the share of proceeds (SoP), and the overall mitigation in global emissions (OMGE) given that the issuance of MCUs triggers obligations to contribute to SoP and OMGE. They pointed out that if MCUs are authorised post-issuance, the SoP for adaptation (5% of issued credits), as required at issuance under Decision 2/CMA.3, paid in form of MCUs would be less valuable than if paid in form of ITMOs. MCUs are likely to be priced lower than ITMOs, given that they do not carry a premium associated with corresponding adjustments. Moreover, authorising A6.4ERs would also trigger the responsibility to apply CAs, raising concerns that authorizing already-issued MCUs could jeopardize the host Party's ability to achieve its NDC as it may not be able to mobilise the mitigation to cover the CA. The negotiation positions on this issue are illustrated in Figure 4 below.

Figure 4: Negotiation positions on authorising already issued MCUs (Source: Authors)

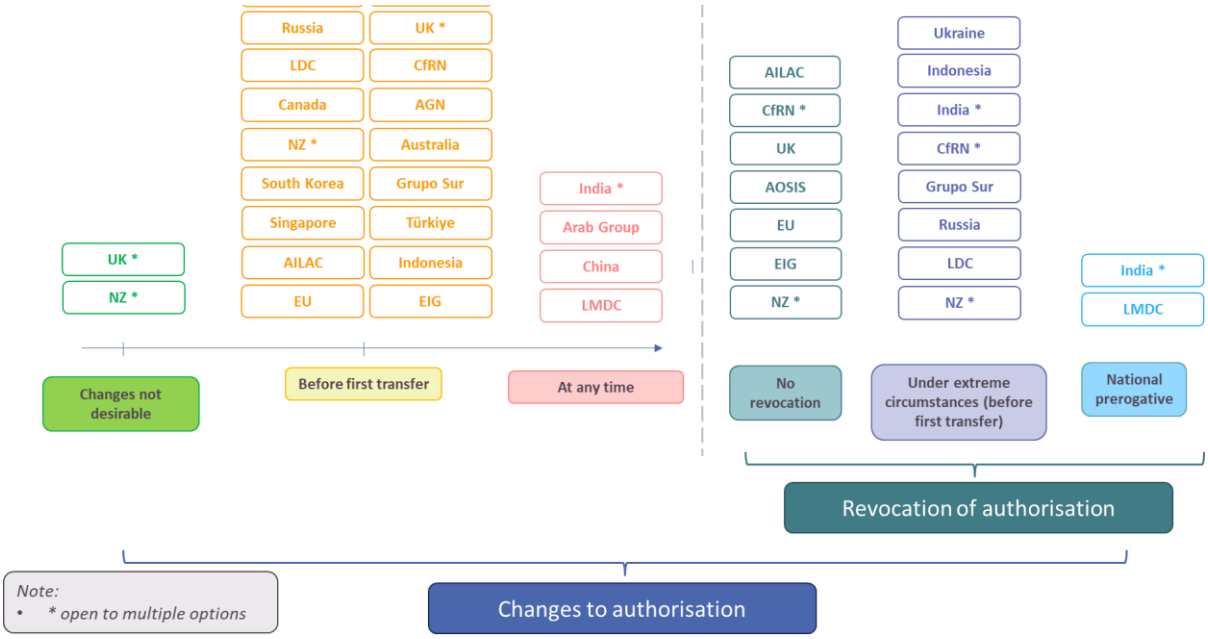


Note: AGN - African Group of Negotiators; AILAC - Independent Association of Latin America and the Caribbean; AOSIS - Alliance of Small Island States; EIG - Environmental Integrity Group; EU - European Union; LMDC - Like-Minded Developing Countries; NZ - New Zealand

2.4. Changes or revisions to authorisation

Para 21c of Decision 2/CMA.3, annex, refers to "changes or revisions" of authorisations. However, there is lack of guidance on the possible types of changes, conditions under which such changes can be made and until when and whether an authorisation can be revoked. Negotiation positions of different Parties on this matter are presented in Figure 5 below. Most Parties raised general concerns and objection with changes to authorisation, particularly if those happen after the 'first transfer' of ITMOs, stressing the risks to investment certainty and double counting. Some Parties were absolutely opposed to the option of allowing the revocation of an authorisation. Other Parties are of the view that it should be up to the Parties participating in the cooperative approaches to decide the terms and conditions for changes to and/or revocation of authorisation. For changes to authorisation under Article 6.4, these Parties further specified that authorisation is a national prerogative, and it should be up to the host Party to decide whether to change and/or revoke an authorisation. To come to a resolution on the issue of revocation, Parties discussed the possibility of allowing authorisation to be revoked "under extreme circumstances" but ideally before 'first transfer'. However, many Parties cautioned against such language without agreeing on a clear definition of "extreme circumstances".

Figure 5: Negotiation positions on changes to and revocation of authorisation (Source: Authors)



Note: AGN - African Group of Negotiators; AILAC - Independent Association of Latin America and the Caribbean; AOSIS - Alliance of Small Island States; CfRN - Coalition for Rainforest Nations; EIG - Environmental Integrity Group; EU - European Union; LDC - Least Developed Countries; LMDC - Like-Minded Developing Countries; NZ - New Zealand; UK - United Kingdom

3. Article 6 authorisations in practice

To date, 23 Article 6 authorisations have been issued (IETA 2024). Of these, five were provided within the context of bilateral cooperative approaches, while 18 were unilaterally provided by the host country for use in the voluntary carbon market. In the following, we outline the key features of the bilateral and unilateral authorisations issued to date.

3.1. Bilateral authorisations in practice

Ghana - Switzerland

The bilateral agreement between Ghana and Switzerland, signed in November 2020, specifies that authorisation is carried out by a formal statement (Letter of Authorisation, LoA) issued by **both** Parties to publicly recognise the international transfer of mitigation outcomes and their uses (FOEN 2020).

Prior to the issuance of LoAs, Ghana's national framework indicates that entities involved in the development of mitigation activities must apply for recognition to be granted a Letter of Intent (LoI), followed by a pre-authorisation which confirms compliance with Ghana's NDC (CMO 2022). After completing validation of the Mitigation Activity Design Document

(MADD), project developers can request the final LoA (CMO 2022). In parallel, the Swiss Federal Office for the Environment (FOEN), the enforcement authority of the CO_2 Ordinance[5], also issues a LoI first to confirm interest in the mitigation outcomes to be generated and subsequently a LoA upon successful validation in accordance with Ghana's statement (FOEN 2024a). Coordination between the two countries, including informal discussions, is essential to address potential issues before formal authorisations are published in their respective registries (FOEN 2024a).

To date, three mitigation activities have received LoAs by both Ghana and Switzerland. The LoAs signal the intent to internationally transfer and use generated mitigation outcomes prior to issuance of such. Either Switzerland or Ghana can initiate an authorisation. Issued authorisation statements are mutually checked and inconsistencies would need to be raised within 30 calendar days after receipt. The authorisation statements specify activity-level information such as the name of the activity including a reference to the MADD, the carbon market programme under which the activity has been registered, the authorised crediting period, the total maximum amount of mitigation outcomes for which international transfer and use is authorised and the NDC period in which the ITMOs may be used as well as a reference to the authorisation statement issued by the other Party (FOEN 2022a, 2023a, 2042b; CMO 2022b, 2023, 2024). The MADD is annexed to the LoAs provided by both cooperating Parties. In addition, further information is included such as the entity authorised to transfer, the definition of first transfer and the method that will be applied for CAs.

Since the authorisation statement specifies a maximum amount of ITMOs authorised, it is not clear how many mitigation outcomes are in fact issued and then authorised for first transfer. The bilateral agreement specifies that both Parties are to evaluate the monitoring and verification reports against the methodological and reporting requirements within 90 days of the reports' receipt (FOEN 2020). The activity proponent is to be informed by both Parties on the outcome and if approved, the monitoring and verification reports are published by Switzerland and Ghana. Additionally, Ghana is to ensure that the reports are aligned with the LoA, the requirement to avoid double claiming and that there is no evidence of violation of human rights or national legislation. Based on this, Ghana must prepare an examination report within 90 calendar days after the reports' submission and inform the Swiss government. The Swiss government can then take up to 30 calendar days to check the fulfilment of all requirements and to publicly provide a confirmation. Upon the Swiss confirmation, the actual transfer of the ITMOs into the Swiss Emissions Trading Registry takes place. Consequently, there are additional "authorisation steps" or checks taking place after the issuance of the LoAs by Ghana and Switzerland. The Swiss Emissions Trading Registry will function as a central database, granting access to the authorisations from Switzerland and its partner countries, which underpin each international attestation representing an ITMO and its respective cooperative framework (UNFCCC 2023a).

Regarding changes to authorisation, the different authorisation statements (FOEN 2022a, 2023a, 2042b; CMO 2022b, 2023, 2024) for the activities in Ghana make a reference to the provisions agreed in the bilateral agreement. Accordingly, changes need to be initiated

[5] Based on the Swiss CO_2 Act, the CO_2 ordinance outlines how the climate policy instruments are implemented

through a request by the entity authorised to transfer by MESTI in the respective authorisation statement (FOEN 2020). In the case of the “Transformative Cookstove Activity in Rural Ghana” this is for example ACT Commodities (CMO 2024). Following the request, each Party may update or change its respective authorisation respectively. Updates or changes in the statements become valid within 30 days unless Switzerland raises an inconsistency issue (FOEN 2020). Consequently, changes might occur when the entity authorised to transfer realises that the volume of generated mitigation outcomes varies considerable from the issuances indicated in the MADD.

While none of the three activities in Ghana have yet issued mitigation outcomes, Ghana and Switzerland have both submitted an initial report already (UNFCCC 2023 a,b). When publishing the initial report, not all activities in Ghana were authorised yet by Ghana. Consequently, the initial report from Ghana only covers the first authorised activity in Ghana ("Promotion of Climate-Smart Agriculture Practices for Sustainable Rice Cultivation") while the Swiss initial report cover all three activities.

Thailand - Switzerland

The authorisation provisions in the bilateral agreement between Thailand and Switzerland (FOEN 2022b) established in June 2022, are similar those of the Ghana-Switzerland bilateral agreement. The process for initiating and checking an authorisation statement is basically the same. The purchase agreement between the KliK Foundation and the project owner Energy Absolute was also signed in June 2022.

In its Carbon Credit Management Guideline and Mechanism, Thailand specifies that the process begins with a project developer submitting project details to the Office of Natural Resources and Environmental Policy and Planning (ONEP) (National Committee on Climate Change Policy of Thailand 2022). The Office ensures that the project complies with the necessary regulations and, following approval by the Committee and the Cabinet, issues a LoA for the use of resulting carbon credits.

The “Bangkok E-Bus Programme” is the first authorised mitigation activity under the bilateral agreement. The Swiss and Thai LoAs for this activity indicated that ITMOs are authorised for NDC use (FOEN 2022c; ONEP 2022). Next to including the general information about the activity, the authorised entity, the crediting period and the total cumulative maximum amount of mitigation outcomes (500,000 tCO_2eq), some further aspects are included in Thailand’s LoA. It is specified that the authorisation’s effectiveness is contingent on the successful issuance of emission reductions and that the government is not liable to achieve the maximum amount of emission reductions indicated in the statement (ONEP 2022). Besides, compliance with the Thai Carbon Credit Management Guideline and the mitigation activity standards of the Thailand Greenhouse Gas Management Organization (TGO) is required.

According to Thailand’s national framework, once the activity is authorised, the project proponent needs to register the project in the carbon credit registry system and submit verified monitoring reports for assessment (National Committee on Climate Change Policy of Thailand 2022). Upon successful evaluation, the developer can request the issuance of carbon credits. The “Bangkok E-Bus Programme” activity was the first Article 6.2 activity that

issued mitigation outcomes upon successful verification (FOEN 2023b; KliK 2024). The verification report confirmed that the activity resulted emission reductions of 1,916 tCO2eq during the monitoring period October to December 2022 (FOEN 2023b). The same provisions and timelines apply for monitoring, verification and examination as in the context of the Ghana-Switzerland bilateral agreement: Both Parties are to assess the verification and monitoring reports, Thailand must send an examination statement to Switzerland and the entity authorised for transfer (Energy Absolute) upon which Switzerland has to confirm fulfilment of all requirements for transfer and share this with Thailand and Energy Absolute.

Following this procedure, 1,916 issued ITMOs were purchased by the KliK Foundation and transferred to its account in the Swiss Emissions Trading Registry on 15 December 2023 (KliK Foundation 2024). To transfer the ITMOs, the proponent had to submit a request via the Thai registry system (TGO) which is responsible for recording the transfer and preparing the annual reports on these transactions, which are submitted to ONEP (National Committee on Climate Change Policy of Thailand 2022). ONEP ensures that CAs are applied to avoid double counting. Both national registries contain information on the amount of ITMOs transferred (BAFU 2024; TGO 2024).

3.2. Unilateral authorisations in practice

Malawi

In November 2023, the Ministry of Natural Resources and Climate Change of the Republic of Malawi, issued a LoA for the Gold Standard (GS)-registered "Biomass Energy for Conservation Programme". The letter makes a clear reference to the underlying project documentation in the annex. The letter recognises Hestian Innovation Ltd as the authorised activity participant that has satisfied all preconditions for authorising mitigation outcomes and considered technical recommendations (Ministry of Natural Resources and Climate Change of Malawi 2023). The letter specifies that mitigation outcomes generated by the activity between January 2021 until December 2030 and issued as credits by GS are authorised. Additionally, a minimum volume of mitigation outcomes generated of 1 million tCO_2eq each calendar year is indicated, of which 10% is to be reserved for the country (Ministry of Natural Resources and Climate Change of Malawi 2023). However, in the corresponding authorisation check list provided by GS, it is clarified that Malawi meant a target of 1 million tCO_2eq to be authorised from the activity (Gold Standard 2022). (Malawi furthermore clarifies that the provided LoA does not mean that the government will support the mitigation activity in case any legal of environmental requirements are not met or when it is discontinued. The LoA does not specify the possibility to request any changes to the authorisation statement. According to Global Issues (2024) and Ritz Attorneys at Law (2024) the government of Malawi is in the process of adopting a Guiding Framework for carbon credit trading under Article 6 of the Paris Agreement.

Rwanda

As one of the first examples of unilateral authorisations, the Rwanda Environment Management Authority (REMA) issued a LoA to a programme focused on improved cook stoves registered under GS and developed by atmosfair gGmbH in 2021 (REMA 2021). The LoA specifies that the project's emission reductions may be used by private or public entities towards

voluntary or compliance targets including towards NDCs by public actors. While clearly identifying the activity by stating its UNFCCC ID and the GS reference number, the LoA does not refer to a specific volume of emission reductions that are authorised or the crediting period and the underlying project documentation. However, it specifies reporting obligations for the project developer, an annual report to be submitted until 31 March of each year that notifies Rwanda about the last credit issuances and their uses by other countries or entities.

In 2023, REMA issued three LoAs for clean cooking and improved cooking activities developed by DelAgua registered under Verra (REMA 2023 a,b,c). The letters authorise the projects' emission reductions to be used as ITMOs towards OIMP purposes. The letters specify a crediting period during which these emission reductions are to be generated and an estimated maximum volume. The letters also confirm the project's contribution to sustainable development and specify that Rwanda will not use these mitigation outcomes towards its own NDC by applying CAs. The deadline for submitting annual reports on issuances by the project developer is specified as 31 December of each year and thus different to Rwanda's first LoA. Moreover, "first transfer" is specifically defined as happening with authorisation of the mitigation outcomes. Additionally, the letters outline provisions for the project developer such as reserving 10% of ITMOs for Rwanda's NDC achievement, retiring 2% for global emissions reductions, and allocating 5% of the remaining credit revenues to the Global Adaptation Fund.

According to Verra's registry, 59,921 tCO_2eq have already been retired or cancelled from these projects as ITMOs for other purposes. While some of these credits have been cancelled or retired to contribute towards global emissions reductions, others have been retired for individuals or organisations (Verra Registry 2024).

Rwanda's unilateral authorisations do not provide any details on whether a check is carried out by the government once the verification and monitoring reports are available. It is for example not further specified how the annual reports to be submitted by project developers are processed. Also, the possibility of changes to the LoAs is not further addressed in the documents provided by REMA.

While Rwanda has a National Carbon Market Framework in place since 2023 that back its authorisation processes, no initial report has been submitted yet. The country might submit it in conjunction with its Biennial Transparency Report (due on 31 December 2024) as indicated in some authorisation statements.

3.3. Key features of Article 6 authorisations to date

To date, most Article 6 authorisations are issued pre-issuance and are therefore also referred to as "pre-authorisations" or "ex-ante authorisations". Since the exact volume of mitigation outcomes to be generated and issued is not known at that point of time, the authorisations, mostly in the form of LoAs, specify a maximum volume of mitigation outcomes to be transferred. Therefore, additional checks are required after the verification to "sign off" a certain amount of mitigation outcomes. A key difference between bilateral and unilateral authorisations lies in the clarity of that process. Bilateral authorisations to date clearly specify that pre- authorisation will be followed by an evaluation of verification and monitoring reports,

once available, and an examination by both the host and the buyer. Only thereafter actual ITMOs will be issued. In contrast, it is not clear in many unilateral authorisations how the authorised volume relates to the verified mitigation issued in form of emission credits and how the host country is informed by actual issuances. Only few unilateral authorisations refer to a reporting obligation by the project developer to the host country.

The authorisation process for both bilateral and some unilateral approaches is initiated by steps that signal intent between the host and buyer(s), e.g., through the issuance of a LoI. However, in the case of bilateral cooperative approaches, usually bilateral agreements or memoranda of understandings (MoUs) are published, which is not always the case for unilateral authorisations. These documents provide some degree of information on the nature of the envisaged cooperation. However, the access to these documents differs. Submission of all these documents to a joint platform such as the UNFCCC Secretariat's Centralized Accounting and Reporting Platform (CARP) could considerably improve access and thus enhance transparency regarding authorisation-related information.

A commonality of issued bilateral and unilateral authorisations is that most of them include all three purposes: NDC use, international mitigation purpose and other purposes. This essentially allows the buyer to choose the use that is most attractive in terms of achievable ITMO price.

A key difference between bilateral and unilateral authorisations issued to date is the level of detail provided in the documents. The issued bilateral authorisations include the description of the activity, uses cases, reference to the MADD, the carbon market programme generating the credits, the applied baseline methodology, the crediting period, the maximum volume of CO_2eq for which international transfer and use is authorised, the NDC period during which ITMOs may be used, the entity authorised for transfer and the definition of first transfer including the method for applying CAs. Unilateral authorisations vary widely with some covering all these elements (apart from authorised entity and CA method) and others providing very little information. The authorisation checklist or assessment provided by Verra and GS help to clarify some of the aspects raised in the statement and provide further information. But not all crediting programmes provide detailed information on the authorisation statements received.

Compared to bilateral authorisations, many unilateral authorisations do not address the possibility of making changes to the provided authorisation. An exemption is Gambia's authorisation for DelAgua's clean cooking project that specifies that the LoA could be terminated by both parties with a notice period of 24 months (Republic of Gambia 2024).

4. Implications of the different authorisation options

In the following, we discuss the implications of different operationalisation options and relate this to ongoing authorisation practices.

4.1. Scope of the authorisation

Some Parties recognise different types of authorisations (cooperative approach, ITMOs and entities), while others acknowledge only two (cooperative approach and ITMOs), and some see only a single type – authorisation of ITMOs. The authorisation of cooperative approaches and entities remains highly controversial among Parties. Additionally, Parties recognising various types of authorisations are divided whether that information should be provided at once or sequentially.

In the following, we explore the debate on authorising entities and cooperative approaches, outlining the pros and cons of providing such authorisations.

Authorisation of cooperative approaches

Provision of an authorisation of a cooperative approach before the authorisation of ITMOs would enable the availability of upfront information on the type and modalities of cooperative approaches. It would help delivering confidence in the activities developed under the respective cooperative approach and give signals to the market about the scope and requirements of the approach, activity types and methodologies that are used under the cooperation, and potentially the entities that are eligible to be involved in activities within the cooperative approach. In the interest of preserving environmental and social integrity, having upfront and transparent information on the cooperative approach would be important to pre-empt any contra productive action taken under the cooperative approach.

On the other side of the coin, opponents argue that by no later than the time of authorisation of ITMOs (or in conjunction with the next BTR, which may however be years later), participating Parties would be required to submit initial reports anyway[6]. In the initial reports, Parties must submit relevant information on cooperative approaches such as a description of the cooperative approach, its duration and expected yearly mitigation, the participating Parties involved, its authorised entities and how the cooperative approach ensures environmental integrity, minimises and avoids negative impacts, respects human rights, aligns with sustainable development objectives of the Party among others (Decision 2/CMA.3, annex, para 18 (g), (h) and (i)). Thus, providing an authorisation of a cooperative approach would result in the repetition of information, thereby further adding to the reporting burden of Parties. Moreover, if the information on a cooperative approach is to be provided early not all information, may be available. Changes in information then may require chang-

[6] Information on cooperative approaches is due to be reported in initial reports, annual information reported in the AEF (Decision 2/CMA.3, annex, para 20 (b)), as well as regular information (Decision 2/CMA.3, annex, para 22), which are then reviewed by the technical expert review team (Decision 3/CMA.3, annex II).

ing and/or revoking authorisation of the said cooperative approach, impacting market certainty. This argument seems somewhat weak, as a country would typically fully develop its cooperative approach before launching it,

An authorisation of a cooperative approach may generate challenges for Parties that understand the approach to cover highly aggregated action such as the linking of ETS. On the other hand, if "first transfer" is defined as use or cancellation of ITMOs in case of OIMP, information on the "cooperative approach" may be only known years or even decades[7] after the mitigation outcomes have been issued and transferred. In this case, activities with negative impact or those not aligned with Paris Agreement rules, can only be detected long after they have started, as everything occurs "behind the scenes".

As described in chapter 3, in practice, we can observe a trend towards pre-authorisations or ex-ante authorisations. In fact, one could refer to these pre- or ex-ante authorisations as "authorisation of the cooperative approach" as they are followed by further checks prior to the transfer upon verification which specify and thus "authorise" the actual volume of ITMOs generated and verified. Other relevant documents published in the context of bilateral and unilateral cooperation such as LoI, memoranda of understanding (MoUs) and bilateral agreements also include significant information on the cooperation and could therefore be considered an "authorisation of the cooperative approach". Consequently, the authorisation of a cooperative approach in practice – even if it is not labelled as such – usually takes a specific format.

A possible landing zone at COP29 could involve allowing some flexibility in the provision of upfront information on cooperative approaches, as long as it is ensured that no information is intentionally delayed or obfuscated. This could be a separate statement (e.g., LoI, MoU). If Parties discuss the submission of information on cooperative approaches only in the initial report, the negotiation text needs to specify an early submission of the initial report. Thereby, the option to provide it in conjunction with the BTR is insufficient given the possible two-year period until the next BTR as well as the risk that the BTR is not submitted in time.

Authorisation of entities

When discussing the format of authorisations, several Parties have questioned providing authorisations of entities, and asked to focus only on authorisation of cooperative approaches and/or ITMOs. The Article 6.2 guidance requires Parties to report on 'authorised entities' in their initial report, the agreed electronic format (AEF) and regular information (Decision 2/CMA.3, annex, para 18 (g), 20 (b), 23 (d)). However, the Article 6.2 guidance does not specify the role of entities, thereby generating a discomfort amongst Parties regarding a stand-alone guidance on authorisation of entities. The Article 6.4 RMPs, on the other hand, clearly indicate that authorisation of entities must be provided to the Article 6.4 Supervisory Body by:

[7] Many companies are currently buying emissions credits for use in the context of net zero targets with dates of years or decades in the future (e.g. 2040 or 2050).

- host Party to public or private entities to participate in the activity as 'activity participants' (Decision 3/CMA.3, annex, para 41)
- other participating Parties to public or private entities to participate in the activity as 'activity participants', prior to first transfers of any A6.4ERs into the respective entity account (Decision 3/CMA.3, annex, para 45).

Therefore, it is clear from the RMPs that entities require authorisation from the host Party and other participating Parties if they wish to be activity participants in an Article 6.4 activity, thus clarifying their role in the mechanism.

Under Article 6.2, authorisation of entities is closely linked to the nature and definition of the cooperative approach. Generally, Parties envision different scopes of cooperative approaches. Some Parties pursue activity-level cooperative approaches, i.e. the cooperative approach clearly relates to one or multiple carbon market activities. Others speak about a higher-level approach to cooperation, aggregated and involving potentially thousands of entities (e.g., ETS allowance exchanges between countries). Some Parties want only to authorise the "residual exchange"[8] of allowances across borders as ITMOs, which would not be possible if involved entities need to be authorised, For an activity-level cooperative approach it is easier to define the activity participants upfront, and therefore, for such cases authorisation of entities can be provided separately or in conjunction with the authorisation of the cooperative approach or ITMOs. In higher-level, aggregated cooperative approaches, activity participants may not be apparent if such approaches may only define the modalities of cooperation (e.g. summing up the end of year balance of hundreds of thousands of transactions in a cross-boundary ETS). Consequently, providing authorisation of entities separately or in conjunction with the authorisation of the cooperative approach is difficult.

If the definition of entities also covers buyers – as requested by Parties who want ITMO use restricted to authorised entities only[9] – the operationalisation becomes challenging. While such an approach promotes transparency, it is difficult to track the buyers in cases where ITMOs are authorised for OIMP. It is arbitrary in the case of "residual exchanges" as discussed above.

In practice, all issued bilateral authorisations have so far identified and authorised entities. Usually, the 'entity authorised to transfer' is identified and not the entity that will use the ITMOs. While this is often specified in bilateral authorisations even though all three uses are listed, this is not clear for unilateral authorisations. Article 6 authorisations should therefore cover the participating entities. We argue that the way commercial agreements are typically established in practice does not necessitate a separate process for the authorisation of entities.

[8] The following numerical example illustrates this approach: During a year, there are 1 million transactions of a total of 190 million allowances crossing the national border of a two-country ETS. 100 million allowances flow into country A, 90 million into country B. The "residual exchange" would be 10 million allowances flowing from country A to country B. Only those would be authorised as ITMOs.

[9] As per the RMPs, other participating Parties shall provide authorisation to entities prior to first transfer of any A6.4ERs (Decision 3/CMA.3, annex, para 45). Some argue the same treatment should be applied under Article 6.2.

Given that every ITMO will have a unique identifier, tracking which entity eventually used the respective ITMOs will be possible, but this can entail lengthy time lags and also conflict with the provision that ITMOs are to be used in the NDC period in which they were issued.

4.2. Content of the authorisation

The discussion on content of the authorisation is closely linked with the issue of differentiating between authorisation types. Parties that support different types of authorisations (cooperative approach, ITMOs and entities), want the requirements to include some information on each authorisation type. Parties that favour the sole authorisation of ITMOs either support defining information requirements only for reporting on authorisation of ITMOs or prefer no international guidance at all.

The arguments in favour of having international guidance on minimum information requirements are that it allows for consistency and comparability of information on authorisation, thereby supporting a straightforward consistency check and review process. This would facilitate better tracking and accounting and provide the necessary certainty to buyers.

This is also linked to the discussion on whether there should be a mandatory or voluntary standardised template for reporting information. Implementing a mandatory standardised template would make it easier to compared different approaches and would help identify 'substandard' ones. However, highly detailed and prescriptive minimum requirements could become cumbersome for Parties to follow, especially if the cooperative approach has a limited scale. If minimum requirements include information requirements that are not available until a certain point in time (e.g., end user and use of ITMOs), this will delay authorisation. Furthermore, if the minimum requirements include providing information that may change over time (e.g., verified volume of MOs, end use of ITMOs), this may create a need for ex-post changes in the authorisation, thus creating risks and uncertainties for the buyers.

Considering the striking differences in quality of unilateral authorisations issued to date, there is a clear need for international guidance on the authorisations' minimum requirements to prevent erosion of trust into Article 6 markets. Ideally, these minimum requirements should not delay the authorisation process and a voluntary template should be provided for those Parties that want to use it.

4.3. Timing of authorisation

As discussed previously, buyers or investors prefer authorisation of ITMOs to be provided as early as possible for investment and market certainty but that comes with increased probability of requiring changes to authorisation as and when further verified information is available. However, late authorisation at issuance or even use (for the case of OIMP) risks generating opaqueness over many years or even decades.

Some Parties appear to be converging on the idea of authorising ITMOs before the 'first transfer'. Since 'first transfer' can also refer to issuance, use or cancellation for OIMP uses, this effectively aligns with the option of 'at any time' for OIMP and would thus be highly

problematic. Allowing millions of ITMOs to accumulate in secrecy, only to emerge abruptly in 2040 or 2050, would undermine transparency and accounting. Therefore, ensuring clarity on the timing of authorisation and the precise definition of 'first transfer' is essential to avoid such irregularities. A possible landing zone for this discussion could explore limiting the time span until when authorisation for OIMP is possible. For example, it could be specified that the authorisation needs to take place in the same NDC period as the issuance of the mitigation outcomes.

Under Article 6.4, it was noted that if mitigation contribution units (MCUs) are authorised later than issuance, the share of proceeds for adaptation (SOP-A) (5% of issued credits) that is due at issuance according to the 2/CMA.3 decision would consist of MCUs rather than ITMOs. Given that the price of the former would be lower than that of the latter due to the price premium attached to correspondingly adjusted units, the Adaptation Fund would lose money. If MCUs are authorised later than issuance, this cost differential between MCUs and ITMOs should be payable.

4.4. Changes to authorisation and revocation of authorisation

The most critical issue with regards to the changes to authorisation is until when such changes should be permissible. Many Parties argue that changes may be allowed before 'first transfer'. However, this links back to the discussion on the definition of 'first transfer' of an ITMO. While for NDC use, the 'first transfer' is defined as the first international transfer of the mitigation outcome, the definition of 'first transfer' is rather ambiguous for OIMP use as it could be either at authorisation, issuance or even as late as use or cancellation. The best practice approach to avoid problematic accounting and reporting implications is to define the 'first transfer' for OIMP as the earlier point in time between paragraphs 2(a) and 2(b) of the annex of Decision 2/CMA.3. This would limit defining 'first transfer' to as early as possible before the international transfer of the ITMO. In the following, we refer to this best practice approach for OIMP as the 'first international transfer', in line with the 'first transfer' definition of ITMOs for NDC use.

Regardless of whether the change is administrative/non-substantial (i.e., changes in names, updating authorised entity list, modification of effective dates) or substantial (i.e., modification in the volume of generated mitigation outcomes due to activity performance), it is unlikely that there are significant reporting and accounting impacts if the changes to authorisation of the concerned ITMOs happens before first international transfer. Before the first international transfer, there are still opportunities to adjust authorisation volumes based on the latest verified information. The AEF for the annual information containing all quantitative information on authorised ITMOs is due no later than 15 April of the following year, implying that at the time of first international transfer, it is unlikely that annual information has already been submitted. Thus, no further reports need to be adjusted at the time of the change. With regards to accounting implications, the application of CAs is triggered by the 'first transfer' of ITMOs. If 'first transfer' was defined to occur prior to issuance for OIMP, changes might actually have some accounting implications. However, considering the issued unilateral authorisations to date, most of the host countries define the 'first transfer' condition as the first international transfer.

Changes made after first international transfer of ITMOs can have significant accounting impacts and will likely entail multiple additional to steps to ensure there is no inconsistency and double counting of ITMOs. Since 'first transfer' triggers the responsibility of the host country to apply CA, the host country would need to revisit all its reports, potentially also AEF and regular information if changes are identified during the time span when these reports are due, make the necessary changes in the reports by submitting new reports, and communicate the changes to the participating Parties to make changes in their reports and/or voluntary buyers using the affected ITMOs for OIMP. Such retroactive changes may also require reversing the applied CAs in host and buyer countries, if the concerned ITMOs are 'first transferred' and already used, thus increasing risks regarding consistency and double counting. Participating parties developing their own national Article 6.2 registries or using underlying private registries would need to ensure that the information on changes to authorisation of the affected block of ITMOs flows to them in real-time and such units are immediately corrected or recalled from the market for correction depending on the type of change. A particularly challenging case is when authorisation of ITMOs for use towards OIMP is changed after first transfer as it may be difficult to check if the buyer for voluntary uses, such as to make offsetting claims, has withdrawn or corrected the claim associated with the affected ITMOs.

Making changes to authorisation of ITMOs after first international transfer reduces market certainty. If a host country states its intention to change authorisation of ITMOs at any time in the LoA, it is likely that buyers (countries, public or private entities) do not approach such a country to buy ITMOs to protect their investments.

Given that most of the issued authorisations to date take the nature of pre- or ex-ante authorisations with indicated maximum volumes for transfer followed by a signing off actual issuances later, changes to the authorisation statements/LoAs might be more likely as compared to authorisation of ITMOs taking place after issuance. It will then also depend on the proponents' and buyers' consideration of the activity's underperformance to a certain degree in the original planning. Historical experience with the CDM shows a substantial underperformance, especially in the early years and for activity types with limited experience. It remains to be seen whether this is sufficient for market functioning and certainty, or the trend will shift towards ex-post authorisations after the first Article 6 issuances. Apart from the timing until when changes shall be possible, ways to manage changes to authorisations should be dealt with in the bilateral agreement or be specified in the LoA, while buyers can include provisions to manage changes in the Mitigation Outcome Purchase Agreements (MOPA).

With respect to revocation of authorisation, many Parties are vehemently opposed to including text on this issue. Some argue that revocations including after 'first transfer' may be required 'under extreme circumstances' due to violation of agreed terms of cooperative approach and/or bilateral agreements, fraud, violation of human rights, or net increase in emissions of Parties within and between NDC periods. Revocations are not a recommended tool for host countries to manage the risk of overselling, thus jeopardised NDC achievement is not an 'extreme circumstance' that requires revocation of authorisation. This said, if an 'extreme circumstance' occurs, there needs to be an internationally agreed definition of what an extreme circumstance is to avoid scope creep. We would propose that revocation

shall only be possible if the activity developer has been found guilty of fraud or human rights violation in a due legal process. In addition, international guidance would need to be agreed upon how the process for a revocation looks like including reversing transactions and accounting and clear timeline until when the revocation should be processed.

5. Recommendations

Based on the analysis of issued Article 6 authorisations to date and the discussion of the implications of different authorisation options, we derive the following recommendations:

- An authorisation process and thus resulting statements should always be firmly anchored in the implemented national Article 6 regulation or strategy to avoid inconsistencies and unequal treatment of entities.
- Since pre-authorisation of ITMOs is establishing as the current practice in Article 6.2 authorisation processes due to calls for investment security, the establishment of checks and examination upon verification of the mitigation outcomes and prior to the actual transfer (i.e. first transfer) of ITMOs by the host country (and potentially also the buyer) is key. These checks or examinations basically "authorise" the actual volume of ITMOs generated and verified, even if not labelled as "authorisation of ITMOs". In case of a cooperative approach between the host country and a non-state actor, this implies that a feedback mechanism must be established to inform the host country about the actual mitigation outcomes generated and verified. Host countries must include provisions for this in their LoAs which is not the case in most issued unilateral authorisations.
- To overcome the divide on the authorisation of the cooperative approach, Parties could explore the option to allow some flexibility on the provision of upfront information on the cooperative approach. Such upfront information would not need to take the format of an authorisation statement per se but could involve a separate statement or format.
- Given the significant variations in the quality of unilateral Article 6.2 authorisations issued so far, there is a clear need for international guidance on minimum requirements to maintain trust in Article 6 markets. A template comprising those minimum requirements should be made available.
- Some Parties seem to be aligning around the idea of authorising ITMOs prior to the 'first transfer.' Since 'first transfer' can also refer to issuance, use, or cancellation for OIMP purposes, this effectively supports the option of authorisation 'at any time' for OIMP, which could lead to significant challenges. Therefore, agreeing on such a timing would require some limitations for authorisations for OIMP.
- The definition of 'first transfer' is crucial for discussions on changes to authorisations. A best practice approach to prevent accounting and reporting issues would be to define the 'first transfer' for OIMP as the earlier of the two points outlined in paragraphs 2(a) and 2(b) of the annex of Decision 2/CMA.3.
- Revocations of authorisations should never be a tool for host countries to manage the risk of overselling. If Parties continue to discuss revocation of authorisations in 'extreme circumstances' under Article 6.2, there needs to be an internationally agreed definition of what an extreme circumstance is. Additionally, international guidance would need to be agreed upon how the process for a revocation looks like including reversing transactions and accounting and a clear timeline until when the revocation should be processed.

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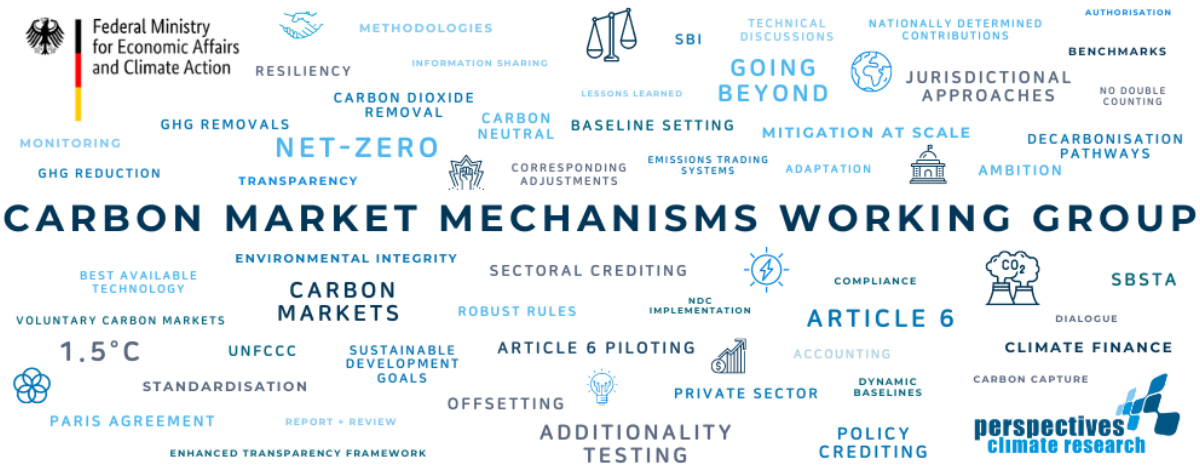

Perspectives Climate Research gGmbH

Hugstetter Str. 7 | 79106 Freiburg | Germany

info@perspectives.cc | www.perspectives.cc