LAC-6
MERCADOS DE CARBONO CON INTEGRIDAD

RCC Caribbean
Collaboration for Climate Action

RCC Latin America
Collaboration for Climate Action

QUICK GUIDE

MITIGATION CONTRIBUTION UNITS UNDER ARTICLE 6.4:

CONTEXT, FUNCTIONALITY, AND STRATEGIC POTENTIAL

1. Introduction

Article 6.4 of the Paris Agreement, also known as the Paris Agreement Crediting Mechanism (PACM), functions as a centralized United Nations system that issues **Article 6.4 emission reductions or removals (A6.4 ERs).** A6.4ERs are generated through a process in which a registered mitigation project is implemented, monitored, and verified for greenhouse gas reductions or removals, followed by certification and issuance under the supervision of the UNFCCC, with host Party authorization for their use toward international climate goals[1]. Figure 1 illustrates the overall flow of emission reduction pathways under PACM.

There are **two types of A6.4 ERs**:

(a) Authorized A6.4ERs

These emission reductions are authorized by the host Party for use toward another country's NDC or other international mitigation purposes (OIMPs), triggering the requirement for corresponding adjustments. **Once these units are "first transferred[2]," they become an Internationally Transferred Mitigation Outcome (ITMOs)** under Article 6.2 and are reported through the Centralized Accounting and Reporting Platform (UNFCCC, 2025).

(b) Mitigation Contribution A6.4ERs (from now on Mitigation Contribution Units-MCUs):

These represent emission reductions or removals that contribute to the host Party's NDC and, as such, **are not authorized for international transfer.** Being considered a domestic contribution, no corresponding adjustment is required at this stage. However, Parties may authorize these MCUs at a later stage, provided they have not been transferred. In such cases, corresponding adjustments would apply retroactively, including units previously forwarded to the Share of Proceeds (SOP) for adaptation or cancelled to contribute to Overall Mitigation in Global Emissions (OMGE)[3].

At issuance, both types of credits follow two requirements. 5% of issued A6.4 ERs and 3% percent of issuance fees support the Adaptation Fund, and at least 2% of credits are cancelled for OMGE.[4] Least Developed Countries and Small Island Developing States are exempt from the adaptation SOP unless they apply it voluntarily.

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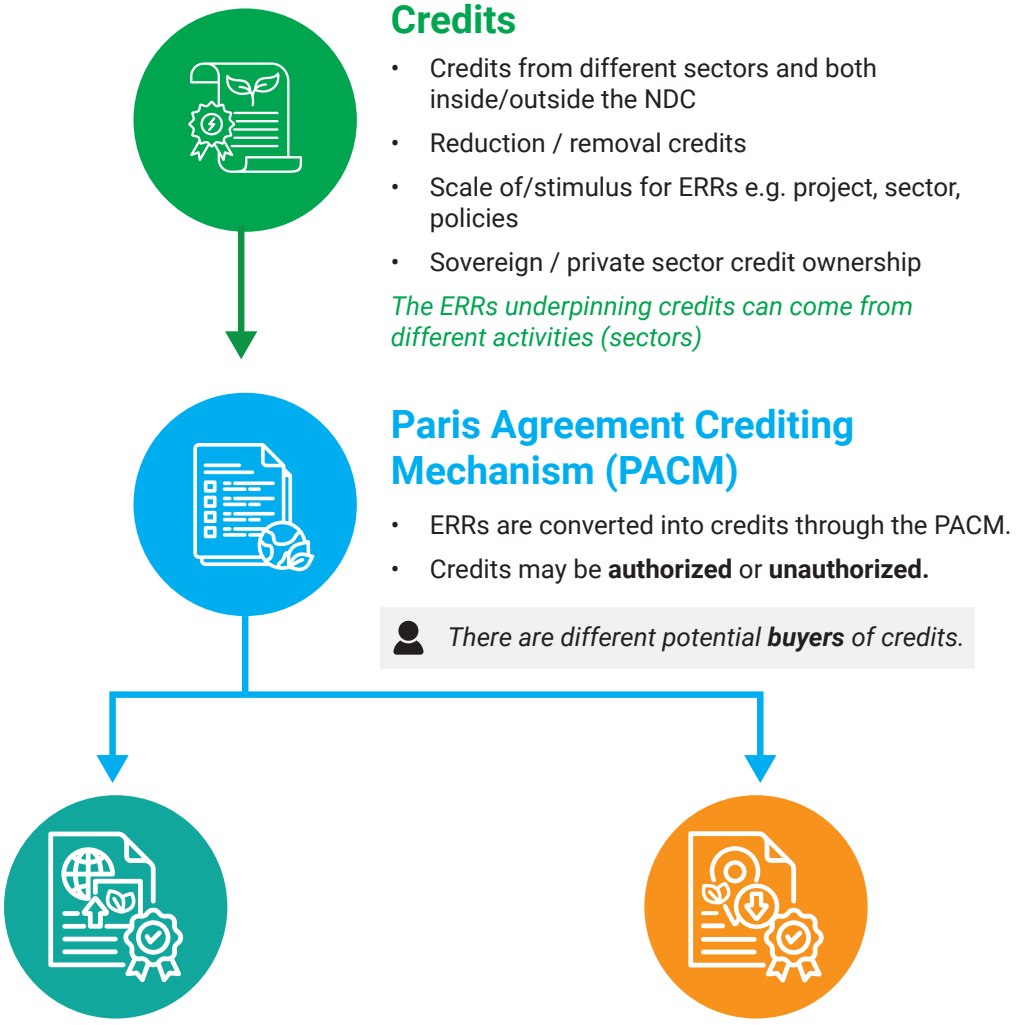
1. Article 6.4 activity cycle procedure for projects (A6.4-PROC-AC-002) Version 03.0
2. For credits that have been authorized for use towards another Party's NDC, first transfer is defined as "the first international transfer of the mitigation outcome. For credits that have been authorized for use for OIMPs, the host country has more flexibility to define the point of first transfer at [authorization, issuance, or use or cancellation of the A6.4ERs]
3. Decision 6/CMA.6, paragraphs 11 and 12
4. Decision 3/CMA.3; Decision 7/CMA.4.

Figure 1: Emission Reduction Pathways Under PACM



Credits

- Credits from different sectors and both inside/outside the NDC
- Reduction / removal credits
- Scale of/stimulus for ERRs e.g. project, sector, policies
- Sovereign / private sector credit ownership

The ERRs underpinning credits can come from different activities (sectors)

Paris Agreement Crediting Mechanism (PACM)

- ERRs are converted into credits through the PACM.
- Credits may be **authorized** or **unauthorized.**

*There are different potential **buyers** of credits.*

Authorization provided

Corresponding Adjustment Applied

ITMO

Used internationally (requires CA)

- International compliance buyers (credit used for NDC, CORSIA etc)
- International voluntary buyers

Authorization NOT provided

Corresponding Adjustment NOT Applied

Mitigation Contribution Unit A6.4 ERRs (MCU)

Used domestically (no CA)

- Domestic voluntary buyers
- Development partners (as RBCF)
- Domestic compliance buyers

2. Authorization Pathways of A6.4ERs

Host countries have strategic discretion over how to allocate Article 6.4 emission reductions (A6.4ERs). These choices determine whether the ERs will support domestic mitigation, be transferred internationally, or be split across both purposes. The issuance process, in which the Supervisory Body[5] formally approves and records verified and certified GHG reductions or removals as A6.4ERs in the UNFCCC registry, marks the point at which the units are created and assigned an authorization status[6]. **Authorization can occur at issuance or at a later stage, as long as the unit has not been transferred.** Countries may also apply a temporal approach to authorization to align mitigation outcomes with changing priorities over time. Table 1 below outlines the types of authorization available to host countries for A6.4ERs. It includes a description of each approach, its purpose, and its implications.

Table 1: Authorization approaches for A6.4 ERs.

	Description	Purpose	Implications
Full Authorization for ITMO	100% of the A6.4ERs are authorized for use by another country or OIMP.	Mobilize international finance through carbon credit sales.	Host country cannot use reductions toward its own NDC; corresponding adjustments required.
Blended Allocation	A portion is authorized as ITMOs, while the remainder is retained as MCUs	ITMOs, while the remainder is retained as MCUs. Balance international finance and domestic mitigation needs.	Enables dual benefits: revenue generation and NDC achievement.
Deferred Authorization Decision 6/ CMA6, parag. 12	All reductions are first issued as MCUs in the national registry; authorization as ITMOs occurs post-issuance but pre-transfer.	Prioritize domestic use, with the option to sell internationally if NDC goals are met or exceeded.	Provides flexibility: units can be retained or sold later. Corresponding adjustments are required only once authorization and transfer occur.
Full Retention as MCU	No authorization is granted; 100% of the reductions are retained.	Prioritize domestic use for achieving or overachieving the NDC.	Units remain in national inventory.
Temporal Authorization	Authorization is applied to specific crediting periods (e.g., early years authorized, later years retained as MCUs).	Sequence authorization to align finance needs and policy goals over time	Enables upfront foreign investment while preserving future reductions for national accounting; retroactive adjustments apply if units are later authorized.

5. The Supervisory Body is responsible for developing and supervising the requirements and processes needed to operationalize the PACM. This includes developing and/or approving methodologies, registering activities, accrediting third-party verification bodies, and managing the Article 6.4 Registry.
6. Article 6.4 activity cycle procedure for projects (A6.4-PROC-AC-002) Version 03.0

3. Domestic Applications and Strategic Value of MCUs

If retained, MCUs can be strategically deployed to reinforce national climate policies, mobilize finance, and build institutional capacity. Depending on the type of activity that generates the ERs, countries may choose to use MCUs to support results-based climate finance, integrate them into carbon pricing instruments, or facilitate voluntary contributions.

MCUs may be used in several contexts, including the following:

1. Results-based climate finance (RBCF)

MCUs can facilitate financing arrangements where payments are disbursed upon the verified delivery of ERs. This approach supports project developers and jurisdictions seeking performance-based payments from multilateral or bilateral donors, development banks, or philanthropic actors. In 2023, MDBs reported providing approximately $2.5 billion in RBCF for mitigation in low- and middle-income countries (European Investment Bank, 2024).

Many host countries already implement RBCF-backed projects. Under the PACM, the issuance of MCUs reflects cross-governmental consensus and decision-making, signaling broad institutional support. This framework could increase the value of MCUs, potentially allowing them to command higher prices compared to projects developed outside of PACM. Their market value could increase if these methodologies gain global recognition, or if buyers place a premium on automatic OMGE and SOP application (World Bank, 2025).

2. Domestic mitigation pricing schemes or domestic price-based measures

Countries may allow MCUs as units for compliance in national carbon pricing schemes, such as emissions trading systems or carbon taxes with offset provisions. Integration of MCUs can follow several approaches: full reliance (accepting all MCUs), gatekeeping (restricting eligibility based on project type, sector, or other criteria), or methodological adoption (using PACM-approved methodologies within a domestic system). Leveraging the PACM can reduce transaction costs and accelerate credit issuance but may limit flexibility to tailor mitigation efforts to national goals. Countries may also transition over time from reliance on PACM to fully domestic mechanisms as their capacity and institutions mature (World Bank, 2025).

3. Domestic voluntary buyers of credits

The inclusion of the phrase “inter alia” in the characterization of MCUs allows for interpretations related to the role of voluntary buyers. However, since unauthorized

credits are not subject to corresponding adjustments, the international sale of MCUs for offsetting purposes is effectively ruled out, as this would result in double claiming by private actors in other jurisdictions. A plausible scenario would involve domestic voluntary markets, where private actors purchase MCUs to make claims within the host country. In this case, emission reductions or removals remain within the national inventory. A window may also exist for international buyers who retire MCUs without claiming offsets, thereby contributing to the host country's NDC. This aligns with the concept of Beyond Value Chain Mitigation, as advanced by the Science Based Targets initiative, which encourages companies to support mitigation efforts outside their own value chains without substituting for internal emission reductions. When used in this way, MCUs can enable voluntary actors to contribute to global climate goals while preserving environmental integrity and avoiding double counting (Science Based Targets initiative, 2024).

References

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The LAC-6 project is an initiative aimed at supporting participating countries in building the capacities needed for the effective implementation of carbon markets and Article 6 of the Paris Agreement. This will enable them to meet their NDCs, increase ambition, and strengthen cooperation to address the climate crisis.

It is implemented by the United Nations Environment Programme (UNEP), funded by the Green Climate Fund (GCF), and designed with the co-financing of the European Union through the Euroclima Programme.

The development of this work was carried out in close collaboration with the RCC Caribbean, ensuring alignment with regional priorities and strengthening coordination across the Caribbean to advance Article 6 readiness and carbon market implementation.