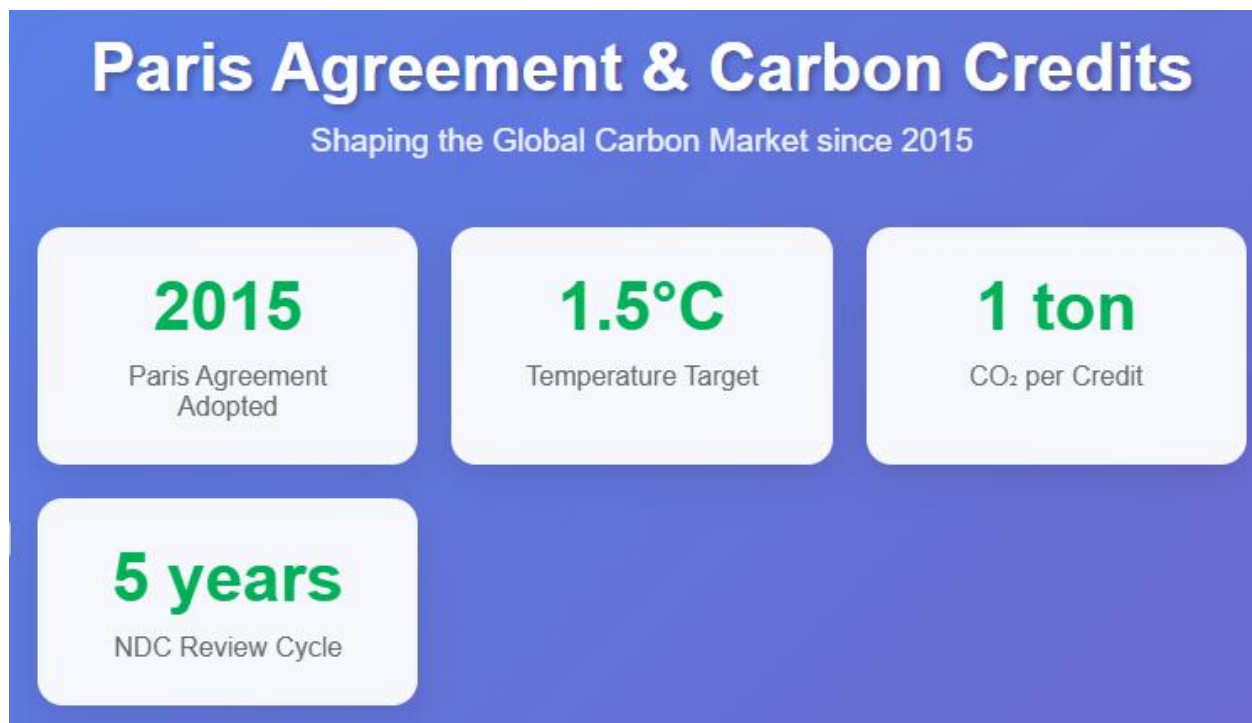


## HOW THE PARIS AGREEMENT SHAPES THE GLOBAL CARBON CREDITS MARKET

The Paris Agreement, adopted in December 2015 at COP21 in Paris, represents a landmark in global climate governance. Signed by nearly every nation on Earth, the agreement's central goal is to limit global temperature rise this century to well below 2°C above pre-industrial levels, and to pursue efforts to limit the increase even further to 1.5°C. While it does not dictate how individual countries must meet these goals, it provides a framework that has deeply influenced how carbon markets are structured, particularly the use and development of carbon credits.



Carbon credits are essentially permits that allow the holder to emit a certain amount of carbon dioxide or other greenhouse gases. One credit typically equals one metric ton of CO<sub>2</sub> equivalent. These credits can be traded, bought, or sold, and play a significant role in helping entities meet their emission reduction targets. The Paris Agreement has shaped both the voluntary and compliance carbon markets by fostering international cooperation, setting expectations for transparency, and encouraging countries to adopt and refine market-based mechanisms.

### Article 6: The Heart of Carbon Market Governance

Perhaps the most direct influence of the Paris Agreement on carbon markets comes from Article 6, which lays the groundwork for international cooperation through carbon trading. Article 6 provides mechanisms that allow countries to cooperate in achieving their Nationally Determined Contributions (NDCs) — the emission reduction pledges they make under the agreement.

Article 6 consists of three core components:

- **Article 6.2** facilitates the transfer of emission reductions between countries through bilateral or multilateral agreements, known as Internationally Transferred Mitigation Outcomes (ITMOs).
- **Article 6.4** establishes a centralized mechanism, sometimes referred to as the “Sustainable Development Mechanism,” akin to the earlier Clean Development Mechanism (CDM) under the Kyoto Protocol, but with greater emphasis on sustainable development and environmental integrity.
- **Article 6.8** focuses on non-market approaches to support sustainable development and climate resilience, including policy and capacity-building activities.

Article 6.2 in particular enables countries to buy and sell carbon credits generated from emission-reduction projects, with the caveat that the emissions reductions must be accounted for properly to prevent double counting. This creates a framework for robust international carbon markets with standardized accounting rules and a high degree of transparency.

# Article 6: Carbon Market Framework

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## 6.2

### Bilateral Cooperation

Enables transfer of emission reductions between countries through ITMOs (Internationally Transferred Mitigation Outcomes)

## 6.4

### Centralized Mechanism

Sustainable Development Mechanism with emphasis on environmental integrity and sustainable development

## 6.8

### Non-Market Approaches

Focuses on policy and capacity-building activities for sustainable development and climate resilience

## Double Counting and the Importance of Corresponding Adjustments

A central principle that the Paris Agreement enforces in carbon markets is the avoidance of double counting. If a carbon credit is used by a country or a company to meet its target, it cannot also be counted by the country where the emission reduction actually occurred. To ensure this, countries must implement corresponding adjustments — essentially, a bookkeeping method where the host country subtracts the emission reduction from its own inventory if it sells the credit.

This principle is vital for the credibility of the global carbon market. It ensures that every ton of CO<sub>2</sub> reduced is only claimed once and that the environmental integrity of emission reductions is preserved. The Paris Agreement's emphasis on transparency and standardized reporting reinforces the infrastructure needed to enforce these rules.

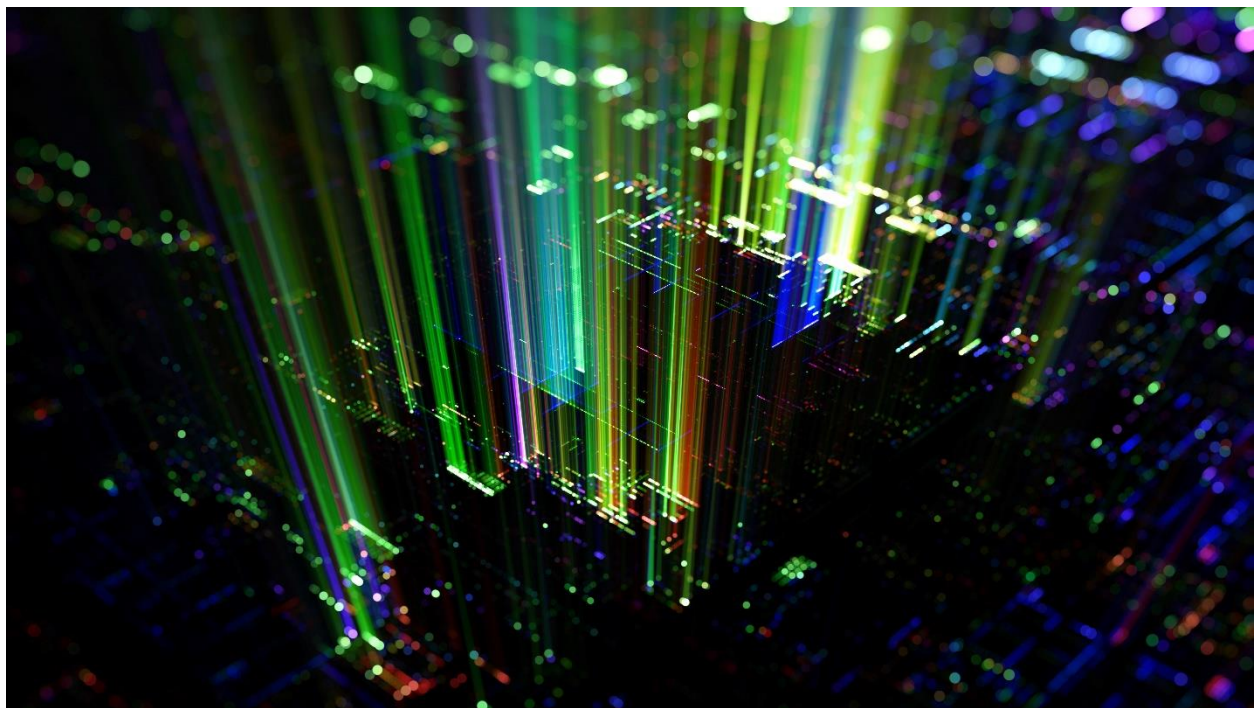
## Impact on the Voluntary Carbon Market

While Article 6 primarily governs how countries interact with each other under the Paris Agreement, it has also had a ripple effect on the voluntary carbon market — the market

where companies, organizations, and individuals buy carbon credits outside of regulatory mandates.

Post-Paris, there is a growing push for alignment between voluntary credits and national climate goals. Companies are being encouraged — and increasingly expected — to ensure that the credits they purchase contribute to host countries' NDCs rather than undermining them. In other words, voluntary actions should support, not compete with, national climate ambition.

This evolving expectation has led to increased scrutiny of the voluntary market and to innovations like “Paris-aligned credits” and host country authorization of voluntary credits. Standards bodies like Verra and Gold Standard are developing frameworks to ensure that voluntary credits can be integrated into national accounting in a transparent and fair way, while still preserving the voluntary nature of private-sector climate action.



### **Driving Demand Through NDC Ambition**

The Paris Agreement also indirectly stimulates demand for carbon credits by compelling countries to set and periodically update their NDCs. Since many countries face technical, financial, or resource constraints in meeting these goals domestically, they may look to international offsets as a more cost-effective option.

At the same time, this can create an opportunity for developing nations to generate and sell credits to help finance sustainable development and adaptation initiatives. Countries with abundant forests, renewable energy potential, or degraded land for reforestation can benefit by hosting projects that produce carbon credits. These credits can then be

sold to governments or companies in need of reductions, helping the host country access climate finance while contributing to global emission reductions.

The periodic review of NDCs, required every five years under the Paris Agreement, is another driver of carbon credit demand. As countries raise their climate ambition over time, they may need access to a broader set of tools — including carbon credits — to meet increasingly stringent targets. This long-term ratcheting mechanism built into the Paris Agreement ensures that carbon markets will likely play an even larger role over time.

### **Enhancing Transparency and Trust**

The Paris Agreement has also pushed the global carbon market toward greater transparency and trust through its Enhanced Transparency Framework (ETF). Under the ETF, countries must submit regular greenhouse gas inventories and progress reports, subject to technical expert reviews. These reporting requirements create a more robust data ecosystem that can be used to support the credibility of carbon credit transactions.

In practical terms, this means that any emission reductions used for compliance under Article 6 mechanisms must be traceable, verifiable, and publicly disclosed. This has catalyzed the adoption of digital MRV (Monitoring, Reporting, Verification) systems, blockchain ledgers, and other tools designed to improve the transparency and reliability of carbon markets.

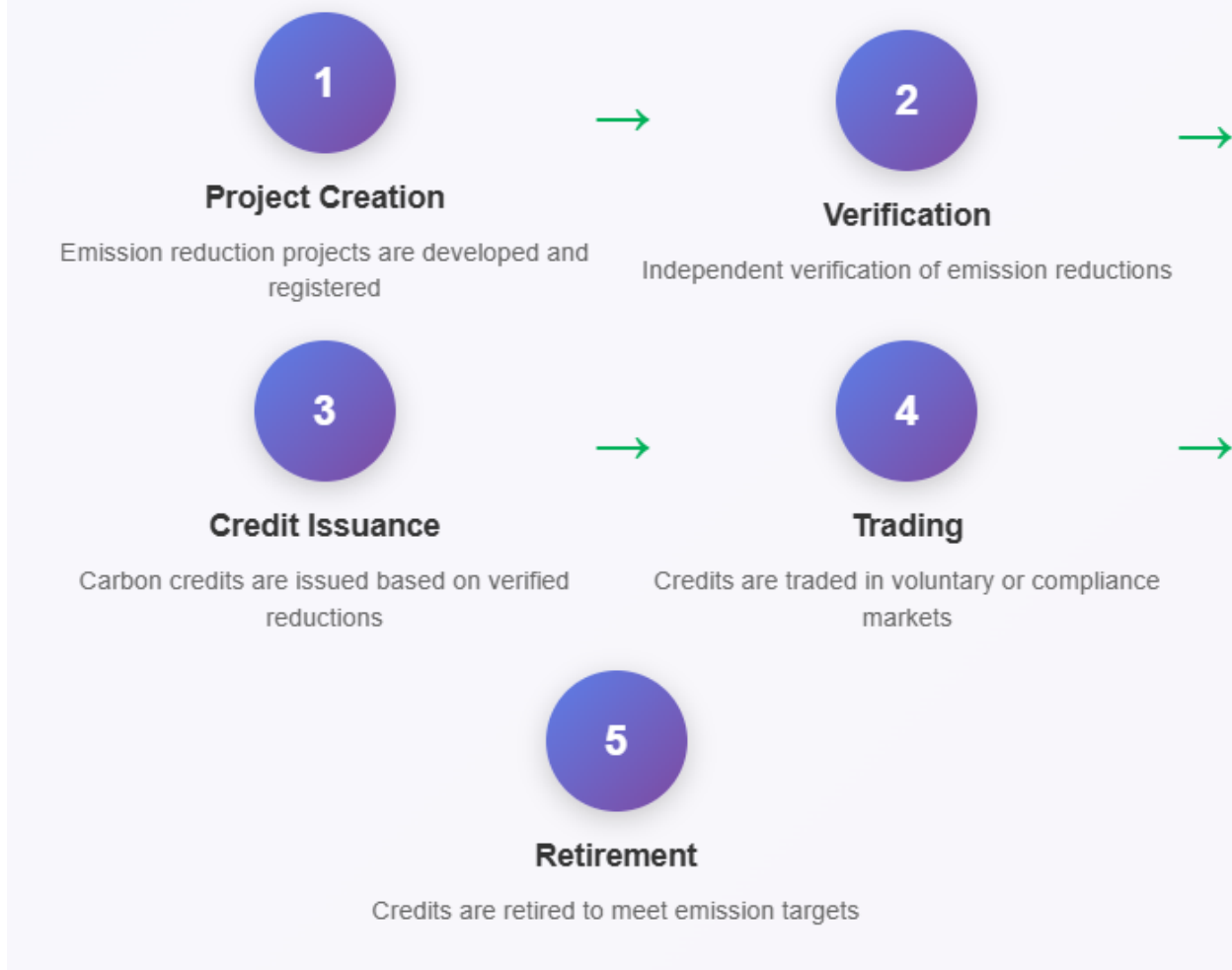
Private sector buyers are also responding to these incentives. Investors and corporations increasingly seek high-quality credits that demonstrate environmental integrity, clear ownership, and alignment with the Paris Agreement's goals. The shift away from legacy credits of dubious quality to verified, Paris-aligned offsets is a direct consequence of this evolving regulatory and normative landscape.

### **A More Unified Global Market**

Before the Paris Agreement, carbon markets were often siloed by geography or regulation — with the European Union Emissions Trading System (EU ETS), California's cap-and-trade program, and voluntary markets operating largely in parallel. The Paris framework, particularly Article 6, paves the way for more harmonization and potential linkage between different markets.

By providing common accounting rules and frameworks, the Paris Agreement enables interoperability between markets. This could one day lead to a more unified global carbon market, where credits generated in one country can be seamlessly traded and retired by another, under a shared set of rules. While we are not there yet, the foundational groundwork laid by Paris is critical to making this vision possible.

# Carbon Credit Process Flow



## Remaining Challenges and Considerations

Despite its promise, the implementation of Article 6 and the broader influence of the Paris Agreement on carbon markets are still unfolding. As of mid-2025, several challenges remain:

- The operationalization of Article 6.4 has been slower than expected, with unresolved questions around governance, methodologies, and project eligibility.
- Host countries may be reluctant to authorize credit exports if they feel it might undermine their ability to meet their own NDCs.
- There are still inconsistencies in how different countries interpret and apply corresponding adjustments.

- There's an ongoing debate over whether voluntary credits should always require a corresponding adjustment, or if some flexibility should remain to incentivize private-sector investment.

Addressing these challenges will be key to realizing the full potential of carbon credits as a tool for climate action.

## Key Challenges & Considerations

### Double Counting Prevention

Ensuring corresponding adjustments prevent the same emission reduction from being counted twice

### Host Country Authorization

Countries may be reluctant to authorize credit exports if it affects their own NDCs

### Transparency Framework

Enhanced reporting requirements create robust data ecosystem for credible transactions

### Market Harmonization

Moving toward a more unified global carbon market with common accounting rules

## Conclusion

The Paris Agreement has fundamentally reshaped the landscape of global carbon markets. Through its legal structure, emphasis on transparency, and provisions for international cooperation under Article 6, it has created the conditions for a more robust, credible, and interconnected carbon credit system. As the world strives toward net-zero emissions, carbon credits will likely become an increasingly vital part of the solution — but only if they are implemented in a way that upholds the environmental integrity and cooperative spirit at the heart of the Paris Agreement. In this new era of climate action, the carbon markets shaped by Paris are not just tools for trading emissions — they are instruments of trust, collaboration, and global ambition.