Integration of Article 6 into Carbon Pricing Policy for NDC Delivery: How to Meet (and Raise) Climate Targets

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Nationally Determined Contributions (NDCs) set the benchmark for climate ambition, but countries face difficult choices on the right carbon pricing mix to deliver them. This policy brief explores how taxes, emissions trading systems (ETSs), and Article 6 of the Paris Agreement interact, highlighting the trade-offs, opportunities, and implications for ministries of finance and environmental ministries across different country profiles.

Brazil delivered it's updated Nationally Determined Contribution in November, 2024. Source: UN Climate Change

The Right Choice of Carbon Pricing Instruments

As governments seek to meet their NDCs under the Paris Agreement, the choice of carbon pricing instruments has become a decisive strategic question. Carbon taxes, emissions trading systems (ETSs), and international crediting under Article 6 offer different advantages, risks, and fiscal implications. Yet these instruments are not interchangeable: each has direct impacts on national budgets, industrial competitiveness, and the credibility of long-term climate pathways. For finance and environment ministries, the key challenge is not just to pick one instrument, but to integrate them coherently while safeguarding NDC integrity.[1,2]

Higher-Emitting Emerging Economies

Larger emerging economies with energy- and industry-heavy sectors face distinct challenges to integrate Article 6 into their domestic carbon pricing. South Africa introduced a carbon tax in 2019 and recently passed a Climate Change Act, introducing carbon budgets and sectoral targets, investigating how to integrate Article 6 into their carbon tax.[7,8] Mexico operates both a carbon tax and a pilot ETS, with plans for a full operational phase.[9,10,11,12] Chile's carbon tax, anchored in its Climate Change Framework Law, incentivizes domestic decarbonisation.[13,14,15] Both Chile and Mexico are intending to use Article 6, however, they are cautious of authorizing international transfers. Brazil's new cap-and-trade system (SBCE) illustrates a hybrid approach: it will allow Article 6 only where mitigation exceeds domestic needs.[16,17,18]

> *For finance ministries of higher-emitting economies, ETS revenues and investment flows are attractive, while environment ministries will be cautious in authorising Article 6 mitigation transfers.*

Beyond their domestic carbon taxes and ETSs, higher-emitting economies such as South Africa, Mexico, Chile, and Brazil can strategically use Article 6 to raise ambition rather than substitute for domestic action. For these economies, Article 6 is most effective when channelled toward mitigation outcomes beyond their domestic efforts (conditional NDCs), for example by supporting costly and transformative mitigation activities, such as battery storage solutions or electromobility.

Emerging Economies with Modest Emission Profiles

Countries with modest industrial emissions footprints—such as Ghana, Namibia, Uganda, Kenya, and Senegal—have been early movers in exploring Article 6 mechanisms. These pathways offer access to international finance, but also introduce trajectory risks: as domestic NDC ambition increases over time, the space to apply corresponding adjustments shrinks.[3]

> *For finance ministries of modest-emitting economies, Article 6 is an avenue for external investment, but environmental ministries must weigh carefully the implications of mitigation transfers on long-term NDC delivery.*

For example, Ghana has operationalized an Article 6 governance framework through its Carbon Market Office, authorizing millions of tonnes of CO_2 emissions for transfer, meaning those emission reductions will no longer be able to be used against their own NDC targets.[19,20,21] Namibia is developing carbon market regulations to align with its updated NDC.[22,23,24] Uganda and Kenya have established legal and institutional frameworks to enable bilateral agreements,[25,26,27] while Senegal is piloting Article 6 in land use and energy sectors.[28,29]

The EU CBAM Connection

The EU Carbon Border Adjustment Mechanism (CBAM) only recognises explicit domestic carbon pricing, not international Article 6 units. Countries exporting steel, cement, and fertilisers to the EU have a fiscal incentive to strengthen domestic pricing. For finance ministries, this means protecting export competitiveness; for environment ministries, this means ensuring that domestic carbon pricing also aligns with the NDC trajectory.[4,5,6] Recent analyses also highlight that CBAM could potentially evolve into a bridging mechanism if designed to link more directly with cooperative approaches under Article 6, though current EU law does not foresee this.[32,33]

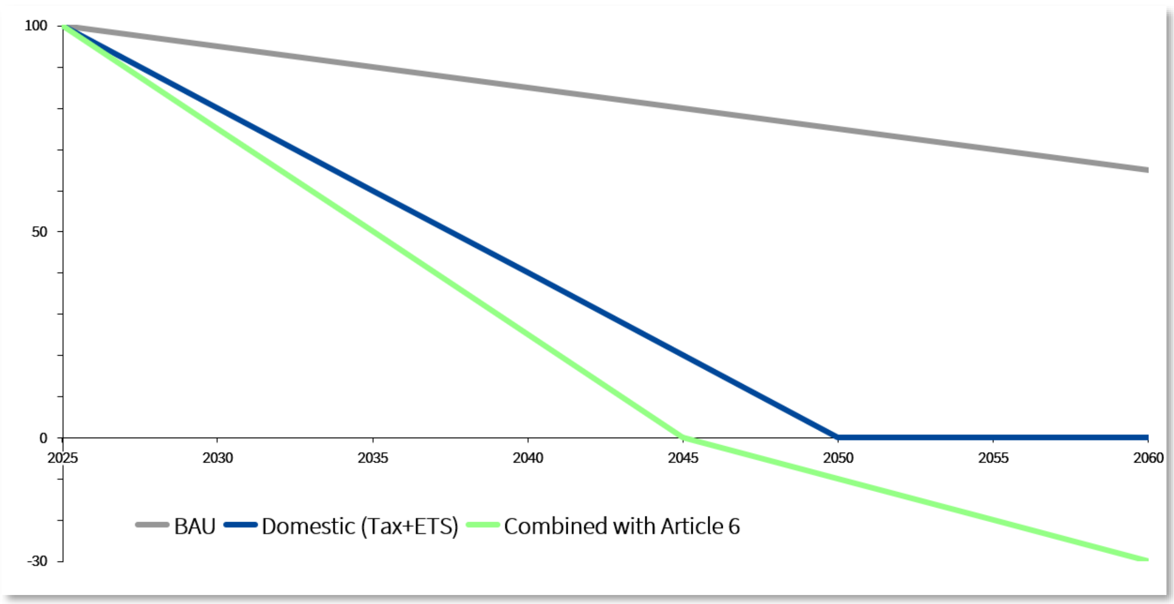
Mitigation Benefit Sharing and Mitigation Contribution Units (MCUs)

Mitigation Contribution Article 6.4 Emission Reduction Units (MCUs) enable host countries to retain mitigation outcomes toward their own NDCs, while still attracting international support. This design aligns with the principle of Common but Differentiated Responsibilities (CBDR) from the Paris Agreement: industrialised countries contribute finance, while host countries can count the results for domestic compliance.[30,31] For finance ministries, this provides a credible way to mobilise external investment; for environment ministries, it offers a mechanism to preserve NDC integrity. Mitigation Benefit Sharing provides another option to meet the same principle. Instead of a full transfer of mitigation outcomes abroad, it ensures that part of the mitigation remains with the host country. In this way, Article 6 engagement is structured to safeguard host countries' ability to pursue their own NDCs while still transferring an amount of mitigation outcomes to the buyer country, increasing Article 6's compatability with domestic carbon pricing instruments such as taxes and ETSs.

Conclusion: Strategic Integration for NDC Delivery

Carbon pricing is more than a technical choice; it is a strategic policy lever for economic and climate policy. For ministries of finance, the implications are fiscal—revenues, investment flows, and trade competitiveness. For ministries of environment, the implications are existential—whether national climate targets can be achieved without being undermined by international transfers. The integration of Article 6, domestic carbon taxes, and ETSs must therefore be carefully sequenced and governed. If designed well, this mix can deliver on NDCs while unlocking external finance. If mismanaged, it risks leaving countries worse off against both their climate and economic objective. As Figure 1 illustrates, combining a domestic carbon tax and ETS can credibly deliver a net-zero pathway by 2050, while adding Article 6 in addition to carbon pricing can accelerate near-term cuts and, post-2050, help countries move into net-negative territory—without compromising domestic NDC integrity when used with mitigation benefit sharing and MCUs.

Figure 1 Illustrative emissions pathway combining carbon pricing policy instruments*



Source: illustrative national Paris-aligned mitigation scenario (Climate & Company)

*Domestic pricing delivers net zero by 2050; Article 6 accelerates mitigation and supports net-negative post-2050
Notes: The BAU line shows modest efficiency improvements only. Domestic pricing (carbon tax + ETS) follows a linear glidepath to net zero in 2050 and holds at zero thereafter. With Article 6, the trajectory accelerates to deeper reductions pre-2050 and reaches net-negative thereafter (e.g., via high-integrity cooperation and contribution-style finance that does not require corresponding adjustments for host NDC accounting). Values are illustrative.

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