

## COP26 and Article 6: Where Did Singapore End Up?

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Finally, on Saturday evening, the “Glasgow Climate Pact” (the “Pact”) was announced, a deal agreed by almost 200 nations, including Singapore. The Pact has resolved a series of outstanding issues relating to the Paris Agreement and includes, crucially, terms for the implementation of Article 6, which have the potential to, in theory, provide a platform for the scaling up of carbon markets around the globe. As we highlighted last week ([Singapore: COP26 and Creating a Center for Carbon Trading](#)), the specific issues relating to Article 6 that needed to be resolved were, essentially:

1. Whether Article 6.2 should contribute to generating revenue for the “Adaptation Fund” (the fund is designed to finance climate change adaptation projects and programs based on the priorities of eligible developing nations and is financed by a share of the proceeds arising from the Clean Development Mechanism (CDM) developed under the Kyoto Protocol).
2. Concerns around the potential double-counting of credits from emissions reductions under Article 6.4.
3. The eligibility of pre-2020 carbon credits for post-2020 nationally determined contributions (NDCs) (this was favored by emerging economies who are currently carrying significant volumes of credits from reductions in industrial emissions and forest conservation work).
4. The means by which Article 6 could support adaptation action through generating finance for added adaptation via Article 6.28.

The key terms of the Pact, insofar as they relate to Article 6, can be summarized as follows:

- **Share of proceeds** – a fixed tariff on emissions trading, set at 5 percent, has been agreed with a view to generating funding for climate adaption in developing nations.

However, it should be noted that, in order to reach agreement, negotiators resolved to determine that the tariff would only apply to the trade of voluntary emissions but not national transfers made under Article 6.2. Countries seeking to apply Article 6.2 will instead be encouraged to contribute towards the Adaption Fund.

- **Limitations on the use of pre-2020 credits** – Negotiators have agreed to limit the use of pre-2020 credits from the United Nations’ CDM, with the rationale being to avoid a wholesale flooding of the carbon credits market which could have sent prices cratering. The final text of the Pact provides that only CDM credits registered post-January 1, 2013, may be utilized for the purpose of national targets. The debate around the use of pre-2020 credits was a major sticking point in the negotiations, particularly for large emerging economies (such as Brazil, India and China) who dominated the CDM market from the outset.
- **Corresponding adjustments** – Countries hosting an emissions reduction project will now have the ability to determine whether the reductions will be allocated towards meeting its own national emissions target, or be sold elsewhere for other purposes. If the latter, the country is required to notify a UN supervisory board. Furthermore, Article 6.4 states that voluntary emissions reductions may only be used towards a country’s NDC if they are so authorized by the UN and the host country must apply a corresponding adjustment for units which are ultimately sold abroad—this is geared towards avoiding “double-counting” by two countries in determining emissions reductions.

Critically for Singapore, agreement on the terms and application of Article 6 helps to provide the island nation with a foundation to build on as it seeks to achieve its ambition of establishing itself as a global center for carbon trading. Falling under the “Green Economy” pillar of the Green Plan ([Energy in ASEAN: Singapore and Hydrogen](#)), the creation of a carbon trading and services hub will encompass “green finance, sustainability, verification, credits trading and risk management.” Following the announcement that the Pact had been finalized, Grace Fu, Singapore’s Minister for Sustainability and the Environment and leader of the nation’s delegation at COP26, commented that the agreement was a “big win for the multilateral approach to addressing climate change” and that “while the work is not quite done yet, COP26 has laid a firm foundation for future progress, and is a positive step forward for raising climate ambition.<sup>1</sup>”

While the Pact has done much to provide clarity around the application of Article 6, there are two key concerns that need to be taken into consideration. Firstly, the compromise made to permit transfer of some credits from the CDM is likely to create an initial glut of credits in the future market and, in addition to the possibility of credit prices plummeting, there are also concerns related to the quality of certain legacy carbon credits. Secondly, implementation of the rules relating to corresponding adjustments will need to be strictly monitored and national governments will be required to devise regulations in order to ensure that they are applied appropriately. These concerns were echoed by Minister Fu who stated:

“It’s one of those perennial issues that’s complicated. And the reason it’s complicated is because it has strands coming from ambition, finance, share of proceeds and also transparency...If you are using the carbon market, there is a fear that it will actually dilute ambition if you don’t use it properly, because there’s greenwashing, there’s double counting.”<sup>2</sup>

Post-COP26, Singapore is expected to review its climate change targets and we will be watching with interest to see whether the government increases its focus on carbon markets in light of the Pact<sup>3</sup>.

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<sup>1</sup> [https://www.linkedin.com/posts/gracefuhy\\_cop26-gamechangeclimatechange-sggreenplan-activity-6865535061899526144-jYHu](https://www.linkedin.com/posts/gracefuhy_cop26-gamechangeclimatechange-sggreenplan-activity-6865535061899526144-jYHu).

<sup>2</sup> <https://www.channelnewsasia.com/singapore/cop26-singapore-climate-change-target-grace-fu-2312456>.

<sup>3</sup> Ibid.

## Categories

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