



# **Navigating Article 6 of the Paris Agreement: Challenges and Opportunities for South Africa with The Carbon Offset Administration Systems (COAS), Avoidance Credits and Nature-Based Solutions**

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As global leaders convened for the Sixth Session of the Conference of the Parties (COP) in Baku, the focus on Article 6 of the Paris Agreement renewed interest in international carbon markets and cooperation mechanisms.

Article 6 offers a pathway for countries to work together to meet their climate goals through both market and non-market mechanisms.

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For South Africa, Article 6 presents significant opportunities to enhance its climate strategy — especially through avoidance credits and nature-based solutions (NBS). However, South Africa’s Climate Offset Administration System (COAS) currently limits companies’ ability to fully leverage these options for carbon tax offsets, posing both challenges and opportunities for future development.

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# 01 Understanding Article 6: Mechanisms for International Cooperation

Article 6 is divided into three components, each allowing for different types of climate collaboration:

## 01 Article 6.2 – Cooperative Approaches and ITMO Trading:

This allows countries to engage in bilateral or multilateral agreements to transfer emissions reductions as Internationally Transferred Mitigation Outcomes (ITMOs). These can be used by countries to meet their Nationally Determined Contributions (NDCs) through flexible, decentralized trading.

South African companies could, for instance, sell emissions reductions to other countries needing credits to meet their own NDCs.

## 02 Article 6.4 – Centralized Market Mechanism (Sustainable Development Mechanism)

This is a UN-supervised mechanism that allows both public and private entities to generate and trade certified carbon credits from specific emissions reduction projects. Known as the Sustainable Development Mechanism, it emphasizes transparency and environmental integrity through rigorous standards.

For South Africa, this presents an opportunity to develop projects that meet these high standards, particularly in areas like forest conservation, soil health and methane capture.

## 03 Article 6.8 – Non-Market Approaches (NMAs)

Article 6.8 enables countries to engage in cooperative climate actions that do not involve market transactions, focusing instead on areas like technology transfer, capacity building and sustainable development.

South Africa could use this approach to support resilience-building projects, especially in agriculture and water conservation, where community involvement and knowledge-sharing drive impact.



# Current Challenge: The Exclusion of Avoidance Credits from COAS

South Africa's carbon tax policy, introduced in 2019, is designed to drive emissions reductions by imposing a financial cost on greenhouse gas emissions. Through COAS, companies can reduce their carbon tax liability by investing in eligible offset projects. However, COAS restricts offset eligibility to removal projects—such as reforestation and renewable energy—excluding avoidance credits, which are generated by projects that prevent emissions rather than capturing them.

This exclusion limits South African businesses in several ways. As a country rich in natural resources and opportunities for conservation, South Africa is well-positioned to benefit from projects that prevent emissions, such as land conservation, soil health improvement and wetland preservation. Without COAS eligibility, companies miss out on opportunities to reduce their tax liability by investing in projects that offer tangible climate benefits and generate revenue through verified carbon credits.



# The Promise of Article 6 for Future Inclusion of Avoidance Credits in COAS

The recent advancements in Article 6 create a pathway for South Africa to potentially align COAS with international standards, enabling it to include avoidance credits.

In October 2024, the Article 6.4 Supervisory Body finalized standards for both emissions removal and avoidance credits, emphasizing environmental integrity and rigorous verification ([UNFCCC News] (<https://unfccc.int/news/key-standards-for-un-carbon-market-finalized-ahead-of-cop29>)).

These standards pave the way for South Africa to expand COAS, allowing businesses to develop high-quality avoidance projects that meet global criteria and are eligible for both carbon tax relief and international trading.

If COAS were to incorporate these standards, companies could benefit from investing in diverse projects that prevent emissions. For example:



**Land Conservation Projects:** Protecting biodiversity-rich areas could prevent emissions from deforestation while creating avoidance credits that align with both national and international climate goals.



**Methane Capture Initiatives:** Capturing methane from agriculture or waste management facilities could generate credits and prevent potent greenhouse gases from entering the atmosphere.



**Energy Efficiency Improvements:** Avoidance credits could also apply to industrial upgrades that prevent emissions at their source, supporting both emissions reduction and operational efficiency.



# Leveraging Nature-Based Solutions (NBS) for Avoidance and Removal Credits

Nature-based solutions offer South African businesses a valuable opportunity to generate both avoidance and removal credits by enhancing the country's ecosystems and supporting sustainable development. South Africa's unique landscapes—forests, grasslands, wetlands, and savannas—are well-suited for projects that either prevent emissions or actively capture carbon, creating high-quality credits for both local and international markets.

- 1** **Forest Conservation and Restoration:** Forest projects both protect existing carbon stores (avoidance) and capture new carbon (removal) through restoration and reforestation. These projects generate valuable credits, support biodiversity, and offer eco-tourism and community benefits.
- 2** **Sustainable Agriculture and Soil Health:** Practices such as agroforestry, conservation tillage, and rotational grazing prevent emissions from traditional farming (avoidance) and enhance soil carbon storage (removal). These projects improve soil productivity, support climate resilience, and generate marketable credits.
- 3** **Wetland and Grassland Restoration:** Wetlands and grasslands act as significant carbon sinks. Protecting these ecosystems prevents emissions (avoidance), while restoration increases their carbon capture capacity (removal). These projects improve water quality, preserve biodiversity, and provide ecosystem services to local communities.

By investing in NBS for both avoidance and removal credits, South African businesses can generate revenue, enhance ecosystem health and contribute to climate and community goals, supporting both local and global climate action.

# How KPMG Can Support South African Organisations

KPMG's expertise in climate, nature, decarbonization, carbon markets and ESG advisory help South African companies maximize the opportunities presented by Article 6, even within the current constraints. We support clients in three main areas:

1

## Pathways to Net Zero

KPMG partners with clients to develop clear and actionable pathways to net zero, leveraging both avoidance and removal credits to meet their carbon reduction targets. We provide guidance on COAS compliance for removal projects and help clients prepare for potential future eligibility of avoidance credits. By aligning these projects with Article 6 standards, we support businesses in building a robust, long-term strategy for achieving net zero.

2

## Climate Policy & Investing Advisory

Our team offers strategic insights into evolving climate policies and investment opportunities, helping clients stay ahead of regulatory changes and secure funding for nature-based solutions. By understanding the policy landscape, we position clients to make investments that align with both South African climate objectives and Article 6 frameworks, unlocking opportunities for financial and environmental gains.

3

## Climate Innovation and Innovators

KPMG fosters innovation by supporting clients in identifying and implementing groundbreaking solutions for carbon reduction, especially in areas like renewable energy, sustainable agriculture, and ecosystem restoration. We help clients develop innovative projects that generate high-quality carbon credits and position them to lead in South Africa's transition to a low-carbon economy.





4

## Carbon Compensation & Removals

We provide comprehensive support for carbon compensation, helping businesses structure projects to generate high-quality removal credits that comply with COAS. Additionally, we assist clients in exploring international markets for avoidance credits, allowing them to build a climate-positive reputation and generate revenue through verified, high-impact projects.

5

## Green Financing Solutions

KPMG assists clients in accessing green financing to support their carbon reduction initiatives, including renewable energy projects and nature-based solutions. By aligning projects with green financing criteria, we enable businesses to secure capital for impactful projects that support COAS compliance, Article 6 alignment, and long-term climate resilience.



# 06 Conclusion

Article 6 of the Paris Agreement provides South Africa with a framework to enhance its climate strategy through international cooperation and carbon markets. Although COAS currently excludes avoidance credits, the progress in Article 6.4 suggests a potential future alignment that could allow South African companies to capitalize on a broader range of emissions-reducing projects.

KPMG's expertise in ESG advisory, carbon markets, and project development makes us a trusted partner for South African organizations looking to navigate these changes. By developing avoidance credits and removal nature-based solutions, our clients can create revenue generating assets, align with both national and global climate goals and drive meaningful impact for communities and ecosystems. Together, we can support a sustainable future that aligns with both South Africa's priorities and the ambitions of the Paris Agreement.



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